



How Have Households with Children Fared in the Job Market Downturn?

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The moderate but lengthy job market downturn has reduced full-time employment and earnings and increased poverty among households with children.

During the 1990s, households with children greatly increased their earnings and incomes. Employment rates and earning levels rose for all families, but especially those headed by single mothers; their poverty rates declined substantially while their real incomes rose (Lerman 2005; Zedlewski 2002). Tight labor markets, along with welfare reform and expanded supports for working families (such as the Earned Income Tax Credit and child care subsidies), contributed significantly to these improvements.

But labor markets have slackened considerably since early 2001. While the recession that began in 2001 was officially declared over before the end of the year, employment rates and labor force participation continued to decline through 2003 and recovered only modestly in 2004.¹ It is important to assess how households with children have fared in the wake of this recession and sluggish recovery.

It is also important to assess the effectiveness of the social “safety net” when the economy worsens and jobs become less available. The welfare rolls dropped dramatically during the late 1990s and did not rise appreciably during the recent downturn. Traditionally, Unemployment Insurance (UI) has been the primary safety net program that cushions workers who become unemployed involuntarily through no fault of their own. But UI’s strict eligibility rules, based on the reason for unemployment and a worker’s recent hours and earnings history, restrict access for many unemployed workers. As a result, takeup rates vary widely, even among the eligible.²

How well UI and other programs protected all workers, including low-income single mothers, during the nation’s first post-welfare reform recession merits careful scrutiny.

In this brief, we explore changes in the employment rates and earning levels of adults in households with children between 2000 and 2003. We examine whether some households—such as those headed by single adults—were more affected by the recession than others. We also evaluate whether UI and other public programs, such as Temporary Assistance to Needy Families, Social Security, and food stamps, sufficiently safeguarded adult workers whose employment had declined.

The Data

We use data from the March 2001 and 2004 Current Population Surveys (CPS), which reflect employment and income from 2000 and 2003, respectively. These data provide the best annual estimates available on household employment, income levels, and income sources. We limit our samples to households with children (any individuals under age 18, regardless of relationship to head) in which the head is age 25 to 54 (inclusive).³

To consider how the effects of the downturn on income differ across household structures, we divide our households into those with one, two, or more than two adults present. The vast majority (86 percent) of one-adult households with children is headed by women, so results for

single-adult households are nearly identical to those of female-headed households. We do not take account of family structure within households or marital status of adults, so two-adult households include married couples, cohabiting partners, roommates (with children), and multigenerational families.

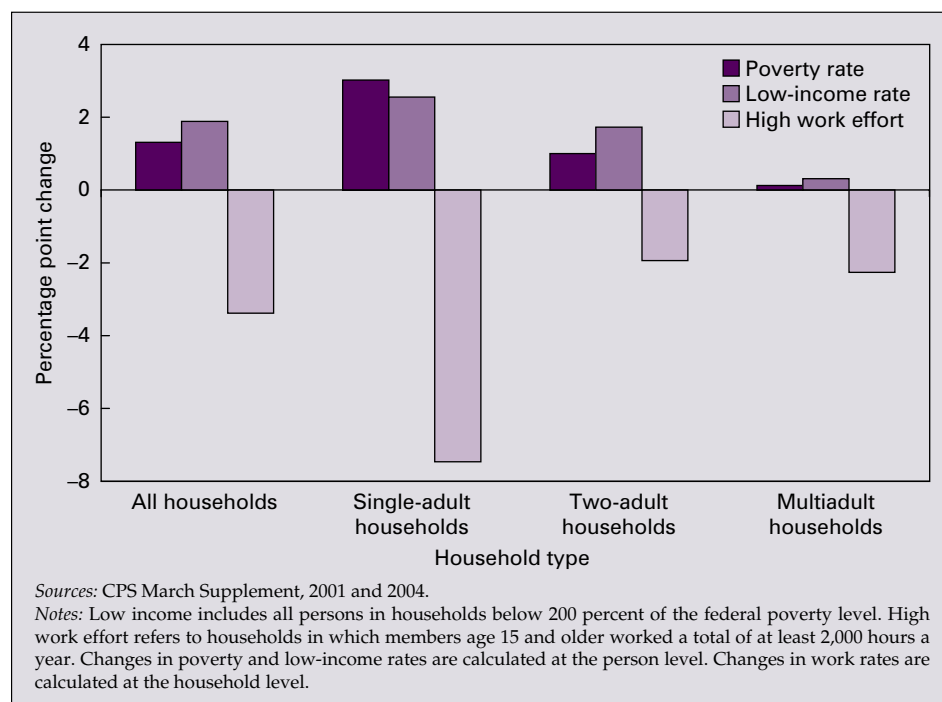
We also divide households into categories according to the level of work effort. All households in which family members work 2,000 or more hours a year combined are considered high-work households.⁴ This level of work effort is equivalent to having at least one full-time, full-year worker. We define medium- and low-work households as those with annual work efforts of 1,000–1,999 and 1–999 hours.

Income sources are likewise summed over household members, and poverty rates are computed by applying the federal poverty threshold (which varies by the number of adults and children in the household) to the entire household. Official estimates of poverty apply the federal poverty threshold at the family level, so our estimates of poverty rates will be lower, though changes in rates are comparable. Low-income rates are calculated as the proportion of individuals (by category) that have household income below twice the federal poverty level.

Rising Poverty, Declining Work

Figure 1 presents results on poverty rates, low-income rates, and hours of work for households with children in 2000 and 2003.⁵ The results show that, for all households with children, poverty and low-income rates rose modestly (i.e., by 2 percentage points or less), while the share of households working 2,000 hours or more declined by about 3 percentage points. However, the results also show dramatic differences in these results across different household structures. In particular, the increases in poverty and low-income rates and the decrease in full-time, full-year

FIGURE 1. Change in Poverty, Low-Income, and Work Rates, 2000–03



work are larger in households with just one adult than in those with two or more adults.⁶

Table 1 presents trends in poverty, low-income, and work rates in greater detail. In both 2000 and 2003, more than 90 percent of households with two or more adults performed at least 2,000 hours of work a year. In contrast, only about half of all households with one adult generated full-year, full-time work in either year. Over 20 percent of one-adult households worked 1,000–1,999 hours a year, while 21–28 percent worked less than 1,000 hours.

As expected, households working less than 2,000 hours a year are far more likely to be poor or low-income than high-work households, regardless of the number of adults present. Less than 25 percent of households working 2,000 hours or more were low-income in 2000 and 2003, and just over 5 percent were poor. In contrast, over 70 percent of those with medium levels of work effort, and over 90 percent of those with little or no work effort, were low-income in both years. Poverty rates for households with moderate to low work

effort ranged from 37 to 73 percent, while the rate for no-work households was about 80 percent.

The incidence of poverty and low incomes is much higher in single-adult households than in those with two or more adults in either year, even for high-work households.⁷ Over 10 percent of high-work single-adult households were poor in 2000 and 2003, compared with about 5 percent of high-work households with two or more adults. Overall, about 35 percent of one-adult households were poor, even at the peak of the business cycle in 2000, and over 60 percent of one-adult households had low incomes that year.

But all these outcomes worsen, especially among single-adult households, between 2000 and 2003. The share of households generating full-time, full-year work dropped from 57 to just under 50 percent among single-adult households. At the same time, the share of these households with no work rose by over 5 percentage points—from 11.2 to 16.4 percent. Among households with two or more adults, the share working full-time full-year declined by about 2 percent—

TABLE 1. People in Poor and Low-Income Households, by Work and Household Type (percent)

	Households in category		Poverty rate (persons)		Low-income rate (persons)	
	2000	2003	2000	2003	2000	2003
All households						
No work	2.8	4.1**	79.6	81.1	94.7	94.2
1–999 hours	2.7	3.4**	72.5	68.3**	90.9	90.8
1,000–1,999 hours	6.6	8.0**	39.1	36.7**	71.1	70.6
2,000+ hours	87.9	84.5**	5.4	5.2	23.6	23.8
Total	100.0	100.0	10.8	12.2**	29.8	31.7**
One-adult households						
No work	11.2	16.4**	88.0	84.4**	96.1	94.7
1–999 hours	9.5	11.4**	71.5	72.0	91.2	92.8
1,000–1,999 hours	22.0	22.4	40.0	36.7*	72.9	71.0
2,000+ hours	57.2	49.8**	12.5	10.7**	45.2	44.1
Total	100.0	100.0	34.6	37.7**	62.9	65.4**
Two-adult households						
No work	1.2	1.7**	69.8	78.0**	93.0	93.4
1–999 hours	1.5	1.8*	74.7	64.5**	90.7	87.8
1,000–1,999 hours	4.1	5.3**	37.2	34.3*	67.0	69.0
2,000+ hours	93.1	91.2**	4.6	4.9**	21.0	21.7**
Total	100.0	100.0	7.9	8.9**	25.0	26.7**
Multiple-adult households						
No work	1.2	1.4	65.2	69.6	92.6	93.1
1–999 hours	1.0	1.5	66.7	65.2	90.7	92.7
1,000–1,999 hours	2.1	3.7**	45.5	47.1	84.6	76.2**
2,000+ hours	95.7	93.4**	5.7	4.6**	25.2	24.3
Total	100.0	100.0	7.8	7.9	27.9	28.2

Sources: CPS March Supplement, 2001 and 2004.

Note: Low-income households are those with incomes below 200 percent of the federal poverty level. One-adult households have one adult age 18 or older. Two-adult households have two adults, and multiple-adult households have three or more adults.

* Significantly different from 2001 at the 90 percent level.

** Significantly different from 2001 at the 95 percent level.

age points but remained over 90 percent. The share with no work rose by less than 1 percentage point.

The loss of full-time, full-year employment among single-adult households might appear greater than that among other households simply because single-adult households were more likely to be working only slightly more than 2,000 hours initially. An employment loss of any magnitude would therefore drive more single-adult households below the high-work threshold. However, when we measure employment loss using changes in hours worked, we again find larger declines in employment among single-adult households than among multiple-adult households. Our tabulations (not shown)

also indicate that workers in single-adult households have less education and shorter job tenure than those in two-worker families. In previous recessions, less-educated and less-experienced workers endured higher rates of unemployment than other workers (Hoynes 2000). As such, the larger employment declines for single-adult households likely reflect the economic downturn rather than a diminishing interest in work on their part.

The growth in poverty and low-income status is also greater for one-adult households than for households with two or more adults. The poverty rate for single-adult households increased from 34.6 to 37.7 percent, while the share with low incomes

climbed from 62.9 to 65.4 percent. At the same time, poverty rates for two-adult household rose by only 1 percentage point, from 7.9 to 8.9 percent, and the share with low incomes increased by 1.7 percentage points, from 25.0 to 26.7 percent. Households with more than two adults saw no change in poverty or low-income status.

Within categories defined by work effort, poverty and low-income rates fluctuate modestly. But our analysis of these data shows that the increase in poverty and low-income status can be almost entirely explained by changes in hours worked. In other words, the declines in employment associated with the labor market downturn almost fully

explain observed changes in income status, both overall and for different household structures.

Overall, these numbers imply a significant worsening of employment and incomes for single-adult households during this lengthy, albeit mild, downturn. The presence of two or more adults helps cushion a household from falling below the critical full-time full-year work effort threshold.

The Safety Net: Unemployment Insurance and Other Public Funds

As we noted earlier, tightening welfare eligibility rules make it harder for poor and low-income families to obtain benefits. In fact, welfare case-loads remained fairly constant during this downturn, at least in the aggre-

gate (Loprest 2003). Nevertheless, UI and other social insurance programs should generate a “safety net” to protect needy families and households whose heads lose employment during a downturn. Yet households that left welfare when their adults began working may not receive UI benefits if workers lose their jobs, because they either lack eligibility or do not apply for benefits when eligible.

In table 2, we examine how household earnings and incomes changed between 2000 and 2003, and consider the receipt of income from various safety net programs—UI, Temporary Assistance to Needy Families (TANF), Social Security and Disability (SS&D), and food stamps (FS)—for different types of households.⁸ The median earnings of all households with children declined by

about \$2,650, or about 5 percent. As might be expected, earning declines among families maintaining high work effort were more modest than among those with lower levels of work. Between 2000 and 2003, the share of all households receiving UI increased from 5.8 to 8.8 percent. The receipt of UI grew more substantially among lower-work households than high-work households.

As emphasized in a recent paper by the U.S. Department of Health and Human Services (2005), receipt of UI certainly rose among one-adult households between 2000 and 2003.⁹ Comparing increases across households with different numbers of adults present, we find that although UI participation rates for one- and multiple-adult households were similar in 2000 (5.7–5.8 percent), they

TABLE 2. *Income Sources of Households with Children, by Household Structure and Work*

	One-adult households		Two- or more adult households		All households	
	2000	2003	2000	2003	2000	2003
All work categories						
Median earnings (\$) ^a	20,836	19,000**	61,974	60,000**	53,800	51,151**
Median income (\$) ^a	24,095	23,192**	65,180	63,020**	57,914	55,080**
Receiving UI (%)	5.7	7.1**	5.8	9.1**	5.8	8.8**
Receiving TANF (%)	11.5	11.2	2.2	2.0	3.7	3.6
Receiving SS&D (%)	11.1	11.1	6.3	7.1**	7.1	7.8**
Receiving food stamps (%)	22.3	26.7**	4.7	5.8**	7.5	9.4**
High-work households						
Median earnings (\$) ^a	28,850	30,000	64,112	63,300	60,265	60,000
Median income (\$) ^a	32,056	32,500	67,613	67,000*	64,112	63,000
Receiving UI (%)	2.8	1.9	5.3	7.8**	5.0	7.2**
Receiving TANF (%)	1.4	1.9	1.3	1.1*	1.3	1.1
Receiving SS&D (%)	4.3	4.2	4.9	5.5*	4.9	5.4*
Receiving food stamps (%)	7.2	7.3	3.0	3.6**	3.5	4.0**
Lower-work households						
Median earnings (\$) ^a	8,121	5,480**	10,685	12,000	9,082	8,900
Median income (\$) ^a	13,486	12,860*	20,148	20,000	16,028	15,972
Receiving UI (%)	9.5	12.2**	13.0	24.0**	11.1	17.4**
Receiving TANF (%)	25.1	20.4**	16.0	12.5**	21.1	16.9**
Receiving SS&D (%)	20.2	17.9	26.8	24.2	23.1	20.7*
Receiving food stamps (%)	42.6	45.9	28.9	30.2	36.6	38.9

Sources: CPS March Supplement, 2001 and 2004.

Notes: Lower-work households are those whose members age 15 and older worked 0–1,999 hours a year. High-work households are those whose members worked 2,000 or more hours a year. One-adult households have one adult age 18 and over. Two- or more adult households have two or more adults.

UI = unemployment insurance; TANF = Temporary Assistance for Needy Families; SS&D = Social Security and Disability (includes Supplemental Security Income, Social Security Disability Insurance, and any other Social Security income, such as survivors benefits).

a. Significances presented are for tests of means, not medians.

* Significantly different from 2001 at the 90 percent level.

** Significantly different from 2001 at the 95 percent level.

grew markedly higher for multiple-adult households than one-adult households by 2003: 9.1 percent of households with two or more adults received UI, compared with only 7.1 percent of one-adult households. Indeed, our calculations suggest that single-adult households, which constitute 17 percent of the households in our analysis, account for only 8 percent of the increase in UI receipt—even though they account for about 37 percent of the decline in full-time, full-year work.¹⁰ Similarly, households that work over 2,000 hours a year account for over 60 percent of the increase in UI receipt over this period—at least partly because one adult in multiple-adult households can work full-time while others can qualify for UI. And, while UI receipt is likely underreported in these data, we know of no evidence that underreporting has grown over time or is worse among single-adult households than among other households.¹¹

As for the other public social insurance or transfer programs, we find that, as expected, one-adult households are more likely than other households to receive income from TANF, and that TANF receipt did not grow for either household type between 2000 and 2003. Similarly, receipt of SS&D held steady for single-adult households and grew modestly for multiple-adult households between 2000 and 2003. Among those with less than full-time, full-year work effort, however, the tendency to receive funds from SS&D, and especially TANF, declined. Only about 11 percent of all single-adult families, and only 20 percent of those with lower work effort, received any cash income from TANF in 2003. In contrast, food stamp receipt increased slightly among all household types—though even for single-adult households these increases are quite modest relative to the declines of the late 1990s (Greenstein and Guyer 2001).

Thus, the households most vulnerable to the loss of year-round full-time work receive less protection from most other public programs

than they once did. Although more of these vulnerable households received UI, as a group they received less protection from UI than those with less vulnerability. Perhaps this is to be expected from a program geared to individual workers rather than households. For any given loss of employment in single- and multiple-adult households, the latter will be more likely to receive income from the program simply because those households have more workers.

We tested this possibility by looking at both the loss of employment and the likelihood of UI receipt per individual rather than per household. We find that the underlying finding remains true: individuals in single-adult households lost more weeks of work but had a smaller increase in UI receipt than individuals in households with two or more adults.¹² Among those in single-adult households, mean weeks worked per year dropped by 3.1 weeks (from 41.5 to 38.4 weeks) between 2000 and 2003; the drop was 1.2 weeks for individuals in two-adult households (from 41.3 to 40.1 weeks) and 0.6 weeks (from 41.9 to 41.3 weeks) for those in multiple-adult households. The incidence of UI receipt for individuals in single-adult households in this period rose 1.2 percentage points—from 6.1 to 7.3 percent; comparable numbers

are 1.8 points (from 3.2 to 5.0 percent) for individuals in two-adult households and 2.5 percentage points (from 3.1 to 5.6 percent) for those in multiple-adult households.

Another way of looking at the role of UI in the safety net is to examine how well UI reaches poor or low-income families, and for those families it reaches, whether UI receipt lifts some families above the poverty or low-income thresholds. In table 3, we present two measures of UI receipt. First, we consider the fraction of all *persons* in poor or low-income households that received at least some UI income in 2000 and 2003; here, we assign poor and low-income status based on income excluding UI benefits (i.e., we discuss the pre-UI poor). Next, we consider the fraction of *households* receiving UI income that were poor or low-income before receiving it. In each case, we also consider whether UI lifts those who receive it above the poverty or low-income thresholds (post-UI poor and low-income).

The results in table 3 are somewhat mixed. Of all persons in households receiving UI, 16.1 percent were poor (pre-UI) in 2000 and 19.6 percent were poor in 2003. Comparable figures for low-income household status are 45.0 and 46.0 percent, respectively. And relatively few households that

TABLE 3. Household Income Status and UI Receipt (percent)

	2000	2003
All Persons in Households Receiving UI		
Poverty rate		
Pre-UI	16.1	19.6**
Post-UI	11.5	14.0**
Low-income rate		
Pre-UI	45.0	46.0
Post-UI	41.3	40.1
All Poor/Low-Income Households		
Pre-UI poor receiving UI	8.3	13.9**
Post-UI poor receiving UI	6.0	9.9**
Pre-UI low-income receiving UI	8.6	12.4**
Post-UI low-income receiving UI	8.0	11.0**

Sources: CPS March Supplement, 2001 and 2004.

Note: All significance tests are Wald tests of the means between 2000 and 2003 for each relevant subgroup.

** Significantly different from 2001 at the 95 percent level.

are poor or low-income in the absence of UI tend to receive it. Just 8–9 percent of all poor or low-income (pre-UI) households received UI in 2000; these rates rose to 12–14 percent in 2003.

Thus, most UI income goes to households above the poverty and low-income thresholds. But UI still plays an important role for those who receive it. Table 3 shows that, among those pre-UI poor households that receive UI, poverty rates dropped by about a third in 2003—from 19.6 to 14.0 percent. Similarly, among the 13.9 percent of pre-UI poor families receiving UI, just over two-thirds (9.9 percent) remained poor after receiving it.

Overall, then, UI plays a relatively small role in reducing poverty and slowing the rise of poverty during labor market downturns—though for the poor who receive UI, it is an effective antipoverty tool. Whether UI's efficacy as a tool to fight poverty or low-income status among households can be improved by expanding the eligibility of workers from low-income households merits further discussion.

Conclusion

The moderate but lengthy downturn in the labor market that began in 2001 has reduced full-time employment and earnings and increased the incidence of poverty among households with children. The reductions have been more substantial for single-adult households than for households with two or more adults. Single-adult households were also more vulnerable to these losses, since they had lower earnings and employment even at the job market's peak in 2000. The larger employment declines for this group likely reflect the greater vulnerability of less-educated and less-experienced workers to economic downturns.

Safety net programs for working families, such as UI, have reached relatively fewer one-adult and low-income households than other

households. However, when UI reaches households with poverty-level incomes, it lifts as many as a third of them above the poverty threshold. Other sources of public funding, such as TANF and SS&D, play similar or smaller roles than before, shielding fewer single-adult families from the effects of lost employment.

Can changes in the UI system make it a more effective antipoverty mechanism during labor market downturns, especially for single-adult households? Many reforms have been discussed in recent years that would slightly expand eligibility for UI, especially for less-skilled workers and those who have recently left welfare (e.g., Kaye 1997; Vroman 1998; Holzer 2000).¹³ Of course, from the data presented here, we do not know whether the relatively lower receipt of UI among single-adult households represents lower eligibility or lower takeup rates among those eligible. Recent evidence (Rangarajan and Razafindrakoto 2004) suggests that nonmonetary eligibility rules—those that limit UI receipt among those who quit or were discharged from jobs—should affect more unemployed former welfare recipients than various monetary eligibility rules (those related to recent hours worked or earnings).¹⁴ Whether former welfare recipients are even aware of UI, and know how to apply for it when eligible, remains uncertain as well. More research and discussion among policymakers are urgently needed on these issues.

At the same time, remember that UI is a program tied to the earnings and work experience of individual workers, rather than their household incomes. Other programs—such as TANF, the EITC, and the State Children's Health Insurance Program—are more explicitly designed to supplement the earnings of low-income households with children. Reforming and extending these programs might further address the difficulties experienced by single-adult and other low-income households during economic downturns.

Notes

1. The National Bureau of Economic Research Business Cycle Committee declared the recession began in March 2001 and ended in November 2001. But annual unemployment rates rose from 4.0 percent in 2000 to 6.0 percent in 2003 before declining to 5.5 percent in 2004. The employment-to-population ratios in these years were 64.5, 62.3, and 62.3 percent, respectively.
2. To be eligible for UI, an unemployed worker must have been laid off; he or she cannot have quit or been discharged with cause. Eligibility is often limited to those available for full-time work. States also impose minimum hours and/or earnings requirements during a "base period" that usually excludes the current and most recent quarters of employment. For discussions of how these rules might limit UI eligibility among former welfare recipients, see Kaye (1997), Vroman (1998), Holzer (2000), GAO (2000), and Rangarajan and Razafindrakoto (2004).
3. By restricting our sample to households headed by prime-age adults (age 25 to 54), we reduce the risk that low work effort results from postsecondary school attendance or early retirement.
4. Hours worked are summed over all individuals in the household and over all jobs held by individuals age 15 or older in the prior calendar year.
5. The changes in poverty rates that we observe for this sample from 2000 to 2003 are very close to those published by the Census Bureau in its most recent annual report on income (U.S. Census Bureau 2004).
6. The employment declines we observe for those in single-adult households are at least broadly consistent with those observed by Loprest (2003) for welfare leavers and by Lerman (2005) for single mothers, though we focus on loss of full-year, full-time employment rather than employment at a given point in time.
7. Poverty and low-income rates are considerably higher in single-adult families with 2,000 hours of work effort than in other high-work households, mostly because single adults have fewer hours of work above the 2,000 hour cutoff. Poverty and low-income rates in the medium- and low-work effort categories are fairly comparable across household types.
8. SS&D includes Supplemental Security Income, Social Security Disability Insurance, and any other Social Security income (such as survivors benefits). We do not include income received from the Earned Income Tax Credit (EITC) in this

table, as we are focusing on programs with possible countercyclical effects. Since receipt of the EITC is directly tied to earnings for low-income households up to a certain threshold, EITC income will almost certainly decline as household employment and earnings decline in a downturn.

9. This Health and Human Services (HHS) brief shows that UI receipt rates for low-income single mothers were slightly higher during the recent recession (peaking at 6.9 percent in 2002) than in the previous recession (6.2 percent in 1991).
10. In other words, the loss of full-time employment in single-adult households weighted by their presence in the population of households (17 percent) constitutes 37 percent of the loss of year-round full-time employment among all households, while their increase in UI receipt weighted by their presence in the population of households constitutes 8 percent of the rise in UI receipt among all households.
11. For evidence on underreporting of income from UI and other transfer programs in the March CPS see Roemer (2000), although his data stop at 1996.
12. However, mean UI income rose slightly more in the single-adult households, perhaps reflecting longer durations of unemployment among those receiving it.
13. These include setting minimum levels of hours worked and/or earnings nationwide that would qualify individuals for UI receipt when they lose employment; encouraging states to calculate hours worked or earnings using "alternative base periods" that include the work of those who had recently left welfare; and extending eligibility to part-time workers or those who quit jobs for specified family difficulties. Another approach, used during the 1974–75 recession, is to establish a supplemental program (funded by general revenues) for those who fail to meet the regular program's eligibility standards.
14. Since the taxes on employers that fund UI are partly "experience-rated"—i.e., based on their layoff history—employers have some incentive to discharge or encourage quitting among employees whom they might otherwise lay off in a downturn. Little empirical evidence exists on how often this occurs.

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