Welfare Reform and the Employment Prospects of AFDC Recipients

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In August 1996, President Clinton fulfilled a campaign pledge to "end welfare as we know it" by signing into law the Personal Responsibility and Work Opportunity Reconciliation Act. This welfare reform law changed the fundamental nature of the welfare system. Before the law passed, families could receive benefits for an indefinite period of time. The 1996 law imposed strict time limits on the receipt of AFDC (Aid to Families with Dependent Children) benefits: Adults must work after receiving two years of AFDC benefits and federal funds cannot be used to fund benefits for those who have been on AFDC for more than five years in a lifetime. As if to make the point clear, the name of the AFDC program was changed to Temporary Assistance for Needy Families (TANF).

This report summarizes the results of a new study on the employment prospects of current AFDC recipients who will be forced off the welfare rolls and into the labor force. We use the old AFDC acronym throughout because that is the more familiar name, and because that was the active program during the period covered by the data used for the analysis. We find that typical welfare recipients have extremely poor basic skills. Because of their low basic skills, the vast majority of jobs are not open to AFDC mothers. Those AFDC recipients who succeed in finding employment will end up in low-wage, low-skilled jobs that will not pay enough to lift them and their children out of poverty.

What is AFDC?

AFDC is a state-administered program that provides cash to poor families with children. The program is funded by both state and federal funds. One in 20 U.S. residents received AFDC in 1995. Some AFDC money supports children in foster care. The rest of the AFDC funding supports families with at least one parent present; the vast majority (91 percent) are headed by single women. Most AFDC families are also beneficiaries of in-kind welfare
programs, including Medicaid, Food Stamps, and/or public housing assistance.

**What Skills Do AFDC Recipients Have?**

Women on AFDC have significantly lower levels of formal schooling than women not on AFDC. Using a nationally representative data set from 1992, we find that 44 percent of AFDC mothers have not completed high school, while only one-fourth of nonrecipients lack high school diplomas. Just 19 percent of adult female AFDC recipients have some schooling beyond high school, while 43 percent of other women have such education.

While the differences in education levels between adult AFDC recipients and nonrecipients are striking, the differences in other measures of basic skills are even more striking. Women on AFDC have significantly lower levels of math and reading skills on average than other women with the same level of education. The gap in literacy and numeracy is particularly marked for high school dropouts: 88 percent of high school dropout AFDC mothers in 1992 had poor skills, compared with 76 percent of nonrecipient women who had dropped out of high school.

We calculated these statistics using the National Adult Literacy Survey (NALS). The survey tested individuals' ability to apply math and reading skills to tasks common in daily life. The NALS categorizes individuals in one of five literacy levels based on their performance on the test. Individuals at the lowest level of literacy, level 1, are able to do very simple tasks such as locate the expiration date on a driver's license, total a bank deposit slip, or sign their names. They are unable to do level 2 tasks, such as locate an intersection on a street map, understand an appliance warranty, fill out a government benefits application, or total the costs from an order. Individuals at literacy level 2 can perform these tasks, but cannot perform higher-order tasks such as write a letter explaining an error on a credit card bill, use a bus schedule, or use a calculator to determine a 10 percent discount.

According to the NALS scale, most AFDC recipients are at the lowest two levels of literacy: 35 percent are at level 1, and 37 percent are at level 2. The literacy levels of AFDC mothers are substantially lower than those of other women: 21 percent of the adult female population is at level 1 literacy, and 28 percent is at level 2 literacy.

Despite the low levels of literacy documented by the NALS, it probably overestimates the literacy skills of current AFDC recipients. The unemployment rate has declined markedly since the recession of the early
1990s, and those recipients who were the most literate are the most likely to have left AFDC. This means that the current AFDC recipients facing the new work requirements most likely are the "hard core" with lower skills on average than documented by the NALS in 1992.

**Low Basic Skills = Limited Employment Opportunities**

There is a huge gap between the skills that most AFDC recipients have and the skills that most employers require. We find that over two-thirds of all employed adults in the United States have literacy levels 3 and higher. Even service-sector jobs, reputed to be low-skilled, often require more language and math skills than AFDC recipients possess. Employers typically require their workers to speak and read English proficiently and to be able to do basic math. Much evidence suggests that these skills are becoming increasingly important in the labor market: Employers screen for basic skills when hiring for almost one-third of all jobs in the United States. Low skills make it hard to find a job and even harder to find one that pays well.

The national statistics on the differences between the skills employers demand and the skills of AFDC recipients do not reflect the fact that AFDC families are not evenly spread out across the country. More than half of welfare beneficiaries live in just a handful of states: California, Illinois, Michigan, New York, Ohio, Pennsylvania, and Texas. The geographic concentration of AFDC recipients means that there may be fierce competition for unskilled jobs in some cities once the federal work requirements go into effect. For example, one in 15 U.S. recipients lives in Los Angeles County, where AFDC recipients make up 10 percent of the population.

We examined the employment prospects of AFDC recipients in Los Angeles County. We found that, in order to provide employment for all current AFDC recipients, Los Angeles County’s economy would have to create 28 percent more level 1 and nearly 10 percent more level 2 jobs. Clearly, such a huge expansion in the number of unskilled jobs in Los Angeles would require an economic miracle. More realistically, many current AFDC recipients, particularly the lower-skilled level 1 recipients, will not be able to find jobs.
are completely cut from the welfare rolls.

If we optimistically assume that all former AFDC recipients could find jobs, we predict that their wages still would not be high enough to lift their families out of poverty. After paying for average-quality child care and other housing and living expenses, we calculated that level 2 recipients would need more than 10 percent more income to reach the Los Angeles poverty line. The situation for level 1 recipients is much worse: They would need more than 30 percent additional income to reach the Los Angeles poverty line. And relative to the nation, Los Angeles' AFDC recipients are much more likely to be at these two worst-off skill levels. We calculate that 47 percent of L.A. AFDC recipients are at level 1 literacy, and 34 percent are at level 2 literacy.

Taken together, our results and previous research show that AFDC recipients with the lowest levels of basic skills will be most adversely affected by federal welfare reform legislation: They stay on welfare for the longest lengths of time and face the dimmest earnings prospects. A five-year lifetime limit on AFDC eligibility will mean that the lower-skilled recipients will be forced to find paid employment. It will be much easier for the higher-skilled AFDC recipients to find "suitable" employment with or without the new work requirements. However, even if the lower-skilled AFDC recipients find jobs, our results show that they will not earn enough to raise their families out of poverty.

**Improving the Employment Prospects of Current AFDC Recipients**

There are two broad strategies for raising current AFDC recipients' families out of poverty. The first strategy is to improve basic skills enough to raise earnings above the poverty line. Basic skills training could be provided by community colleges, employers, or government training programs. The second strategy is to augment AFDC recipients' income through cash or in-kind transfers.

We are pessimistic about the first strategy, basic skills training, for a number of reasons. The 1996 welfare reform legislation severely restricts
the amount of schooling AFDC mothers can receive. AFDC mothers can fulfill the federal work requirements with up to twelve months of schooling, but they must find employment after that. One year of schooling is probably not enough to raise the earnings of current AFDC recipients above the poverty line. In particular, we predict that those at level 1 literacy, who cannot perform many tasks commonly taught in elementary school, will need much more than one year of schooling to earn a decent living.

Given that AFDC recipients will be forced to join the labor market with poor basic skills, we expect that employers will be very reluctant or even unable to train former AFDC recipients enough to raise their earnings above the poverty line. Many firms provide basic skills training, but because of the lack of statistical research on employer-based basic skills training, we do not know if such training would raise the skills of former AFDC recipients.

We are also pessimistic that an expansion of existing federal jobs training programs would improve the basic skills of AFDC mothers enough to raise their families out of poverty. Evaluation of the federally funded Job Training Partnership Act (JTPA) program found no overall decrease in either the amount of government money received by AFDC mothers or the distribution of funds among those women. This is consistent with our calculation that the typical Los Angeles AFDC recipient will not earn enough to raise her family out of poverty even if she can find a full-time, full-year job.

The return to training for all current AFDC recipients may be even lower than the small return reported by the JTPA evaluation. It is likely that welfare mothers who did not volunteer for JTPA would do worse than those who did volunteer for the program. That is because those who did not choose to participate in JTPA have even lower skills than the program enrollees did. Mandatory programs that have focused on increasing basic skills among welfare recipients have not had much success in raising literacy levels, and where they have succeeded, they have not then led to substantial employment and earnings gains.

Consequently, if the goal is to keep working families out of poverty, simply forcing current AFDC recipients to find jobs in the current environment will not achieve that goal. Additional public policies will be required. Because the expected success of schooling and training programs is at best uncertain, the surest way to keep current AFDC recipients out of poverty is through public outlays that directly support their standard of living. Possible policies include a more generous Earned Income Tax Credit, housing, food and child care subsidies, and subsidies to employers who hire former AFDC mothers. Regardless, as has been noted in the public debates over welfare reform, compassionate attempts to move welfare recipients permanently off AFDC could easily, and most likely will, require additional spending that tragically does not seem to be forthcoming.

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Reardon recently completed building a tax simulation model to assess the impact of changes in
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Schmidt's work has been published in the Wall Street Journal; she has also been interviewed on Voice of America and the Left Business Observer. Schmidt's most recent scholarly article about job security, co-authored with Shirley Svorny, is forthcoming in the Journal of Labor Research.