



# Does residential location matter to the employment of TANF recipients? Evidence from a dynamic discrete choice model with unobserved effects <sup>☆</sup>

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## Abstract

We study the factors affecting the employment probability of temporary assistance for needy families (TANF) recipients using recent quarterly panel data from Atlanta, Georgia. A central focus of our study is to determine whether the TANF recipient's proximity to job opportunity and the availability of childcare affect her probability of full-time employment. Both static and dynamic models of employment choice are estimated that control for unobserved individual effects. We estimate models separately for a sub-sample of TANF recipients living in public housing, whose residential locations can be considered exogenously determined. We find substantial evidence that individual and family characteristics (such as, the education of the recipient and the number of children and adults in her family) are important determinants of the employment probability of welfare recipients. On the other hand, location-related variables are found to be relatively unimportant.

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## 1. Introduction

The Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996 imposes stringent work requirements and time limits on welfare recipients—recipients must find work within two years of receiving benefits and lifetime benefits are limited to a total of five years.<sup>1</sup> This legislation has heightened interest in the factors that affect the employment probability of welfare recipients. These factors can be divided into two categories—family/individual-based and place-based. The former category includes the standard set of human capital variables (education, training, and experience) as well as the recipient's attitudes, reliability, and motivation. The recipient's residential location may affect employment probability in a variety of ways, but the two that have been given the most attention are job accessibility and neighborhood effects. Job access refers to whether there are job openings which the recipient is qualified to hold close to where she resides. Neighborhood effects encompass a variety of mechanisms whereby a recipient's neighbors may alter her/his willingness or ability to work.

Extant evidence on the effects of individual and place variables on the employment of welfare recipients, and low-skill workers generally, can be questioned because few studies have adequately dealt with the fact that residential location is self-selected. Biased estimates will result if unobservable characteristics of the individual affect both the choice of residential location (and thereby job access and neighborhood effects) as well as the probability of employment.

In the case of welfare recipients it has been argued that self-selection of residential location is not a major source of bias because recipients' residential choices are highly restricted by their low incomes [1]. However, there is also evidence that suggests that two of the key individual attributes that result in a recipient having a job are reliability and motivation [17], which are generally unobservable variables. Even if low income limits residential choice, there may be enough choice that these variables are correlated with observable characteristics of the recipient's residential location that affect employment probability. For example, recipients more motivated to work may perform better in job interviews and may be more likely to seek a place to live that offers nearby job opportunities. It is not clear therefore whether self-selection of residential location is more or less of an econometric issue for welfare recipients in comparison to low-skilled workers generally.

Two approaches toward dealing with self-selection are:

- (1) conduct a random assignment experiment or identify a natural experiment where location is random, and
- (2) rely upon panel estimation techniques that control for unobservable individual effects.<sup>2</sup>

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<sup>1</sup> The research presented in this paper is based on data from the state of Georgia, which limits lifetime benefits to only four years.

<sup>2</sup> Other approaches include jointly modeling employment and location decisions and instrumenting endogenous location variables in employment models. Both of these approaches require identifying and measuring variables that affect residential location but not employment probability, which has generally not been possible with available data bases.

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