AGENDA

Belleview Hotel
15 E Street, NW
(Russell Room)

Antipoverty Development Strategies and Welfare Reform

November 18-19, 1993
Washington, DC

Thursday, November 18

9:00 - 10:00 a.m.	Welcome, Overview, Introductions of Participants and their Work
10:00 - 12:00 p.m.	The Parameters and Context for Development Proposals in the Larger Welfare Reform Proposal Effort. • Mark Greenberg, Center for Law & Social Policy • Mark Schmitt, Senator Bill Bradley • *How does a development agenda fit within the current debate over welfare reform?* • *What is the administration currently considering?* • *What ideas for reform are being advanced by other groups?* • *How does a development agenda complement/conflict with these various ideas?*
1:00 - 2:30 p.m.	The Development Agenda: Discussion • Definition • Purpose/Mission • Principles
3:00 - 4:30 p.m.	The Spectrum of Development Strategies • *What does/might the universe of developmental strategies look like?* • *What are the broad range of strategies currently in use that we would consider developmental?* • *What types of organizations/institutions are involved in creating developmental strategies?* • *How much infrastructure is currently out there? How much scale do we currently have? What will it take to create more infrastructure?*
5:00 - 6:00 p.m.	Federal Role and Support for Development Strategies • *How should the Federal government support developmental strategies?* • *What should be done in terms of direct investment and support?* • *What other related changes in the "welfare" system must occur if development approaches are to be successful?*

Bonnie Deane

Friday, November 19

9:00 - 10:00 a.m.	Including a Development Component in Welfare Reform: A Discussion with Bob Greenstein, Center for Budget and Policy Priorities
10:00 - 10:45 a.m.	Federal Roles and Support (continued)
11:00 - 12:00 p.m.	Politics, Media and Next Steps • *What should our political strategy be?* • *Who are our political allies, and how can we reach them?* • *What is the best way to articulate and disseminate our ideas and message?*
12:15 - 2:00 p.m.	Lunch Discussion with Working Group on Welfare Reform
2:00 - 2:30 p.m.	Final Comments and Adjournment
2:30 - 6:00 p.m.	Meetings with Congressional Staffs and other Policy Leaders

Bruce

«DATA Nov 18 Mtg»

October 28, 1993

«First Name» «Last Name»
«if Title»«Title»
«end if»«if Organization»«Organization»
«end if»«Address»
«City», «State» «Zip»

Dear «First Name»;

We write to invite you to participate in a collaborative effort to design an antipoverty development package for inclusion in the welfare reform initiative presently being prepared by the Clinton Administration. The meeting will be held in Washington, D.C. on November 18 and 19, 1993.

As you know, the focus of U.S. antipoverty policy ever since the New Deal has been on a set of income maintenance/social service programs aimed at subsidizing consumption. Very little effort or money has been devoted to encouraging and supporting the efforts of poor people themselves to escape poverty -- through post-secondary education, skilled employment and entrepreneurship. Now, with President Clinton's campaign endorsement of some central elements of such a strategy — raising the AFDC asset limitation, creating a network of 1000 microenterprise programs, and launching a national Individual Development Account Demonstration -- there is a real opportunity to include an economic development package of proposals as an integral part of the Federal antipoverty strategy. Indeed, such a package would build on the community, state, and international innovations of the last decade.

But if we are to take advantage of this opportunity, the case for a development approach will have to be better articulated, the elements of that package must be identified and detailed, Administration and Congressional leaders will have to be briefed, and the coalition of national, state and community groups who have pioneered an support this approach will have to be organized. You are key to accomplishing all of these objectives.

Thanks to a small grant from the Joyce Foundation, we can cover your travel and expenses to attend. Please make your own travel arrangements, and bill us for reimbursement. We will send you information on hotel and meeting place in the near future. Obviously, we will greatly appreciate anything you can do to minimize expenses, and promise that we will apply any savings to enable others to participate.

The meeting will combine group work sessions with briefings of and by Federal officials and experts on the state of the welfare reform effort. The Working Group on Welfare Reform, Family Support and Independence has indicated its interest in working closely with us in this undertaking, and will be meeting with us during portions of these meetings. A draft of their current thinking on this issue is attached to provoke your thoughts. Please treat it as confidential and preliminary.

We have attached a very preliminary draft statement of the rationale for and elements of a Federal Antipoverty Development Agenda to be included in the welfare reform initiative. We offer it solely as a starting point to spark your own thoughts and suggestions. Please regard any oversights as requests for assistance. We hope that over the next several months, with your help, this document will acquire greater eloquence, clarity, political acuity, substance and signatories. Please give us your comments, and send materials on your work and its lessons that might add support and illustration to the document even if you cannot attend the session. We intend to revise the document before and after the meeting, and will reflect your suggestions as we receive them.

The opportunity here is great. Time is short. We look forward to working with you to seize the moment.

Sincerely,

Robert E. Friedman
Chair

Joyce Klein
Program Director

Kathryn Keeley
Director, Mid-West Office

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November 18-19, 1993

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CFED
CORPORATION
• FOR •
ENTERPRISE
DEVELOPMENT

MEMORANDUM

To: The Working Group on Welfare Reform, Family Support and Independence
From: Robert Friedman, Kathryn Keeley, Joyce Klein and Michael Sherraden
Re: Innovative Public/Private Partnerships for Welfare Reform
Date: November 2, 1993

We write as requested to suggest ways the Working Group could to develop the private sector job creation/employment piece of the welfare reform proposal as sketched in the concept paper entitled "Innovative Public/Private Partnerships for Welfare Reform." Let us start by saying that we are fully in support of the principles and purposes articulated in the section of that paper which begins, "Investing in people should pay off." We should also admit that while we have some sense of the other elements of the welfare reform proposal and certainly understand that the private employment component of it must be developed in the context of those other elements, we are not fully conversant with all those other elements.

In the remainder of this memorandum we seek to outline our preliminary thinking on the purposes, premises, principles, proposal for, financing and administration of the private sector employment element, as well as examples of the types of initiatives that might result.

Purposes:

- **To maximize the opportunities for enduring, sustaining private sector employment for welfare recipients.** This portion of the plan should be aimed not only at reducing welfare dependency, but at reducing poverty; hence there must be an emphasis on employment that is enduring and a level of wages and benefits that are sustaining, or above minimum wage. Opportunities to be created involve employment placement, employment advancement, job and business creation, and the means to get there, including longer term post-secondary education, savings and investment.
- **To do so in a way that provides a positive return on investment to all concerned.** This is an investment strategy, not a maintenance strategy, and should be designed to increase investment by offering to all investors (public, non-profit, private, individual) returns in excess of the initial investment.
- **To build the strength of the economy while increasing economic opportunity for welfare recipients and other impoverished people.** Real welfare reform is not achievable unless there is a job creation component that enlarges economic opportunity. This is done by increasing capacity in the economy -- the capacity of individuals (welfare recipients), governments, non-profits, and private sector firms to produce.

Premises:

The recommendations which follow are based on a series of premises which we will not detail here, but should be explicit. They include:

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PHONE (415) 495-2333
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SOUTHERN OFFICE
413 E. CHAPEL HILL ST.
ROOM 100, P.O. BOX 25249
DURHAM, NC 27702-5249
PHONE (919) 682-8444
FAX (919) 682-8862

MIDWEST OFFICE
313 SELBY AVENUE
• SUITE 200 •
ST. PAUL, MN 55102
PHONE (612) 292-0049
FAX (612) 292-0188

- The availability of enduring, higher-paying private sector employment is a chief limiting factor of the welfare reform plan oriented to moving people from welfare to (private sector) work.

- A major portion of welfare caseloads (on the order of 50%) remain dependent not because they never work, but because they are unable to land enduring, sustaining jobs.

- The current job market is, at best, inhospitable. The number of jobs is insufficient, and welfare recipients enter the market for these jobs at a disadvantage compared to generally more skilled, more experienced and preferred dislocated workers.

- Post-secondary level skills, generally requiring two years of training, will be required to secure jobs capable of paying a sustaining wage.

- People escape poverty through asset acquisition as well as through income. Asset acquisition, moreover, has a number of social, familial, economic, and psychological effects that are significant.

- The welfare caseload is a heterogeneous population, and different clients will find different routes to independence. The plan should allow for those differences, and seek series of solutions.

- The process of moving from longer-term welfare dependency to self-sufficiency, through skill acquisition, job advancement, self employment, saving and self-investment, will often take longer than 2 years, and in our experience, averages about four years.

- The pay-off from employment/independence/economic development strategies is positive and generally greater than maintenance or low-investment approaches.

- Self-employment and entrepreneurship are growing as sources of job growth in the economy.

- Because Americans feel strongly that everyone should have a chance to work, this is potentially the most politically popular aspect of the reform, (save only for the anti-welfare sentiment, which is harder to build upon), and should be highlighted. Our experience is that fundamental welfare reform is only believable with a job creation/economic development component.

Proposal:

We would suggest you propose the creation of an Investment Fund (with a catchy name) which would invest in state, regional and community private sector employment initiatives for welfare recipients. Investment should flow to those initiatives which offer the highest return on investment. The fund should be big enough to attract attention and generate activity in every state, and perhaps expressed as a percentage of maintenance payments: 5-10% for a total of $500 million to $1 billion annually. Grants would be competitive based on the criteria (principles) listed below. Such a Fund should support initiatives with employment goals, not on the structures (such as private industry councils or employers' consortia) or processes used to achieve those goals. To focus on the latter is to constrain needed innovation, expend excessive funds on the creation of bureaucratic structures that may not work, and generally undermine the productivity of the investments.

Such a proposal will not work unless the penalties which currently face welfare recipients who move forward through education, employment and self-employment are removed or at least reduced. As your concept paper noted, "Individuals who try to get jobs were often sabotaged by a system which cuts their supports during their first wobbly steps forward." An initial list of such barriers is appended.

Linkage to other federal programs aimed at increasing private sector employment opportunities should be another piece of this effort, along with building on existing state and private initiatives. Often this requires no more than removing the barriers noted above, but it never the less leverages additional resources to this agenda without costing appreciably more, and "mainstreams" welfare recipients into those efforts. Such programs include: the new training programs being developed at the Department of Labor; economic development programs in Agriculture, Commerce, HUD, SBA; microenterprise programs in SBA, HHS, DOL and elsewhere; other community development programs. At the very least the Working Group might want to try to negotiate access (preference, even set-asides) for welfare recipients. Alternately, the Investment Fund could be used to leverage access from the bottom up.

Principles (Criteria)

- Investments should be made to initiatives projecting the highest rates of return, thus encouraging leverage and matches. Those returns should be calculated by comparing benefits both to total costs and to Fund costs (to encourage leveraging other Federal and state moneys).

- Eligible activities should include job placement, job advancement, job creation projects as well as projects involving activities leading to enduring, sustaining jobs and increased economic participation, including post-secondary education, savings, Individual Development Accounts and social support. But eligible activities should be open ended.

- There should be maximum devolution of power and authority; thus preference should be given to initiatives launched by welfare recipients themselves, community groups, regional and state offices in that order.

- The system should be designed to learn over time, and communicate that learning. All projects should be required to produce evaluative information on what works, especially in terms of costs and benefits.

- Innovation and social entrepreneurship should be encouraged by specifying outcomes/returns and avoiding specifying structures or processes.

- Longer term investments and returns should be allowed and encouraged. A five-to-ten year timeframe as well as shorter timeframes should be used.

Financing:

The resources for the fund could come from several sources, among them:

- Avoidance of the cost of public sector employment placements which would otherwise be necessary, estimated to be $3,000 to $5,000 in administration and $4,600 in average welfare benefits.

- Similarly oriented existing funds, like the Job Opportunities for Low Income people program ($5 million)

- By limiting slightly some of the current asset subsidies for the non-poor (IRAs, pension benefits, home mortgage deduction, or by raising the alternative minimum tax applicable to these deductions)

- Curtailing or reducing the Targeted Jobs Tax Credit

Moreover, any Federal resources devoted to this fund can be expected -- and designed -- to leverage state, local and private sector matches. In fact, for state initiatives, it would be wise to use the current AFDC match requirements which reflect states' relative ability to pay and yet guarantees a 1:1 match on average.

Especially over a longer term, these investments should be expected to generate returns substantially in excess of the initial commitment. Among those benefits:

- Increased employment levels and salaries which reduce benefit levels;

- Longer duration of employment and less frequent returns to welfare;

- Increased taxes (individual and business);

In any case, return on investment projections ought to be required of all applicants for the investment funds, the Federal government should develop its own underwriting criteria, and evaluation/monitoring reports required from programs should be aimed at demonstrating the actual returns.

Examples:

Examples of eligible efforts include:

- Job Placement efforts like America Works! which combines private sector wage payments and bonuses paid by the public sector on the basis of enduring placements.

- Outreach, referral and placement programs like Project Match in Chicago which provides long term support and achieves placement rates of 91%

- Self employment programs. A recent survey of 194 of these found that they had loan funds totaling $43 million and had helped 21,000 start-ups and 36,000 expansions. 70% of the programs served low income people, and 63% served welfare recipients, despite the penalties imposed by the welfare system on both recipients and the programs who chose to serve them. Note that even if only 1% of welfare recipients chose this path, that represents 45,000 households; if the rate of self employment of welfare recipients ever came to equal that of the general population, we would be talking about more than 300,000 households. Nor is substantial investment needed; the programs exist and are expanding with investment from a wide variety of sources. All that is necessary for the welfare reform initiative to do is to remove the penalties, and underwrite the additional services (support services) necessary to meet the special needs of welfare recipients.

- Human Resources Development Associates-type programs, wherein the Canadian province of Nova Scotia granted a non-profit moneys to create six businesses that created 300 jobs for welfare recipients. An evaluation by the Bay State Skills Corporation found an extremely positive return on investment for this effort.

- Community employment enterprises like Cooperative Home Health Care Associates, a cooperative of home health care workers, many of whom are former welfare recipients, which has managed to improve and stabilize several hundred jobs and upgrade skills in New York and is now attempting similar efforts elsewhere. Also, child care enterprises like those launched by Coastal Enterprises of Maine and Eastside Community Investments of Indianapolis, both of which have helped welfare recipients make a go of day care ventures.

- Individual Development Account Demonstrations at the state and community level, like those being piloted by Iowa and Eastside Community Investments, which lead to skill upgrading and business and housing development.

- Wage subsidy programs like the Minnesota Employment and Economic Development program which was designed to maximize job creation effects and directly subsidized benefits as well as wages.

- Training enterprises like those run by Chicago Commons(Shicago), Esperanza Unida (Milwaukee), Focus:HOPE (Detroit) that train disadvantaged people in businesses at high wages and then place them in permanent work.

- Nonprofit Enterprises like Pioneer Human Services which offers comprehensive education and operates four businesses (real estate management, metal fabrication, food service and wholesale food distribution) employing 350 formerly homeless people.

- Employers' Consortia which commit job opportunities to welfare recipients and enable recipients to acquire the necessary skills and supports.

Remove the Penalties for Education, Employment and Self Employment

Perhaps the most pernicious aspect of the current AFDC system is the way it penalizes attempts to move forward through training, education, employment, and self-employment. Undertaking any of those paths forward inherently imposes more costs, as well as exposing individuals to risks they would otherwise not face. This system seems to serve no one well: AFDC recipients or the taxpayers who must support their continued dependency. A full list of the penalties and disincentives that should be removed, let alone a detailed description of appropriate changes, is beyond the scope of this testimony, but we can cite a number of general recommendations as examples:

- Raise the $1,000 asset limitation for eligibility for AFDC to $5,000 and remove similar restrictions in Medicaid and Food Stamps, which effectively prevent business creation.
- Exempt savings of recipients (not entrants) for college education, home purchase or even simply a cushion against emergencies, illnesses and accidents.
- Raise the asset limitation for the value of a automobile under AFDC (currently $1,500) to the Food Stamp level of $2,500.
- Remove penalties for employment and earnings including reducing the 100% effective tax rate on earnings after four months. The effective tax rate (benefit reduction ratio) should be no more than the tax rate facing the wealthiest Americans, and preferably should be no more than the tax rate on earned income at the same level.
- Limit grant reduction for business income to net profits taken out of the business. See H.R. 455 for specific language.
- Extend the duration of child care benefits to a more realistic transition period.
- Cap the amount of income that must be paid for subsidized housing.
- Eliminate the 100-hour rule for Unemployed Parents.
- Reduce or removing marriage penalties, including the treatment of step-parent income.

CATHY -
I said yes
to this.
BR

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Washington, DC

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Bonnie Deane

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RED DOT

OFFICE OF DOMESTIC POLICY

THE WHITE HOUSE

FROM THE OFFICE OF: **CAROL H. RASCO**
ASSISTANT TO THE PRESIDENT
FOR DOMESTIC POLICY

TO: Reed / Way

DRAFT RESPONSE FOR CHR BY:

PLEASE REPLY (COPY TO CHR):

PLEASE ADVISE BY:

LET'S DISCUSS:

FOR YOUR INFORMATION:

REPLY USING FORM CODE:

FILE:

RETURN ORIGINAL TO CHR:

SCHEDULE:

REMARKS: Please if ever an intern have someone find her & meet

Mary L. Waterhouse
P6/(b)(6)

November 2, 1993

The White House
Office of The First Lady
ATTEN: Patty Solis
Washington D.C. 20500

Dear Ms. Solis;

I spoke with a representative from your office in September. I was planning a trip to D.C. to meet with members of the Welfare Working Group, and was requesting a meeting with Mrs. Clinton to discuss welfare refrom with her. I am a former welfare recipient, but now have two college degrees, own a small business, and wrote a book on the topic of welfare.

In September, I sent your office a letter, media kit and copies of the book I wrote, <u>Farewell Welfare.</u> After several phone calls between your office and myself, it was determined that Mrs. Clinton's schedule surrounding the health care program was too demanding to arrange an appointment. I was, however, asked to inform your office if I had occasion to return to D.C.

I am writing to you at this time because I have been invited to participate in a collaborative effort to develop an antipoverty package to submit into the welfare reform initiative. I will, therefore, be in D.C. from Nov. 17-21. If there is any possibility of arranging even a brief meeting with the First Lady, I know I can provide her with information and ideas that are both practical and unique.

I look forward to hearing from you at your earliest convenience. I am also mailing a copy of this letter to you.

Sincerely,
Mary L. Waterhouse
Mary L. Waterhouse

Regretted — HRC
Forward to Domestic Policy

Adding a
Federal Antipoverty Development Package
to Welfare Reform

A Preliminary Proposal

The Federal Welfare Reform Proposal being prepared by the Working Group on Welfare Reform, Family Support and Independence, offers the possibility, for the first time in this century, to add a substantial development component -- one designed **to encourage, enable and support low income people moving into the mainstream economy as skilled employees and entrepreneurs**. There are many promising models for such an approach in existing community, state and international efforts. At the Federal level, policy proposals embodying a development strategy -- proposals like raising the permissible asset level for retaining AFDC eligibility, a national demonstration of Individual Development Accounts, and a system of 1000 microenterprise programs -- have not only drawn bipartisan interest, but won the endorsement of the President.

While there are certainly vast unmet needs for food, shelter, clothes and the other necessities of life, we are convinced that the economic, social, and political frontier of efforts to combat poverty in this country lies not so much in zero-sum income maintenance and income redistribution (though we do not oppose them), as in positive-sum efforts to increase the ability of poor Americans to compete with success in the world labor market. The problem with the current system is not that it rewards indolence, but that it penalizes effort. We must devote our attention to encouraging and enabling low income Americans to move forward as they see fit -- through education, employment, self employment -- to build their economic future and ours.

Principles of an Antipoverty Development Strategy

The proposals outlined below have a number of operating principles in common:

- They respect individuals seeking their own futures as the driving force of development; they recognize and build on the capacities, initiatives and dreams of poor people themselves; and they place services in a secondary and supportive role.

- They seek to create opportunity not by redistributing income, but by expanding the productive capacity, competitiveness and inclusiveness of the economy.

- They seek to invest resources in order to generate more resources in the future.

- They recognize that people get poor for different reasons, and will escape poverty through different routes at different speeds. There is likely to be no one 50 or 75% solution, but rather a series of 5% solutions.

- They recognize that human, family, community and economic development occur together in an interacting, uneven, and cumulative process.

- They are not a public strategy, but a single integrated private-public system focused on results.

Elements of a Developmental Welfare Reform Strategy

There seem to be four basic pieces to a Federal Antipoverty Development Agenda:

- 1. Removing the Penalties for Education, Employment and Self Employment;
- 2. Linking with Other Federal Training, Education, and Economic Development Programs;
- 3. Direct Federal Investment in Economic Opportunity and Development for Welfare Recipients; and
- 4. Reinventing the Governance of the System

These elements could be easily reframed to fit under the themes of the Working Group: They are parts of making work pay, of enabling people to get off welfare and stay off. They include job creation strategies and are part of a transitional, time-limited support system to allow people to work. A full description of the components of a developmentally-oriented welfare reform policy is still difficult, but some of its elements are clear.

1. Remove the Penalties for Education, Employment and Self Employment Perhaps the most pernicious aspect of the current AFDC system is the way it penalizes attempts to move forward through training, education, employment, and self-employment. Undertaking any of those paths forward inherently imposes more costs, as well as exposing individuals to risks they would otherwise not face. This system seems to serve no one well: AFDC recipients or the taxpayers who must support their continued dependency. A full list of the penalties and disincentives that should be removed, let alone a detailed description of appropriate changes, is beyond the scope of this testimony, but we can cite a number of general recommendations as examples:

- Raise the $1,000 asset limitation for eligibility for AFDC and similar restrictions in Medicaid and Food Stamps, which effectively prevents business creation, saving for college education, home purchase or even simply a cushion against emergencies, illnesses and accidents.

- Raise the asset limitation for the value of a automobile to a level capable of covering a reliable vehicle (certainly above the current $1,500) and adopt uniform treatment among different programs (e.g. Food Stamps and AFDC).
- Remove penalties for employment and earnings including reducing the 100% effective tax rate on earnings after four months. The effective tax rate (benefit reduction ratio) should be no more than the tax rate facing the weathiest Americans, and preferably should be no more than the tax rate on earned income at the same level.
- Limit grant reduction for business income to net profits taken out of the business. See H.R. 455 for specific language.
- Establish long term economic independence as a central goal of the welfare system.
- Extend the duration of childcare benefits to a more realistic transition period.
- Cap the amount of income that must be paid for subsidized housing.
- Eliminate the 100-hour rule for Unemployed Parents.
- Reduce or removing marriage penalties, including the 100-hour rule.

2. Link with Other Federal Training, Employment and Economic Development Strategies. As many have suggested, the ultimate answer to welfare lies beyond the welfare system. Any reform cannot become the whole of a development strategy. All the more reason why a welfare reform should seek to remove the barriers to participation in other Federal (and non-Federal) training, education, employment and economic development programs by AFDC recipients and other low income people. This linkage strategy minimizes the need for new funds while allowing low income people to gain some of the benefits of those initiatives. There is a particular advantage into tapping into Federal initiatives that create jobs, some of which might be filled by welfare recipients. We fear that public employment programs for welfare recipients fall too easily into the trap of seeming to be make-work (based as they are on a job creation purpose), are too expensive, and create a job ghetto rather than leading to unsubsidized private sector employment. Among the linkages that might be established:

- Link welfare recipients into new apprenticeship, training and school-to-work transition programs.

- Tap into SBA Microloan, JTPA, CDBG and Department of Agriculture Rural Development support for microenterprise programs so that interested welfare recipients can participate.

- Tap into Federal community economic, business and housing development programs to get them to serve welfare recipients.

- Utilize the National Service program and Empowerment Zone programs.

- Increase the flexibility for states and communities to devise their own economic independence/development strategies.

3. Create Direct Federal Investment Programs. While we have spent on the poor, we have rarely invested in them. Most Federal programs to help the poor are income maintenance or social service programs, while most Federal investment programs are not directed to the poor at all. It is time to begin at least experimenting with direct Federal investment in the ability of the poor to move forward. Here we use investment in the old fashioned sense: the appropriation of $X today in order to generate $X+ tomorrow by engaging the skills, vision, and energy of people and groups. In this line, the Working Group might

- **Authorize the national demonstration of Individual Development Accounts that President Clinton endorsed during the campaign.** Americans may escape poverty the same way they achieve wealth -- through asset development. Michael Sherraden has proposed a Homestead Act for the 21st Century: the Individual Development Account (IDA).[1] Modeled on the Individual Retirement Account, the IDA would be available and tax-sheltered for all Americans, with the public co-investing with the poor on a sliding scale, to insure that (unlike IRAs and most US asset policy) the poor are not excluded from its benefits. All Americans would be able to save, say $1,000 per year tax-sheltered, with the government matching the investments of the poor on a sliding scale. The accounts could be tapped for any of a set of permissible, productive investments: college education, training, first home, business capitalization.

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[1] Michael Sherraden, ***Assets and the Poor: A New American Welfare Policy,*** Armonk, New York: M.E. Sharpe, c1991. See Appendix D.

protections, and harnesses the potential contributions of non-profit, community organizations.

Costs and Benefits

We believe that the returns of the above investments will exceed their initial cost. But the Congressional Budget Office, reluctant as it is to project behavior changes in the absence of demostrable proof, is unlikely to see it that way. Thus, while we work on developing better Return on Investment data, we would propose budgeting an investment budget of $1 billion or 20% of the Reform Package budget (whichever is more) to fund the above intiatives, and consider limiting Federal tax-based subsidies for asset acquisition by the non-poor, to cover this investment (e.g. limit the Home Mortgage Deduction to a single house, or limit the pension exclusion).

We further believe that only a development approach yields the kind of economic, social and political dividends capable of moving a broader reform initiaitve. That is, only by creating additional paths our of poverty can we expect to be able to shrink the group dependent on federal support, and generate additional maintenance resources.

We would be the first to admit that the array of effective development strategies is not yet adequate to provide the quantity and quality of jobs or paths to them that are necessary. But Federal policy does not yet even support the development strategies we understand. And, unless the Federal government becomes an active partner with innovative communities and states, we will never evolve an adequate strategy.

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October 25, 1993

Bruce Reed
Deputy Assistant to the President for
Domestic Policy
Old Executive Office Building, Room 216
Washington, D.C. 20500

Dear Bruce:

A couple of months ago I wrote to ask your help in securing the opportunity to testify before the Working Group on Welfare Reform, Family Support and Independence about including an economic development component in the final package. Thanks to your support, and that of other friends on the Working Group, I was able to testify at the Sacramento Hearings on October 8, 1993. A copy of my testimony is enclosed, as is a four page summary of the gist of our proposal.

I write now to ask your help in refining the agenda proposed, and in pushing for its inclusion in the Working Group's final recommendation.

The lack of good jobs will, of course, be a major limit on our ability to move people off of welfare and out of poverty. We believe that the political, economic and social returns from encouraging and supporting development efforts of low income people are particularly important in that regard.

The President endorsed the central elements of this thrust during the campaign -- raising asset limits, creating 1000 microenterprise programs, a National Individual Development Account Demonstration -- but, as you know, it will take all the support and brainpower we can muster to put forward the best possible proposal.

My colleagues at CFED and I look forward to working with you in the coming months. Please let me know if you have questions or if I can be of help.

Sincerely,

Bob

Robert E. Friedman, Chair
(415) 495-2333

Enc.

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Paths Out:

Including an Antipoverty Development Strategy in Welfare Reform

Testimony of

Robert E. Friedman
Chair of the Corporation for Enterprise Development

to the

Working Group on Welfare Reform, Family Support and Independence

Sacramento, California
October 8, 1993

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For the past fifteen years the Corporation for Enterprise Development (CFED) has been researching, developing, demonstrating and disseminating economic development strategies with the dual goal of increasing economic vitality and productivity on the one hand, and economic opportunity and inclusion on the other.

I come before you today to encourage you to include a substantial development component in the welfare reform strategy you offer the country next year, and to suggest the elements of that component.

Ever since the New Deal, which set the framework for the United States transfer payment systems, US antipoverty efforts have focused on income maintenance and social service provision. The limits of this approach are becoming clear: as William Raspberry put it, the income maintenance system has become a sort of economic methadone which eases the pain of poverty and unemployment but does not address the underlying causes. Worse, if unintentionally, the current system actually penalizes poor families who attempt to move forward through education, work or self employment.

This welfare reform at the Federal level offers the possibility, for the first time in this century, to add a substantial development component -- one designed to encourage, enable and support low income people moving into the mainstream economy as skilled employees and entrepreneurs. There are many promising models for such an approach at the community, state and international efforts. At the Federal level, policy proposals embodying a development strategy -- proposals like raising the permissible asset level for retaining AFDC eligibility, a national demonstration of Individual Development Accounts, and a system of 1000 microenterprise programs -- have not only drawn bipartisan interest, but won the endorsement of the President.

While there are certainly vast unmet needs for food, shelter, clothes and the other necessities of life, I am convinced that the economic, social, and political frontier of efforts to combat poverty in this country lies not so much in zero-sum income maintenance and income redistribution (though I do not oppose them), as in positive-sum efforts to increase the ability of poor Americans to compete with success in the world labor market. The problem with the current system is not that it rewards indolence, but that it penalizes effort. We must devote our attention to encouraging and enabling low income Americans to move forward as they see fit -- through education, employment, self employment -- to build their economic future and ours.

I believe we should take the charge of President Clinton, who understands economic development better than any leader we have ever had, very seriously: we must "empower ... Americans to take care of their children and improve their lives." Only by creating viable paths out of poverty for those ready and able to move can we shrink the number of families dependent on public support and increase the adequacy of that support.

This strategy offers to expand the economic pie while including in that greater prosperity people and communities confined to the margins of the mainstream economy. It an investment strategy designed to yield returns substantially in excess of the initial investment. It coheres with the values of most Americans who believe fundamentally with the proposition that all people deserve a reasonable opportunity to support themselves and their kids. It can breed social respect, trust, cohesion. It is the only engine powerful enough to pull a fundamental reform through Congress.

In the remainder of this testimony, I want to outline the premises on which these recommendations are based, note the rise of models and precedents for development strategies arising in the communities and states of this country and other nations, suggest the principles that should govern the design of the development agenda, describe some of the elements of that agenda, and note the costs, risks and potential returns of the strategy. But first, I want to offer a few stories.

Stories

In 1987, the Cherokee community of Kenwood, Oklahoma, was characterized by overwhelming poverty, unemployment, alcoholism and hopelessness. And also a concentration of some of the Cherokee Nation's most talented Artisans.

When Charlie Soap and Wilma Mankiller asked the community where opportunity lay as part of their Ga-du-gi ("community helps itself") Project, they suggested a marketing cooperative.

For the coop to be successful, the community artisans needed to join and work for it. The key, people in the community explained to Charlie, was to secure Betty Blackberry's support.

Betty Blackberry, at the time, 81 years old and nationally recognized as the one of the foremost basketmakers in the country, and universally admired in the community.

By the third meeting of the planning group, Betty Blackberry had joined. They agreed to plant a field with the reeds they needed to increase their production of baskets. A month later, the first show sold thousands of dollars of merchandise in two days. Within 2 months, Betty Blackberry and her family had an order for 5000 small gift baskets.

After four months the coop was dying. When asked why, participants explained that the state welfare officials, having seen the coop members' names on baskets, and jewelry and other items in shops, came to suspect them of not reporting all their income (which in many cases turned out to be true). Scared at the prospect of losing their only certain, if inadequate, means of support and medical coverage for children, the members stopped producing and working to develop the coop.

"But Betty," Charlie reasoned, "you know you can sell your baskets for $200 apiece -- probably for $400-1,000 if you develop your name. What do you make now?"

"$240. But what if I don't sell the two? I might feel comfortable if I could save some money, so that I could be sure to be able to market. But they won't let me even do that."

Betty Blackberry died a year later the way she lived: impoverished, dependent on Federal support, unknown and underrecognized outside her home community.

• • • • •

Mary Johnson and Melody Boatner are both welfare recipients in the state of Iowa. Both have children with severe medical problems. Both want to escape welfare, and have completed business plans in areas where they have demonstrated skills and experience(medical billing and upholstery, respectively), plans which conservatively project self-sustaining income. They have identified customers anxious for their services, and secured access to credit. But, as they testified to a congressional committee in 1991, the minute they move forward on their plans they would lose eligibility for AFDC and Medicaid because they would exceed the $1,000 limit on permissible assets.[1]

• • • •

Grace Capitello and Sandra Rosado, welfare mothers in Wisconsin and New York, respectively, thought the way out of poverty for their families was through college education. Each scrimped pennies and sacrificed current consumption to save money for college education -- Grace for her

[1] See testimony by Mary Johnson and Melody Boatner in "New Strategies for Alleviating Poverty: Building Hope by Building Assets," Hearing before the Select Committee on Hunger of the U.S. House of Representatives, October 9, 1991, Washington, D.C.: U.S. Government Printing Office, 1991, pp. 21-27.

own education, Sandra for her daughter's. Each managed to save a few thousand dollars. And each was prosecuted by state welfare authorities for accumulating those savings in violation of the $1,000 asset limitation, who not only confiscated the savings, but also exacted penalties.

What concerns us about traditional welfare policy is the way it not only fails to encourage and enable economic opportunity and development of the Betty Blackberrys and Mary Johnsons and Sandra Rosados and Kenwoods of this country, but actually penalizes them. To be sure, some of the activities that state officials stopped were technically illegal; but just as surely, the effect of the welfare system as enforced was to penalize effort, to undermine earnings and entrepreneurship, to stymie community development, and to stigmatize and drive underground the very sort of enterprising activity and role models we should want to celebrate and reward.

We think that the economic, social, political and human cost of the focus on income maintenance is huge. And if the test of such policy were a matter of elemental fairness and commonsense, rather than the absence of random assignment, control group evaluations which are currently unavailable, the path forward would be clear.

What we seek to put forward is an Investment Package as part of an overall welfare reform proposal that encourages and supports the development of America's poor people and communities.

Premises

The antipoverty development strategy suggested in the remainder of this testimony is based on a series of premises about the nature of the welfare population, the economy, and the self sufficiency/ economic independence process and programs. They are derived from the literature, our own studies of effective economic opportunity and development policies and programs, as well as direct experience with working with low income people escaping poverty. We cannot fully explicate and document them here, but we think it is important to be explicit about them.

Welfare Recipients

The success of any welfare reform strategy depends fundamentally on a understanding of who the people are we are dealing with. We start from some premises that are not necessarily universally shared:

- **AFDC recipients, though sharing poverty, are a tremendously diverse population.** There is a real danger if we pay attention only to averages and otherwise homogenize the poor.

- **Among AFDC recipients are people with tremendous skills, energies, aspirations, who are best helped by supporting their capabilities rather than treating only their perceived deficiencies.**

- **Just as people get poor for different reasons, so they will escape poverty through different routes. It is a mistake to search for a single approach that can liberate 50% of the poor; rather, it may make more sense to seek a series of 1, 3, and 5% solutions.**

The Economy

The national (and global) economy has changed in many ways that require changes in the strategies designed to include low income people and communities in the economic mainstream.

Unfortunately, most of the changes make entry into the economic mainstream more difficult. Among the crucial changes:

- **Wage levels for low skilled employees have fallen. People with high school education or less have lost ground, and are likely to do more. Thus, short term training is even less likely to lead to jobs paying a livable income in the future than in the past.**

- **The education and skill level required for jobs offering incomes and benefits capable of sustaining a family above the poverty level have increased. Post-secondary level skills will increasingly be the necessary prerequisite.**

- **Entrepreneurial skills -- the ability to combine resources in new ways to add value -- will increasingly be required not only of business owners and managers, but also of employees.**

- **The rate of self employment, after declining almost from the founding of the Republic, has been increasing since 1973, both as a function of necessity and opportunity.**

The Process of Achieving Self Sufficiency/Economic Independence

We know less about the process by which low income people achieve economic independence than we know about the characteristics of people who are poor, in part because we study it less. But we believe that there is much to be learned from the people and communities who have moved forward, as well as the characteristics of the programs that have helped in this movement, and can already suggest some of the lessons. Among them:

- **The beginning of movement forward is the belief that it is possible. Effective programs evidence high expectations of participants, and do not treat them as victims.** Overemphasizing deficiencies (we all have them) can undermine self esteem and progress. The current welfare system systematically undermines self esteem so much that almost all effective economic opportunity programs have had to consciously build self esteem as they build skills and paths out.

- **Development is something people do, not something done to them.** Professor John McKnight has written eloquently to this:

  > "All the historic evidence indicates that significant community development only takes place when local community people are committed to investing themselves and their resources in the effort. This is why you can't develop communities from the top down, or the outside in. You can, however, provide valuable outside assistance to communities that are actively developing their own assets...Communities have never been built upon their deficiencies. Building community has always depended upon mobilizing the capacities and assets of a people and a place."[2]

- **Development is necessarily multi-dimensional.** As Michael Sherraden notes in his book ***Assets and the Poor***, and we note from observing successful self

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[2] John L. McKnight and John Kretzman, "Mapping Community Capacity. Evanston, IL: Center for Urban Affairs and Policy Research, unpublished paper. c1992.

employment programs, hope, initiative-taking, skills, family stability, involvement in the community and children's education, employment , entrepreneurship, incomes, assets etc. seem to increase together, over time.[3]

- **Development is a process**, and the important thing to seek and measure is change in capacity, not where people (or businesses) begin the journey or end it. What is important is not where people/economies start or end, but the nature and magnitude of the change. A person who moves from hopelessness and inactivity to self employment, the firm that begins to modernize, both are better examples of development than a branch plant that simply changes locations, or a static measure of overall employment or income. Not surprisingly, there is a link between firm start-ups and firm modernization/specialization, as well as between higher skills and entry to the economy.[4]

- **People escape poverty as they achieve wealth, not through income alone, but also through asset accumulation.** One of the clearest failures of current welfare-to-work policy is that we raise people only to the poverty line, leaving them without a cushion, and therefore one sickness, one accident or one divorce, away from poverty. Owning assets give one a stake in the future -- a reason to save, to dream, to invest time, effort, resources in creating a future for themselves and their children. As Sherraden notes, "Income may feed people's stomachs, but assets change their heads."

- **Development proceeds unevenly and over time.** Some people progress steadily out of poverty, others move forward and slide back and move forward again, some never move.[5] Moreover, there is an accumulating amount of anecdotal experience that suggests that the move from long term dependency to independence is often about four years.

- **Development which has a significant impact more often proceeds in large numbers of small steps that in a single large breakthrough** (a plant location, a research breakthrough).

- **Development proceeds by expanding the worlds -- the view, information, contacts, interactions -- of people and firms.** This can be seen equally by observing poor women growing through microenterprise and small businesses modernizing through flexible manufacturing networks. Development, as Andrew Oerke, poet and President of the Partnership for Productivity used to say, is a conversation.

- **Effective economic opportunity programs of all types are characterized by their ability to build confidence, competence and connections.**[6]

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[3] See Michael Sherraden, Assets and the Poor: A New American Welfare Policy, M.E. Sharpe, c 1991. Also see "Lessons from the Self-Employment Investment Demonstration", Washington, D.C.: Corporation for Enterprise Development, 1992.
[4] Ibid.
[5] See reports from Project Match in Chicago.
[6] See Alan Okagaki, "Windows on the World: Best Practices in Economic Opportunity," The Entrepreneurial Economy, Washington, DC.: CFED; Alan Okagaki and Robert Friedman, Women and Self-Sufficiency: Programs that Work; Policies that Might, Washington, DC.: CFED; William Nothdurft, Washington, DC.: Council of Governors Policy Advisers, (drawing on the CFED work cited above.)

Antipoverty Development Policy

The primary determinants of economic competitiveness and opportunity are the same: people ready and able to work in environments that invite, use and reward their talents and energies to create better products and services, as employees and entrepreneurs. In this context, the real measure of economic potential is the level of economic activity in a community/economy and society. What we seek to contribute to the nation's antipoverty effort is the development of strategies aimed at creating economically active people and communities. More specifically, when we talk about an **antipoverty development agenda**, we focus on **approaches which build economic assets (family and social support, skills, savings, ownership) and activity (employment and entrepreneurship) in poor communities.**

While income maintenance and income redistribution policies have a role to play in any civilized society, they are a sort of economic methadone: they can relieve the pain of unemployment and poverty, but they do not address its causes. No wonder then that pre-transfer poverty has increased ever since 1968. Moreover, transfer payments which seek merely to subsidize and maintain consumption -- treating the poor and unemployed as consumers alone -- can actually make matters worse by penalizing people who seek to move forward. Thus many transfer payment programs, and especially AFDC (welfare) withdraw benefits from recipients who pursue training, work or self-employment.

There is another approach to welfare reform which emphasizes opening the opportunity to produce and be rewarded for that production, which seeks to invest in the talents, vision and energy of low income people themselves. We call this the anti-poverty development agenda.

Precedents and Models

Around the United States and around the world, a number of antipoverty development initiatives have arisen which point the way toward a larger antipoverty development policy. It seems appropriate to review them briefly here.

Community Models

In the last 5-10 years, a couple hundred microenterprise programs which help low income Americans create jobs for themselves have emerged across the country in places a diverse as inner city Chicago, rural Nebraska, the border towns of Arizona and the Indian reservations of North Dakota. We are beginning to understand that these programs are not just business development programs, but also human and community development programs. A Directory of such programs soon to be released by the Self-Employment Learning Project of the Aspen Institute suggest the potential and growth curve of this strategy. From a handful of such programs as recently as five years ago, the Directory now lists 194 programs around the country[7] which have loaned $43 million, assisted in the creation of 21,160 new businesses and 204,068 clients.[8] Seventy per cent of these programs work with low income people, and sixty-three per cent of these programs work with AFDC clients in spite of the fact that the current system offers severe penalties to both participants and program operators. While it is too early to know the full long-term impacts of such programs, a study of 302 borrowers from five leading programs found that 51% of the businesses were profitable on a monthly basis, over half earned under $1,000 a month in gross

[7] Up from 108 a year earlier, and this is undoubtedly not a complete list.
[8] ***1993 Directory of Microenterprise Programs,*** Washington, D.C.: Self-Employment Learning Project of the Aspen Institute, forthcoming.

sales, 22% per cent earned from $1,000 to $2,500 per month and 24% earned over $2,500 a month.[9]

Self-help housing projects have sprung up in rural and urban communities across the country. "I Have a Dream Programs" in 40 cities assure disadvantaged students that they too can attend college. And savings clubs and innovative savings programs have developed in public housing complexes and rural communities.

Some communities have attempted to put a number of development strategies together into a comprehensive whole. Eastside Community Investments, a community development corporation in Indianapolis, Indiana operates everything from an industrial park to low income housing to teen parent programs, to self-employment, day care and individual development account programs. Every program ECI launches now is designed to include components to build marketable skills, character, assets, and community.

State Models

On Monday, March 26, 1993, the Iowa Senate passed the Iowa State Human Investment Policy legislative package 49-0; on April 19 the Iowa House passed the package 96-1. Republican Governor Terry Branstad has promised to sign the comprehensive package, crafted by the Corporation for Enterprise Development working with a broadly representative public-private Human Investment Council. The package included a far-reaching rewriting of the welfare program (now renamed the Family Investment Program) to assist progress toward economic independence, an asset-building strategy which would create 10,000 Individual Development Accounts, a system of Family Development and Workforce Development centers operating with decategorized funding, and a high-wage economic development strategy. Republican Senator Maggie Tinsmore said the package "represented a fundamental change from an income maintenance system to a development system." The headline of the Des Moines Register's approving editorial read, "Finally, Real Welfare Reform." Marv Weidner, Director of Iowa's ADC Program, conveyed the premise of the reform most succinctly, "This is the first welfare reform plan in the country that trusts and respects welfare recipients."

What is notable about the plan from the national perspective is:

- Welfare reform is nested in a larger package which also includes policies on asset development (IDAs), family development, workforce development and economic development. An effective anti-poverty strategy is necessarily going to involve more than welfare reform.

- The orientation of the entire package is toward self-sufficiency, and there is a combination of economic and social policy elements designed to increase the productive capacity of the economy at the same time it seeks to include in that enlarged economy people confined to the margins.

- The welfare reform plan revolves around three themes: Transitions to Work, which removes the earnings and asset penalties currently facing recipients interested in earning their way off; Family Stability, which removes the penalties for family preservation or reunification; and Responsibilities with Consequences which allows for flexible Family Investment Agreements with the penalty of time-limited welfare for those who refuse to enter into such self-sufficiency contracts.

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[9] Peggy Clark and Tracy Huston, ***Assisting the Smallest Businesses: Assessing Microenterprise Development as a Strategy for Boosting Poor Communities,*** Washington, D.C.: Self-Employment Learning Project of the Aspen Institute, 1993. pp vi-vii.

- The design of the individualized Family Investment Agreements provides an instructive model of how to deal with time-limited welfare. IFIP allows welfare recipients to enter into very flexible and individualized self-sufficiency plans which vary in length (we believe that the path off long-term welfare receipt is more likely to take four years than two, but the path off for most recipients may be much shorter), reserving time-limited welfare (three months of full benefits, and three additional months of benefits for children only) for those unwilling to enter into an Agreement.

- The plan fundamentally respects, demands and seeks to build upon the talents, energies and aspirations of the poor themselves. In short, it is and empowerment and investment strategy that requires the poor to assume responsibilities and co-invest in order to receive investment.

- Inherent in the plan are the principles of reinvented governance, including empowering the customer, decentralizing practice, public-private leverage and participation.

- While we will not know the full costs and benefits of the plan until it has run for some time, our best estimate is that an up-front investment is required which will entail net costs in year one, but achieve revenue neutrality by year three, and net profit to the state by year four due to increased employment and reduced dependency.

Other states including California and North Carolina are crafting development-oriented welfare reforms and related antipoverty development strategies.

International Models

Developed countries of Europe and Asia, many of them countries that have progressed much further than the United States in creating the modern welfare state and extensive income maintenance programs, have faced the crisis of the Welfare State sooner than we have -- the inability to extend the social safety net further, let alone being able to continue to support it at traditional levels -- and have begun to move to developmental strategies aimed at increasing the productivity, growth and inclusiveness of the mainstream economy. For example, some 15 developed countries in Europe and Asia have changed their unemployment compensation and welfare programs to support rather than penalize unemployed people who try to create jobs for themselves.

Many developing countries, which have never been able to create social safety nets, have instead resorted to policies designed to support and build upon the self-help solutions of poor people themselves. While growing in very different cultural, political and economic circumstances, these efforts can enlighten and guide the development of US antipoverty efforts. Dr. Elizabeth Rhyne, a student of these Third World approaches, notes:

> "Without welfare programs or formal sector employment opportunities, poor people in developing countries have evolved coping strategies through which they provide for their own basic needs -- income, shelter, and the like. In a growing number of instances, governments or other organizations in developing countries have created programs that support or enhance these strategies. While these mechanisms have clearly not been sufficient to eradicate poverty on a wholesale basis, they do help make lives more livable, reduce social alienation , and provide conditions for some individuals to break out of poverty. In effect, they constitute a social strategy based on: 1) the ability of poor people, their families, and their communities to develop effective solutions to their poverty -related problems, and 2) assistance efforts designed to help those solutions emerge and flourish."

Rhyne goes on to describe some of the strategies one finds used in poor communities of the developing world:

- "**Microenterprises**. When the mainstream economy is unable to supply formal sector jobs and there are no welfare programs, microenterprise, or self-employment, becomes a major source of income. Most microenterprises remain small and serve their own communities. A handful (perhaps 5 to 10 percent) grow to become important employers. But even the smaller ones maintain family income and finance investment in education or another business."
- "**Housing.** Most housing in developing countries is financed and built by the people who live in it, and their families and friends. Starting from a very simple dwelling, people invest in home improvement, provided title to their plots is secure."
- "**Transportation**. Private transport operators outperform public systems around the world, and eventually organize themselves to provide for their needs through services such as insurance and vehicle purchase plans."
- "**Savings and financial services**. The accumulation of assets is perhaps the most important strategy poor people use to pull themselves out of poverty. Savings pay for schooling and provide a cushion through bad times. Poor people develop informal savings clubs to help each other save enough money for major investments, including business investment."
- "**Family care**. Low income people rely on the extended family for child care and care for the sick and aged. The extended family is also a source of financial resources."

Federal Initiatives

At the Federal level, President Clinton's pledges to create 1000 microenterprise programs, 100 community development banks, empowerment zones, a National Individual Development Account Demonstration Program, National Service, apprenticeship training, and to "end welfare as we know it" and raise the $1,000 asset limitation for eligibility under AFDC, all point to a new anti-poverty investment agenda designed not so much to redistribute income as to open opportunities to produce and be rewarded for that production. A base of bi-partisan support already exists on Capitol Hill for just these sorts of initiatives: Congress already passed bills to raise the asset limitation in AFDC from $1,000 to $10,000; bills to establish a National Individual Development Account Demonstration are backed by the unlikely cosponsors of Bill Bradley, Orin Hatch, Barbara Boxer, Alphonse D'Amato, Tony Hall, Bill Emerson, Maxine Waters and others. (See Appendix for summaries of Federal Asset Legislation) The Senate proposal, authored by Senator Bill Bradley (D-NJ) with the support of Orin Hatch (R-UT), Alphonse D'Amato (R-NY), Barbara Boxer (D-CA), was as part of a comprehensive anti-poverty development and investment initiative which included related bills on microenterprise, community policing, community rebuilding, early childhood/family development, and community credit. The Congressional Empowerment Caucus is and The Empowerment Network support similar initiatives.

Principles of an Antipoverty Development Strategy

These initiatives have a number of operating principles in common:

- They respect individuals seeking their own futures as the driving force of development; they recognize and build on the capacities, initiatives and dreams of poor people themselves; and they place services in a secondary and supportive role.

- They seek to create opportunity not by redistributing income, but by expanding the productive capacity, competitiveness and inclusiveness of the economy.

- They seek to invest resources in order to generate more resources in the future.

- They recognize that people get poor for different reasons, and will escape poverty through different routes at different speeds. There is likely to be no one 50 or 75% solution, but rather a series of 5% solutions.

- They recognize that human, family, community and economic development occur together in an interacting, uneven, and cumulative process.

- They are not a public strategy, but a single integrated private-public system focused on results.

Elements of a Developmental Welfare Reform Strategy

There seem to be four basic pieces to a Federal Antipoverty Development Agenda:

1. Removing the Penalties for Education, Employment and Self Employment;
2. Linking with Other Federal Training, Education, and Economic Development Programs;
3. Direct Federal Investment in Economic Opportunity and Development for Welfare Recipients; and
4. Reinventing the Governance of the System

These elements could be easily reframed to fit under the themes of the Working Group: They are parts of making work pay, of enabling people to get off welfare and stay off. They include job creation strategies and are part of a transitional, time-limited support system to allow people to work. A full description of the components of a developmentally-oriented welfare reform policy is still difficult, but some of its elements are clear.

1. **Remove the Penalties for Education, Employment and Self Employment** Perhaps the most pernicious aspect of the current AFDC system is the way it penalizes attempts to move forward through training, education, employment, and self-employment. Undertaking any of those paths forward inherently imposes more costs, as well as exposing individuals to risks they would otherwise not face. This system seems to serve no one well: AFDC recipients or the taxpayers who must support their continued dependency. A full list of the penalties and disincentives that should be removed, let alone a detailed description of appropriate changes, is beyond the scope of this testimony, but we can cite a number of general recommendations as examples:

   - Raise the $1,000 asset limitation for eligibility for AFDC and similar restrictions in Medicaid and Food Stamps, which effectively prevents business creation, saving for college education, home purchase or even simply a cushion against emergencies, illnesses and accidents.

   - Raise the asset limitation for the value of a automobile to a level capable of covering a reliable vehicle (certainly above the current $1,500) and adopt uniform treatment among different programs (e.g. Food Stamps and AFDC).

   - Remove penalties for employment and earnings including reducing the 100% effective tax rate on earnings after four months. The effective tax rate (benefit reduction ratio) should be no more than the tax rate facing the wealthiest Americans, and preferably should be no more than the tax rate on earned income at the same level.

- Limit grant reduction for business income to net profits taken out of the business. See H.R. 455 for specific language.
- Establish long term economic independence as a central goal of the welfare system.
- Extend the duration of childcare benefits to a more realistic transition period.
- Cap the amount of income that must be paid for subsidized housing.
- Eliminate the 100-hour rule for Unemployed Parents.
- Reduce or removing marriage penalties, including the 100-hour rule.

2. **Link with Other Federal Training, Employment and Economic Development Strategies.** As many have suggested, the ultimate answer to welfare lies beyond the welfare system. Any reform cannot become the whole of a development strategy. All the more reason why a welfare reform should seek to remove the barriers to participation in other Federal (and non-Federal) training, education, employment and economic development programs by AFDC recipients and other low income people. This linkage strategy minimizes the need for new funds while allowing low income people to gain some of the benefits of those initiatives. There is a particular advantage into tapping into Federal initiatives that create jobs, some of which might be filled by welfare recipients. We fear that public employment programs for welfare recipients fall too easily into the trap of seeming to be make-work (based as they are on a job creation purpose), are too expensive, and create a job ghetto rather than leading to unsubsidized private sector employment. Among the linkages that might be established:

   - Link welfare recipients into new apprenticeship, training and school-to-work transition programs.
   - Tap into SBA Microloan, JTPA, CDBG and Department of Agriculture Rural Development support for microenterprise programs so that interested welfare recipients can participate.
   - Tap into Federal community economic, business and housing development programs to get them to serve welfare recipients.
   - Utilize the National Service program and Empowerment Zone programs.
   - Increase the flexibility for states and communities to devise their own economic independence/development strategies.

3. **Create Direct Federal Investment Programs.** While we have spent on the poor, we have rarely invested in them. Most Federal programs to help the poor are income maintenance or social service programs, while most Federal investment programs are not directed to the poor at all. It is time to begin at least experimenting with direct Federal investment in the ability of the poor to move forward. Here we use investment in the old fashioned sense: the appropriation of $X today in order to generate $X+ tomorrow by engaging the skills, vision, and energy of people and groups. In this line, the Working Group might

   - **Authorize the national demonstration of Individual Development Accounts that President Clinton endorsed during the campaign.** The distribution of assets in this country is much more unequal even than income distribution: while the top 10% of

Americans command 40% of national income, the top 1% control 90% of assets. Fully one third of American households have no or negative investable assets; more than half have negligible amounts. This at a time when the price of entry to the American economic mainstream -- measured in terms of the cost of an adequate education, business capitalization or home ownership -- has increased. Asset owning has become a sort of economic grandfather clause, every bit as insidious as the voting clauses of days passed that said you could only vote if your grandfather did.

This pattern of asset-holding is abetted by a bifurcated national policy: we subsidize asset acquisition for the non-poor to the tune of $100 billion annually at the Federal level in the form of the home mortgage deduction, preferential capital gains, and pension fund exclusions. Meanwhile, as already pointed out, we actually penalize asset acquisition by the poor.

It is possible to create asset building policies that do not discriminate against the poor. In the Homestead Act, we provided 160 acres and a mule to Americans willing to work the land. Through the GI Bill we bought college educations for a generation of people who served their country in time of war; they in turn drove our post-war economic expansion.

Michael Sherraden has proposed a Homestead Act for the 21st Century: the Individual Development Account (IDA).[10] Modeled on the Individual Retirement Account, the IDA would be available and tax-sheltered for all Americans, with the public co-investing with the poor on a sliding scale, to insure that (unlike IRAs and most US asset policy) the poor are not excluded from its benefits. All Americans would be able to save, say $1,000 per year tax-sheltered, with the government matching the investments of the poor on a sliding scale. The accounts could be tapped for any of a set of permissible, productive investments: college education, training, first home, business capitalization.

While it is too early to set up a national system of IDAs, it is not too early to begin to experiment with them (as some communities and states are already doing). One approach is suggested in H.R. 456, but many other variations are possible.

Establishing IDAs serves another crucial function: it vests control of the service system in the hands of the intended beneficiaries -- it establishes the broad ownership critical to an effective, transforming development strategy.[11] It also thereby integrates the system from the bottom.

- **Create a competitive Innovation and Investment Fund to support investment programs designed to generate future savings and returns.** We are low on the learning curve of identifying effective antipoverty development strategies. A modest investment fund could encourage more community and state experiments, and accelerate the learning. Currently, the Federal government is requiring that hard-pressed states, communities and non-profit groups to front the investment, even though the Federal treasury has the most to gain. Investment should be on a competitive basis according to the probability and amount of prospective return. Appropriate evaluation should be required as a condition of such investments.

4. Adopt New Forms of Governance No system needs to learn from and adopt new governance systems more than the Federal antipoverty system. The notions of empowering

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10 Michael Sherraden, ***Assets and the Poor: A New American Welfare Policy***, Armonk, New York: M.E. Sharpe, c1991. See Appendix D.

11 See Doug Ross and Robert Friedman, "The Emerging Third Wave..." op. cit.

beneficiaries (customers), decentralizing decision-making and encouraging entrepreneurship, holding people accountable for results and easing process controls, utilizing competition in service delivery, creating new learning and information systems and the like are as necessary here as elsewhere. Among the reforms that are needed:

- Ease the Section 1115 Waiver process to allow more state and community innovation.
- Create a Return on Investment Budgeting which considers longer term and a wider array of costs and benefits.
- Encourage a range of evaluation strategies, rather than an overwhelming reliance on random assignment, control group methodology with its high cost and anti-innovative bias.

The Best Use of the Next Dollar: Economic, Social and Political Advantages of the Investment in Economic Development

Bob Greenstein, and staff leaders on Capitol Hill, like to ask, "Is this the best use of the next (all-too-scarce) dollar for combating poverty.

Certainly, if one looks at the extent of hunger, homelessness, poverty and want, the immediate need seems to be the provision of survival money, goods and services.

But the need for such resources so outscales the potential funds, that for any variety of reasons, it is difficult to imagine more than incremental and inadequate progress.

And the truth is that of every dollar we spend on the poor, 90 cents or more goes to income maintenance, a few cents go to training and placement, and a penny at most goes into economic development.

More fundamentally, such help treats the symptoms but not the problem: it does not create jobs or enhance the capacity of poor people to earn a living in the mainstream economy. It does not tap, build or utilize their talents. It does not offer to remove people from dependence on income maintenance over time. It penalizes effort and undermines hope. It subsidizes consumption but does not invest in production. It shrinks the economic pie, rather than expanding it.

We would argue that investing in the talents, energies and abilities of poor people is the best use of the next dollar of antipoverty spending. Actually, the next billion dollars.

As compared to more traditional income maintenance and social service programs, developmental antipoverty strategies offer several advantages. Among them:

- **Economic:** They are investment strategies in the old-fashioned sense: they are premised on their ability to generate returns tomorrow that significantly exceed their cost today. While they may require up front investment before returns can begin to accrue, and although these are often longer term, deeper investment strategies, they are intended to -- and should only be supported to the extent that -- they are likely to expand the total value and productivity of the economy in the future. Even the prospects of those who can never be expected to support themselves in the mainstream economy can gain by removing those who can become economically self-supporting from the welfare roles, freeing existing expenditures.
- **Social:** Development strategies require a quid pro quo from the investees in terms of co-investment of time, effort, vision and often resources. Moreover, these can be

fashioned as universal systems designed to increase opportunities for all Americans. These approaches resonate well with the values and opinions of Americans as revealed in polls indicating strong support for work and opportunity programs as opposed to maintenance and charity approaches.

- **Political:** As the bipartisan support at the state and federal levels for the few investment approaches thus developed indicates, these strategies spans the political spectrum.

Cautions and Criticisms

To be sure, support for developmental strategies is not universal. Among the criticisms voiced:

- The interest in such strategies as microenterprise and asset-development is merely faddish.
- The potential of such strategies is limited to small numbers (and percentages) of welfare recipients, and offers only limited possibility of income gains.
- This is not the best use of the next dollar when there are so many maintenance and survival needs.
- There is little objective evaluative data to support the efficacy of such approaches.
- These proposals lure unsuspecting people into failure.

There are many answers to such cautions -- and many answers are lacking. What seems to be clear is that unless there is more experimentation and room for such initiatives, we will never generate adequate answers.

My colleagues and I hope to work with the Working Group in the coming months to refine and develop these proposals into workable pieces of the overall strategy.

DRAFT

Adding a
Federal Antipoverty Development Package
to Welfare Reform

A Preliminary Proposal

The Federal Welfare Reform Proposal being prepared by the Working Group on Welfare Reform, Family Support and Independence, offers the possibility, for the first time in this century, to add a substantial development component -- one designed **to encourage, enable and support low income people moving into the mainstream economy as skilled employees and entrepreneurs.** There are many promising models for such an approach in existing community, state and international efforts. At the Federal level, policy proposals embodying a development strategy -- proposals like raising the permissible asset level for retaining AFDC eligibility, a national demonstration of Individual Development Accounts, and a system of 1000 microenterprise programs -- have not only drawn bipartisan interest, but won the endorsement of the President.

Although there are certainly vast unmet needs for food, shelter, clothes and the other necessities of life, we are convinced that the economic, social, and political frontier of efforts to combat poverty in this country lies not so much in zero-sum income maintenance and income redistribution (though we do not oppose them), as in positive-sum efforts to increase the ability of poor Americans to compete with success in the world labor market. The problem with the current system is not that it rewards indolence, but that it penalizes effort. We must devote our attention to encouraging and enabling low income Americans to move forward as they see fit -- through education, employment, self employment -- to build their economic future and ours.

Principles of an Antipoverty Development Strategy

The proposals outlined below have a number of operating principles in common; they:

- Understand that individuals seeking their own futures are the driving force of development; as a result they recognize and build on the capacities, initiatives and dreams of poor people themselves; placing services in a secondary and supportive role.
- Seek to create opportunity not by redistributing income, but by expanding the productive capacity, competitiveness and inclusiveness of the economy.
- Seek to invest resources in order to generate more resources in the future.
- Recognize that people become poor for different reasons, and will escape poverty through different routes at different speeds. There is likely to be no one 50 or 75% solution, but rather a series of 5% solutions.
- Recognize that human, family, community and economic development occur together in an interacting, uneven, and cumulative process.
- Are not only a public strategy, but a leveraged, integrated private-public system focused on results.

Elements of a Developmental Welfare Reform Strategy

We have identified four basic elements of a Federal Antipoverty Development Agenda:

1. Removing the Penalties for Education, Employment and Self Employment;
2. Linking with Other Federal Training, Education, and Economic Development Programs;
3. Investing in Economic Opportunity and Development for Welfare Recipients; and
4. Reinventing the Governance of the System.

These elements could be easily reframed to fit under the themes of the Working Group: They are parts of making work pay, of enabling people to get off welfare and stay off. They include job creation strategies and are part of a transitional, time-limited support system to allow people to work. A full description of the components of a developmentally-oriented welfare reform policy is still difficult, but some of its elements are clear.

1. **Remove the Penalties for Education, Work and Savings.** Perhaps the most pernicious aspect of the current AFDC system is the way it penalizes attempts to move forward through training, education, employment, and self-employment. Undertaking any of those paths forward inherently imposes higher costs, and expose individuals to risks they would otherwise not face. This system seems to serve no one well: neither AFDC recipients or the taxpayers who must support their continued dependency. A full list of the penalties and disincentives that should be removed, let alone a detailed description of appropriate changes, is beyond the scope of this testimony, but we can cite a number of general recommendations as examples:

   - Establish long term economic independence as a central goal of the welfare system.

   - Raise the $1,000 asset limit for eligibility for AFDC and similar restrictions in Medicaid and Food Stamps, which effectively prevent business creation, saving for college education, home purchase or even simply a cushion against emergencies, illnesses and accidents.

   - Raise the asset limitation for the value of a automobile to a level capable of covering a reliable vehicle (certainly above the current $1,500) and adopt uniform treatment among different programs (e.g. Food Stamps and AFDC).

   - Remove penalties for employment and earnings including reducing the 100% effective tax rate on earnings after four months. The effective tax rate (benefit reduction ratio) should be no more than the tax rate facing the wealthiest Americans, and preferably should be no more than the tax rate on earned income at the same level.

   - Limit grant reduction for business income to net profits taken out of the business. See H.R. 455 for specific language.

   - Extend the duration of child care benefits to a more realistic transition period.

   - Cap the amount of income that must be paid for subsidized housing.

   - Eliminate the 100-hour rule for Unemployed Parents.

   - Eliminate the 100-hour rule and ease the treatment of step-parents income.

2 **Link with Other Federal Training, Employment and Economic Development Strategies.** As many have suggested, the ultimate answer to welfare lies beyond the welfare system. Any reform of the existing current pieces of the system cannot become the whole of a development strategy. All the more reason why a welfare reform should seek to remove the barriers to participation in other Federal (and non-Federal) training, education, employment and

economic development programs by AFDC recipients and other low income people. This linkage strategy minimizes the need for new funds while allowing low income people to gain some of the benefits of those initiatives. There is a particular advantage into tapping into Federal initiatives that create jobs, some of which might be filled by welfare recipients. We fear that public employment programs for welfare recipients fall too easily into the trap of seeming to be make-work (based as they are on a job creation purpose), and will never lead to unsubsidized private sector employment. Among the linkages that might be established:

- Establish clear links for welfare recipients to new apprenticeship, training and school-to-work transition programs.
- Enable and encourage microenterprise programs supported by SBA Microloan, JTPA, CDBG and Department of Agriculture Rural Development to serve interested welfare recipients.
- Tap into Federal community economic, business and housing development programs to support community-based development initiatives that serve low income.
- Utilize the National Service program and Empowerment Zone programs.
- Increase the flexibility for states and communities to devise their own economic independence/development strategies.

3. **Make the Federal Government a Partner in Investment, Innovation and Independence.** While we have spent on the poor, we have rarely invested in them. Most Federal programs to help the poor are income maintenance or social service programs, while most Federal investment programs are not directed to the poor at all. It is time to begin at least experimenting with direct Federal investment in the ability of the poor to move forward. Here we use investment in the old fashioned sense: the appropriation of $X today in order to generate $X+ tomorrow by engaging the skills, vision, and energy of people and groups. In this line, the Working Group should consider:

   - **Authorize the national demonstration of Individual Development Accounts that President Clinton endorsed during the campaign.** Some Americans will escape poverty the same way we all achieve wealth -- through asset development. Michael Sherraden has proposed a Homestead Act for the 21st Century: the Individual Development Account (IDA).[1] Modeled on the Individual Retirement Account, the IDA would be available and tax-sheltered for all Americans, with the public co-investing with the poor on a sliding scale, to insure that (unlike IRAs and most US asset policy) the poor are not excluded from its benefits. All Americans would be able to save, say $1,000 per year tax-sheltered, with the government matching the investments of the poor on a sliding scale. The accounts could be tapped for any of a set of permissible, productive investments: college education, training, first home, business capitalization.

     Although it is too early to set up a national system of IDAs, it is not too early to begin to experiment with them (as some communities and states are already doing). One approach is suggested in H.R. 456, but many other variations are possible.

   - **Create a competitive Innovation and Investment Fund to support investment programs.** We are low on the learning curve of identifying effective antipoverty

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[1] Michael Sherraden, ***Assets and the Poor: A New American Welfare Policy,*** Armonk, New York: M.E. Sharpe, c1991. See Appendix D.

development strategies. A modest investment fund could encourage more community, state, and foundation experiments, and accelerate the learning. Currently, the Federal government is requiring that hard-pressed states, communities and non-profit groups to front the investment, even though the Federal treasury has the most to gain. Investment should be on a competitive basis according to the probability and amount of prospective return. Appropriate evaluation should be required as a condition of such investments.

4. **Adopt New Forms of Governance** No system needs to learn from and adopt new governance systems more than the Federal antipoverty system. The notions of empowering beneficiaries (customers), decentralizing decision-making and encouraging entrepreneurship, holding people accountable for results and easing process controls, utilizing competition in service delivery, creating new learning and information systems and the like are as necessary here as elsewhere. Among the reforms that are needed:

   - **Ease the Section 1115 Waiver process** to allow more state and community innovation.

   - **Create a Return on Investment Budgeting System** which considers a longer term and a wider array of costs and benefits. As long as we emphasize near term costs and benefits, or only those returns that accrue to agency budgets, the real economics of investments made and forgone will remain under appreciated.

   - **Encourage a continual earning system with a range of evaluation/learning strategies**, rather than an overwhelming reliance on random assignment, control group methodology with its high cost and anti-innovative bias. We need better feedback loops and outcome tracking in order to learn better and more continually from reform initiatives.

   - **Use new management practices** that can maximize state and local creativity while holding agencies accountable for results and protections, and harnesses the potential contributions of non-profit, community organizations.

Costs and Benefits

We believe that the returns of the above investments will exceed their initial cost. But the Congressional Budget Office, reluctant as it is to project behavior changes in the absence of demonstrable proof, is unlikely to see it that way. Thus, while we work on developing better Return on Investment data, we would propose budgeting an investment budget of $1 billion or 20% of the Reform Package budget (whichever is more) to fund the above initiatives, and consider limiting Federal tax-based subsidies for asset acquisition by the non-poor, to cover this investment (e.g. limit the Home Mortgage Deduction to a single house, or limit the pension exclusion).

We further believe that only a development approach yields the kind of economic, social and political dividends capable of moving a broader reform initiative. That is, only by creating additional paths our of poverty can we expect to be able to shrink the group dependent on federal support, and generate additional maintenance resources.

We would be the first to admit that the array of effective development strategies is not yet adequate to provide the quantity and quality of jobs or paths to them that are necessary. But Federal policy does not yet even support the development strategies we understand. And, unless the Federal government becomes an active partner with innovative communities and states, we will never devise an adequate strategy.