

***Did Welfare Reform Change Work Participation Dynamics?
Evidence from Maryland***

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INTRODUCTION

Participation of work-eligible welfare recipients in unsubsidized paid employment depends in part on a local economy's capacity to employ them. We show how this absorption capacity differs among local economies and changes over time.

Welfare recipient participation in employment also depends on the incentive to accept a job. We show how new hire earnings levels differ among local industries and change over time.

Our approach uses Census Bureau Quarterly Workforce Indicator (QWI) Online information for Maryland to calibrate both *opportunity* and *incentive*. Our calculations can be replicated in 38 states.¹ Results can be used to target job search assistance offered to work-eligible welfare recipients.

Section two describes our welfare recipient selection process to study the opportunity and incentive issues. Section three presents 10 year profiles of welfare recipient benefit, employment and earnings histories. Section four describes the Census Bureau QWI Online series and the indicators selected for use here. Section five illustrates how the QWI indicators can be used to make strategic decisions about targeted job search assistance based on local labor market absorption capacity data. Section six concludes with observations about work participation expectations.

¹ http://lehd.dsd.census.gov/led/led/doc/OnTheMap_No_Pending_8.5_x_14_20070413.pdf shows the 44 states currently participating in the Census Bureau Local Employment Dynamics (LED) initiative within the LEHD Program; <http://lehd.dsd.census.gov/led/datatools/qwiapp.html> provides hot-links to QWI Online data that are available for 38 LED partner states at this time.

WELFARE RECIPIENT SELECTION PROCESS

This paper builds on a solid foundation of previous research using individual-level panel data drawn from Maryland state agency administrative data files maintained by The Jacob France Institute at the University of Baltimore.²

1. Maryland TCA³ unit-record data file extracts with continuous monthly coverage since the mid-1980s.
2. Maryland Unemployment Insurance Wage Records with continuous quarterly coverage since April 1985.

We define pre-TANF and post-TANF⁴ cohorts of women who had at least one month of recorded TCA benefit payment between age 19 and age 28.⁵

² Robert A. Moffitt and David W. Stevens, "Changing Caseloads: Macro Influences and Micro Composition," *Economic Policy Review*, Vol. 7, No. 2 (September 2001), New York, NY: Federal Reserve Bank of New York, pp. 37-51 (<http://www.ny.frb.org/research/epr/01v07n2/0109moff.pdf>); David W. Stevens (2001), *Welfare to Work Policy, Getting a Job is a First Step: What Should Follow?*, America's Workforce Network Research Conference presentation (<http://www.ubalt.edu/jfi/jfi/reports/etapaper.pdf>); Christopher T. King and Peter R. Mueser (2005), *Welfare and Work: Experiences in Six Cities*, Kalamazoo, MI: Upjohn Institute (<http://www.upjohninstitute.org/publications/titles/waw.html>); David Stevens (2006), *New Information to Promote Successful Job Search by Temporary Cash Assistance Recipients*, Baltimore, MD: The Jacob France Institute, University of Baltimore (<http://www.ubalt.edu/jfi/jfi/reports/DHRreport6-28-06.pdf>); Chris Herbst and David Stevens (2006), *Before and After TANF Temporary Cash Assistance Caseload Dynamics: Profiles of Women Born in 1967 or 1977*, presented at the August 2006 annual conference of the National Association of Welfare Research and Statistics, Jackson, WY (http://www.ubalt.edu/jfi/jfi/reports/nawrs_082106.pdf); Peter R. Mueser, David Stevens and Kenneth R. Troske (2007), *The Impact of Welfare Reform on Leaver Characteristics, Employment and Recidivism: An Analysis of Maryland and Missouri*, presented at University of Kentucky Center for Poverty Research conference *Ten Years After: Evaluating the Long-Term Effects of Welfare Reform on Children, Families, Welfare, and Work* (<http://www.ukcpr.org/TenYearsAfterAgenda.html>).

³ Temporary Cash Assistance (TCA) is an official administrative designation in Maryland, so TCA recipient is used in the remainder of this paper, instead of the generic term *welfare* recipient.

⁴ Reference to pre-TANF and post-TANF timing is imprecise. Maryland's Welfare Innovations Act of 1996 eliminated AFDC and replaced it with the Family Investment Program effective July 1, 1996. Up-front job search, child support first and welfare avoidance grants and childcare only provisions of the Family Investment Program were introduced on a county-by-county schedule beginning in September 1995 and continuing through July 1996.

⁵ A 'valid Social Security Number issued in Maryland' filter was used for two reasons: (1) This serves as a proxy for knowing whether a woman lived in Maryland during the 10 years when they were ages 19-28; and (2) ensures a *possibility* that reported employment and earnings information can be found in a match with Maryland UI wage records, other state UI wage record files and Federal Employment Data Exchange System (FEDES) data extracts.

- The pre-TANF cohort (N=5,336)—women born in 1967 who received Maryland TCA as a case head-of-household in any month(s) from January 1986 through December 1995.
- The post-TANF cohort (N=4,020)—women born in 1977 who received Maryland TCA as a case head-of-household in any month(s) from January 1996 through December 2005.

TEN-YEAR PROFILES OF TCA BENEFITS, EMPLOYMENT AND EARNINGS

The decade covered for the cohort 1 women is 1986-1995, ages 19 through 28. The decade covered for the cohort 2 women is 1996-2005, ages 19 through 28.

Figure 1 shows the percent of the women in each cohort who received a TCA benefit in any combination of the three months in each of the 40 quarters of the 10-year observation period. The cohort profiles are similar through age 21, but then follow strikingly different paths—40 to 50 percent of the cohort 1 women received a TCA benefit from age 22 through age 28, while the percentage of cohort 2 women receiving a TCA benefit fell from 30 percent at age 22 to 11 percent at age 28.

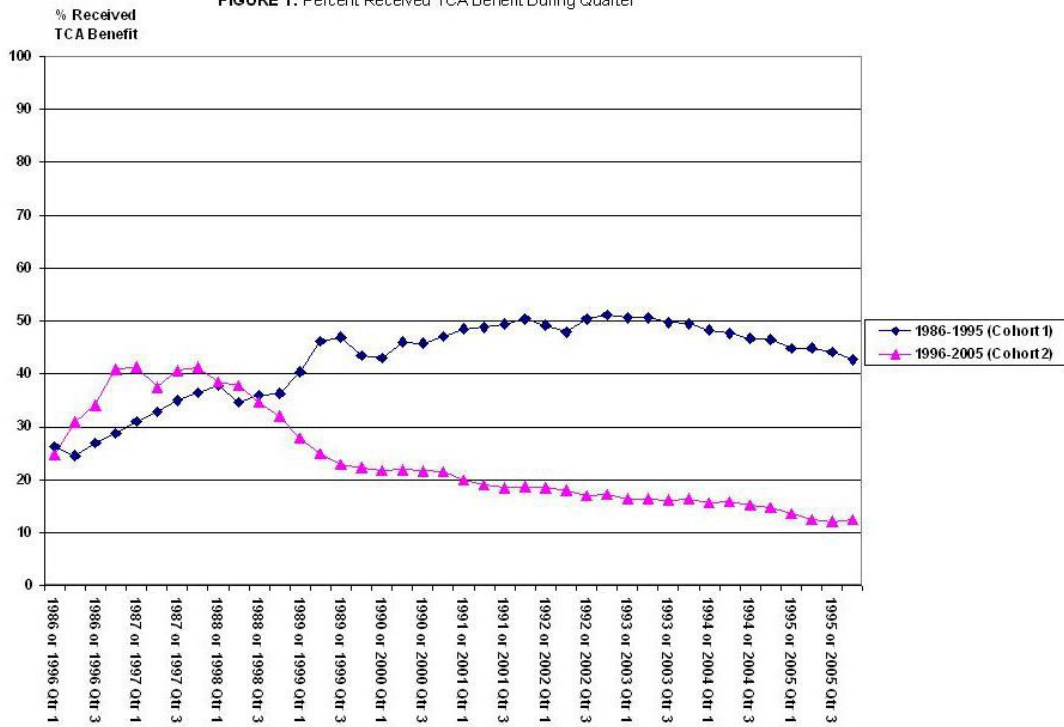
The nine-month recession from March-November 2001 is not detectible in the cohort 2 profile of 1996-2005 TCA benefit use. There is some evidence that the 1990-1991 recession impacted TCA benefit use by the cohort 1 women beginning at age 22.

Figure 2 shows the percent of the women in each cohort who appear in the Maryland UI wage record file for each of the 40 quarters of the 10-year observation period. The cohort profiles overlap for the first five quarters, or just into age 20, and then diverge—the cohort 1 percentage never rises above the mid-40's range and falls to the lower 30's for more than three years beginning with the onset of the national recession in the third quarter of 1990, while the cohort 2 employment profile rises above 50 percent during age 20 and stays within the 50-60 percent range through the end of the observation period at age 28. The 2001 recession appears to have had some impact on the employment of the cohort 2 women.⁶

There is a distinct annual cyclical pattern of employment status in the first three years of the cohort 1 profile and first seven years of the cohort 2 profile—a pattern that disappears from the later years observed for cohort 2 and is less pronounced for the cohort 1 women.

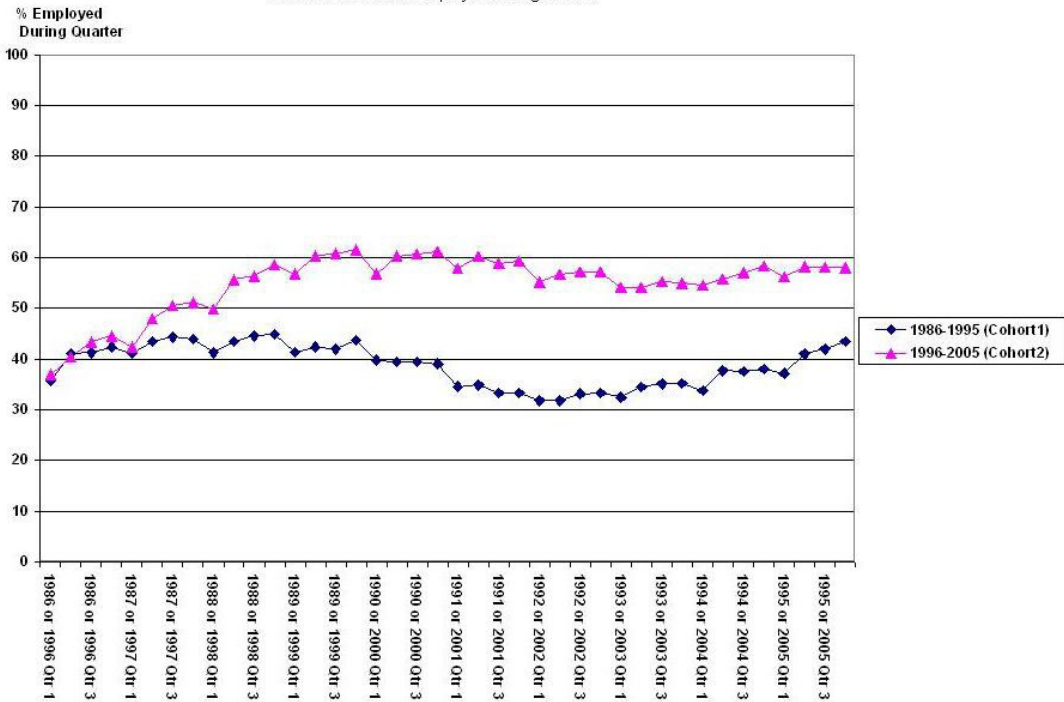
⁶ We know from Maryland Department of Labor, Licensing and Regulation employment and unemployment statistics that the national timing of the 1991 recession led Maryland's statewide downturn and ended before Maryland's recovery.

FIGURE 1: Percent Received TCA Benefit During Quarter



Source: The Jacob France Institute, University Of Baltimore June 2007

FIGURE 2: Percent Employed During Quarter



Source: The Jacob France Institute, University Of Baltimore June 2007

Figure 3 shows the average quarterly earnings profiles for the cohort 1 and cohort 2 women including only those who had some (any) amount of earnings in each quarterly calculation. The Figure 3 profiles are in actual nominal dollar amounts.

The nominal earnings profiles of the women in both cohorts have a modest upward slope from age 19 through 23, but the cohort 1 profile flattens out through the next five years while the cohort 2 trace continues upward.⁷

Figure 4 transforms the Figure 3 earnings profiles using the Chained Consumer Price Index for all Urban Consumers (C-CPI-U), 2005=100. The real purchasing power from the cohort 1 and cohort 2 women's own Maryland UI wage record earnings was similar from age 19 through age 23, but then diverged from age 24 through age 28 with the cohort 2 women widening the gap between the two groups.

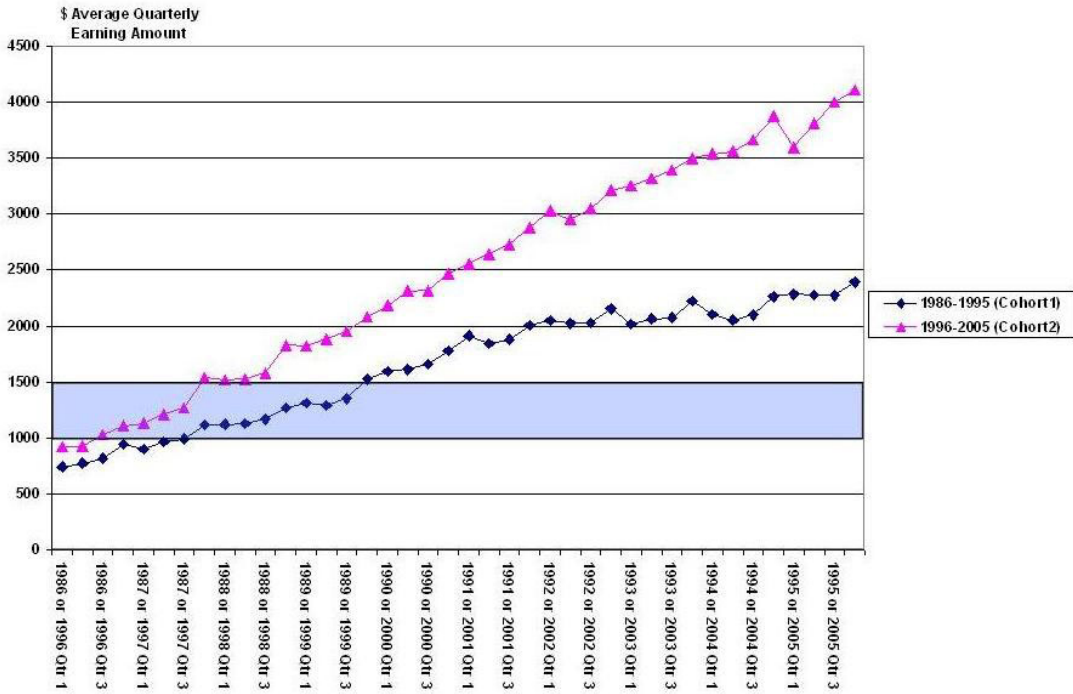
A direct comparison of the 10-year TCA benefit, employment and earnings profiles for the women in the two defined cohorts has shown:

- A lower and declining percent of cohort 2 women receiving a TCA benefit from age 21 through age 28, compared to their cohort 1 counterparts;
- A higher and sustained percent of cohort 2 women who appear in the Maryland UI wage record database beginning at age 20 and continuing through age 28, compared to their cohort 1 counterparts; and
- A growing gap of average inflation-adjusted earnings between the cohort 2 women beginning at age 25 and their cohort 1 counterparts, attributable to the continued rise in cohort 2 earnings.

This concludes our statewide coverage in this paper. We have compared two cohorts of Maryland women, each of whom received at least one month of TCA benefit as a case head-of-household between age 19 and age 28. The decades observed have been 1986-1995 for the cohort 1 women and 1996-2005 for the cohort 2 women.

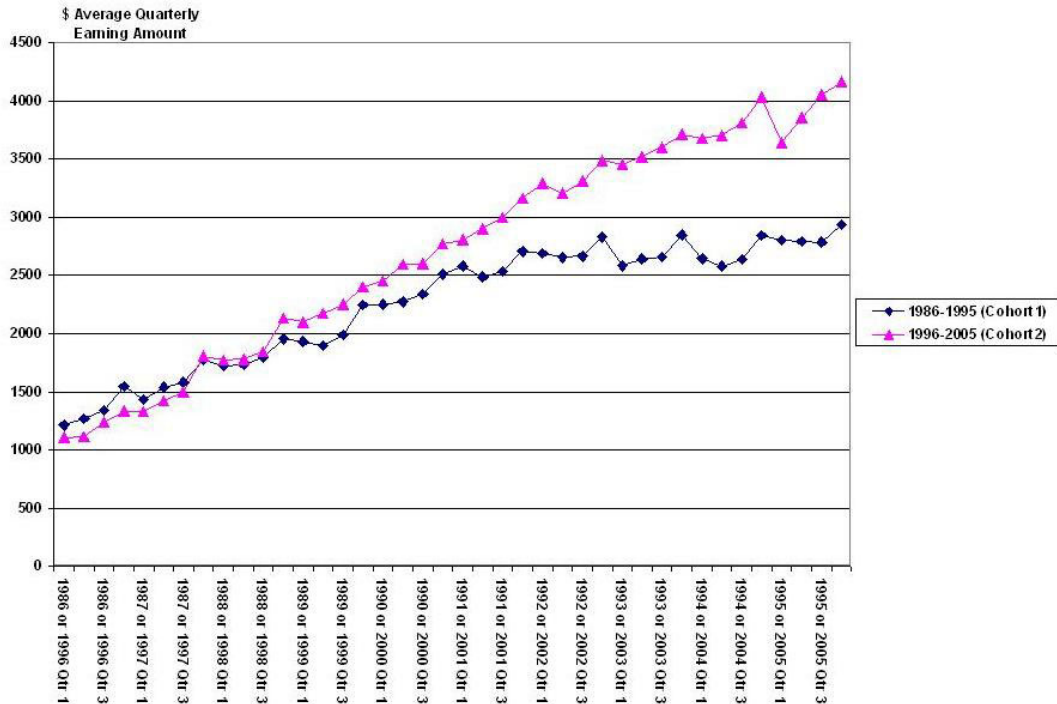
⁷ A reader can visualize how a 1986-2005 profile of Maryland TCA monthly benefit amount for a household size of 3 would appear in Figure 3 (multiplying each monthly amount by 3 because the x-axis scale of Figure 3 is year/quarter). The quarterly cohort 1 TCA benefit amount for a household size of 3 ranges between a low of \$987 in 1986 and a 10-year high of \$1,215 in 1990, falling back to \$1,119 by 1995. The quarterly cohort 2 TCA benefit amount ranges between a low of \$1,119 in 1996 and a high of \$1,470 in 2005. This dollar amount band is shaded in Figure 3. We see that the quarterly TCA benefit amount exceeds the quarterly earnings level in 1986-87 for the cohort 1 women (ages 19 and 20) and exceeds the earnings level only in 1996 for the cohort 2 women (age 19). This comparison addresses a TCA recipient's *incentive* to participate in work, but omits many other considerations pertinent to the incentive issue.

FIGURE 3: Average Quarterly Nominal Earnings Including Only Those With Some Earnings



Source: The Jacob France Institute, University Of Baltimore June 2007

FIGURE 4: Average Quarterly Earnings Using C-CPI-U, 2005=100



Source: The Jacob France Institute, University Of Baltimore June 2007

We turn next to an example of how new employment *opportunity* and *incentive* information can and should be taken into account in future welfare program decision-making. Again, our approach can be replicated in 38 states at the present time.

THE CENSUS BUREAU QWI ONLINE SERIES⁸

The eight QWI Online indicators⁹ are a subset of a larger number of indicators that are available to authorized users off-line. The underlying infrastructure files use state UI wage records and Quarterly Census of Employment and Wages (QCEW; formerly ES-202) records enhanced with administrative data from within the Census Bureau and other Federal agencies. New disclosure-proofing algorithms were designed to permit public release of more information than had previously been possible.

The QWI Online indicators are updated and posted with a 15-18 month lag. Historical coverage depends upon what each state has been able and willing to deliver to the Census Bureau. Industry sector information is coded using both the current North American Industry Classification System (NAICS) and the previous Standard Industry Classification (SIC) taxonomy.

For illustrative purposes in this paper we use only the Maryland *New Hires* and *Average [monthly] New Hire Earnings* indicators that begin in 1991 and currently extend through 2005:

- The definition of a *new hire* is an accession in a reference year/quarter that was not preceded by affiliation with the same employer during any of the previous four quarters.
- The definition of *average [monthly] new hire earnings* is total quarterly earnings of all full-quarter new hires divided by the number of full-quarter new hires, divided by 3.

⁸ Comprehensive information about the infrastructure files used to build the Quarterly Workforce Indicators is available in John M. Abowd, Bryce E. Stephens, Lars Vilhuber, Fredrik Andersson, Kevin L. McKinney, Marc Roemer and Simon Woodcock (2005), *The LEHD Infrastructure Files and the Creation of the Quarterly Workforce Indicators*, Technical Paper No. TP-2006-01 (<http://lehd.dsd.census.gov/led/library/techpapers/tp-2006-01.pdf>). Appendix A to that paper, titled *Definitions of Fundamental LEHD Concepts*, is available as a separate document (http://lehd.dsd.census.gov/led/library/techpapers/QWI_definitions.pdf).

⁹ The eight indicators are *Total Employment*, *Net Job Flows*, *Job Creation*, *New Hires*, *Separations*, *Turnover*, *Average Monthly Earnings* and *Average New Hire Earnings*.

Each QWI Online indicator is available by county¹⁰, age group and industry sector. We made the following choices to illustrate how the QWI Online indicators can be used to inform welfare program management decisions:

- QWI Online indicators for Baltimore City and Anne Arundel County Maryland were chosen to highlight our point about different and changing labor market absorption capacities.
- QWI Online indicators for women ages 22-24 and ages 25-34 were selected because this allows us to compare the employment status of the women at age 24 in the 1990-91 and 2001 recessions of equal 9 months duration (nationally)¹¹, and then again at age 28 in the more robust economic conditions of 1995 and 2005 for the cohort 1 and cohort 2 women respectively.
- NAICS sectors 44-45 *Retail Trade*, 56 *Administrative and Support and Waste Management and Remediation Services*¹², 62 *Health Care and Social Assistance*, and 72 *Accommodation and Food Services* were chosen because these have long been the ‘typical’ entry-level employment destination for many welfare recipients nationwide.¹³

LOCAL LABOR MARKET WELFARE RECIPIENT ABSORPTION CAPACITY

Our goal in this section is to arrive at illustrative answers to two questions:

1. How many local new hires of women at a designated age occur in selected industry sectors and years—here, 1991 (age 24) and 1995 (age 28) for cohort 1 women and 2001 (age 24) and 2005 (age 28) for cohort 2 women?

¹⁰ Baltimore City is a county-equivalent political designation. There are 24 counties in Maryland. The Maryland Department of Human Resources defines its sub-state jurisdictions using these political boundaries, so welfare case dynamics and local economic trends can be aligned.

¹¹ See <http://www.nber.org/cycles.html> for the official definition and timing of each recession.

¹² NAICS sector code 56 includes the three-digit subsector 561 *administrative and support services*. Three five-digit titles are classified under the four-digit 5613 *employment services* title—56131 *employment placement agencies*, 56132 *temporary help services agencies* and 56133 *professional employer organizations*. The only employees of *employment placement agencies* are those staffing the business, not including the clients that are referred to jobs. However, the *temporary help services agencies* do treat their referrals to client businesses as employees of the agency and report this employment affiliation to the state employment security agency as required by each state’s unemployment compensation law.

¹³ Four-digit titles within these four two-digit NAICS sectors accounted for 52 percent of all hires of Baltimore City TCA recipients in the fourth quarter of 2004—David W. Stevens (2006), *New Information to Promote Successful Job Search by Temporary Cash Assistance Recipients*, Table C, page 10, available at <http://www.ubalt.edu/jfi/jfi/reports/DHRreport6-28-06.pdf>.

2. How many gender/age-specific new hires are there in designated local industries for an average month of a chosen year, compared with the number of gender/age-specific welfare recipients in this location?

Table 1 presents information taken directly from QWI Online.

- Each *new hires* count in Table 1 is a four-quarter average number of quarterly new hires for a designated NAICS industry sector, age group and Maryland County in a defined reference year.
- Each *average new hire earnings* amount in Table 1 is a derived monthly calculation of total earnings for all full-quarter¹⁴ new hires in a designated NAICS industry sector, age group and Maryland County in a defined reference year.
- The top half of Table 1 shows the local NAICS-specific average quarterly new hires count for women in the three-year age group 22-24. The bottom half of Table 1 shows the local average quarterly new hires count for women in the ten-year age group 25-34. It is important to keep the number of years in a QWI Online age group in mind when we move to Table 2, because there we focus attention on two single-year ages—24 and 28, which fall in QWI Online age groups with different spans. Age group length is also expected to impact the average new hire earnings amount, because some older new hires can reasonably be assumed to have acquired more on-the-job experience and perhaps more continued education.

¹⁴ The concept of *full-quarter* is introduced to eliminate distortion of earnings amounts associated with partial quarter employment. Full-quarter employment is identified by looking at a three-quarter sequence of employment affiliation—if a woman has been employed by the same employer for three consecutive quarters then the middle quarter in the sequence is defined as full-quarter employment. Since we are concentrating on *new hire* earnings, a further step is necessary to include only those women who were not employed by this reference employer in the quarter before the three-quarter sequence began. This means that the *average new hire earnings* figure is calculated based on women who were hired and then remained employed by the same employer for three consecutive quarters (including the hire quarter). We expect this average dollar amount to be higher than what would be found if churning affiliations of less than 15 weeks were included. The 15 week minimum length of employer affiliation is an artifact of the full-quarter definition—13 weeks of the middle quarter in a three-quarter sequence plus at least one week in both the preceding and following quarters of the sequence.

Table 1 includes the core information needed to answer the two questions posed at the beginning of this section, but several transformation steps are necessary before the answers emerge. So, next, we transfer the first (left) and last (right) columns of numbers from Table 1 to Table 2.

The first two (left) columns of **Table 2** are transferred directly from Table 1. Each row cell of column 1 is an average monthly count of the local female welfare recipients of a defined age in a designated year. Each row cell of column 2 is an average quarterly sum of local new hires of women in the four selected industry sectors in a defined year (1991, 1995, 2001 or 2005) and includes multiple ages (age group 22-24 in the top half of Table 2 and age group 25-34 in the bottom half of Table 2).

- Each row cell in Table 2 column 3 is the same row column 2 cell divided by 3, which transforms the gender/age group-specific quarterly count of local new hires in the designated industries into an average monthly derivative count.
- Table 2 column 4 is each column 3 same row figure divided by either 3 (top half of table to convert three-year female age group 22-24 counts to single year age 24 counts) or 10 (bottom half of table to convert ten-year age group 25-34 counts to single year female age 28 counts).
- **The derived counts in Table 2 column 4 provide an illustrative answer to the first question posed at the beginning of this section. “How many local new hires of women at a designated age occur in selected industry sectors and years?”**
- **The second question posed that is particularly relevant for welfare program managers is: “How many gender/age-specific new hires are there in designated local industries for an average month of a chosen year, compared with the number of gender/age-specific welfare recipients in this location?” Our illustrative answer appears in Table 2 column 5, which is each same row column 1 count divided by the same row derivative count in column 4.**

Each two-row pair of numbers in Table 2 column 5 is a direct local comparison of how many female age-specific welfare recipients there were for each local new hire of women at this age in the selected industry sectors in an average month of a defined year. For example, the paired numbers 7.1 and 1.6 at the top of column 5 show that in an average month of 1991 there were 7.1 Baltimore City female welfare recipients age 24 for each local new hire of 24 year old women in the chosen industry sectors (summed), while there were 1.6 Anne Arundel County female welfare recipients age 24 for each local new hire of 24 year old women in the same industry sectors (summed).

**Table 2: Illustrative Calculation of the Number of Age-specific Female Head-of-household Welfare Recipients
for
Each Average Monthly Local New Hire of Same-age Women**

	(1) Average Monthly TCA N	(2) Sum of quarterly local new hires of women in age group in selected NAICS	(3) Average monthly local new hires of women in age group in selected NAICS	(4) Average Monthly local new hires of age-specific women in selected NAICS	(5) Age-specific TCA recipients per average monthly local new hire of age-specific women in selected NAICS
Cohort 1 Age 24					
	<u>1991</u>				
Baltimore City	1,508	1,900	633	211	7.1
Anne Arundel County	157	872	291	97	1.6
Cohort 2 Age 24					
	<u>2001</u>				
Baltimore City	545	2,001	667	222	2.5
Anne Arundel County	23	1,340	447	149	0.2
Cohort 1 Age 28					
	<u>1995</u>				
Baltimore City	1308	5,362	1,787	179	7.3
Anne Arundel County	114	2,781	927	93	1.2
Cohort 2 Age 28					
	<u>2005</u>				
Baltimore City	310	3,786	1,262	126	2.5
Anne Arundel County	24	2,602	867	87	0.3

Source: The Jacob France Institute, University of Baltimore, June 2007

If the two locality-defined cohorts of 24 year old female welfare recipients were competing only among themselves for the 1991 average monthly new hire opportunities for 24 year old women in the chosen local industry sectors, the Baltimore City women had 4.4 times more competitors than their Anne Arundel County counterparts. This is a conservative estimate of local absorption capacity when the availability of local non-recipient 24 year old women is added to the mix. Our metric of local labor market absorption capacity here has been completed new hire transactions. Addition of unmeasured unfilled local job openings in these industries that may hypothetically be filled by same age women would increase local labor market absorption capacity, but this is a slippery slope for strategic decision-making purposes.

1991 was a recession year, as was 2001, but the 2001 pairing of Table 2 column 5 numbers—2.5 for Baltimore City and 0.2 for Anne Arundel County—shows a comparative worsening of the Baltimore City women's circumstance relative to their Anne Arundel County counterparts. The Baltimore City women now had 12.5 times more welfare recipient competitors for each hire than the Anne Arundel County women—2.5 versus 0.2 TCA recipients per average monthly new hire of same age women in the selected local industry sectors.

Baltimore City's worsened status relative to Anne Arundel County between 1991 and 2001 contrasts with improvement within both of the jurisdictions. Baltimore City's number of female welfare recipients per average monthly count of local new hires of same age women in the selected industry sectors fell from 7.1 in 1991 (cohort 1) to 2.5 in 2001 (cohort 2), while the Anne Arundel County counts fell from 1.6 in 1991 to 0.2 in 2001. In both cases, column 1 and column 4 figures indicate that there was a sharp reduction in the number of 24 year old female welfare recipients in an average month of 1991 and 2001, coupled with an increase in the number of new hires of same age women in the chosen industry sectors (very modest in Baltimore City and more robust in Anne Arundel County).

The birth-year comparisons for 28 year old TCA recipients in 1995 (cohort 1) and 2005 (cohort 2) in the last two pairings of numbers in Table 2 column 5 are consistent with the interpretation of comparisons described in the previous paragraph, with one important exception—the derived number of local new hires of same age women (column 4) in the selected industry sectors actually fell between 1995 and 2005 in both jurisdictions. The average monthly welfare caseload of women age 28 fell too, so the resulting column 5 calculations of welfare recipients per average monthly local new hire of same age women in the selected industry sectors is roughly the same for the 28 year olds as it was for the 24 year olds four years earlier.

We began this paper with two sentences:

Participation of work-eligible welfare recipients in unsubsidized paid employment depends in part on a local economy's capacity to employ them. We show how this absorption capacity differs among local economies and changes over time.

Table 2 column 5 delivers our evidence supporting the statement that “we show how this absorption capacity differs among local economies and changes over time.” QWI Online information is now available for 38 states. Our approach can be replicated, or modified to include more or different industry sectors, age groups or sub-state jurisdictions.

WORK PARTICIPATION EXPECTATIONS

Our basic theme in this paper has been that participation of work-eligible welfare recipients in unsubsidized paid employment depends on both an *opportunity* to participate and a sufficient *incentive* to participate. Our incentive evidence appears in Figure 3 and Table 1.¹⁵ Our opportunity evidence appears in Table 2.

The Washington Post recently published a Ron Haskins op-ed titled “The Rise of the Bottom Fifth: How to Build on the Gains Of Welfare Reform.”¹⁶ Haskins wrote:

Two policy innovations, bipartisan in conception and implementation, should be pursued. First, the type of work requirement that characterized the 1996 welfare reforms should become routine in all large-scale welfare programs, notably food stamps and housing. Rather than allowing able-bodied adults to receive benefits without making a reciprocal commitment to increase personal responsibility, federal and state policy should require serious effort to work.¹⁷

¹⁵ Also see our 2006 NAWRS paper, page 15, Figure 8 and Table 1, available at http://www.ubalt.edu/jfi/jfi/reports/nawrs_082106.pdf, where the distribution of annual earnings is shown for the cohort 1 and cohort 2 women at age 28 (in 1995 and 2005 respectively) and for the cohort 1 women at age 38 (in 2005). There we show that 7 percent of the cohort 1 pre-TANF women age 28 earned more than \$20,000 inflation-adjusted dollars in 1995 compared with 23 percent of the cohort 2 post-TANF women age 28 who earned more than \$20,000 in 2005. At age 38 in 2005, 28 percent of the cohort 1 women earned more than \$20,000 annually. At age 28, 44 percent of the cohort 1 pre-TANF women had no reported earnings in 1995, while 30 percent of the 28 year old cohort 2 post-TANF women had no reported earnings in 2005.

¹⁶ *The Washington Post*, May 29, 2007, p. A13.

¹⁷ Haskins' second policy innovation is that “Congress should continue the trend in federal policy to improve programs that help low-income workers such as child care and health care.” *Ibid*.

We encourage commitment to a future work-eligible welfare recipient participation approach that is responsive to our illustrative evidence that labor market absorption capacities differ among local economies and change over time. The challenge faced is not the same or necessarily stable among localities. Uniform effort should not be expected to result in uniform success without differential assistance.