

The Elements of Real Welfare Reform *Replacing Welfare With A Competitive Employment System*

Lyn A. Hogan

Once again, the welfare reform debate is stalled. The President has vetoed flawed legislation, and partisan bickering now threatens to permanently derail what has been a cornerstone issue for the Clinton Administration.

The country clearly wants work-based welfare reform and is willing to pay for it. A recent *Wall Street Journal/NBC News* poll found that 62 percent of the American public believe moving recipients into the workforce is the most important goal of reform, while only 13 percent support reduced government spending as the top priority. Despite such sentiment, the process has jumped that clear track.

The liberals are rallying around the status quo, seizing the current budget negotiations as a last chance to save the federal entitlement to cash aid. The conservatives—scared by the real costs of a work-based system, split on objectives, and egged on by GOP governors—are alternately rallying around budget cuts, block grants, and teen pregnancy prevention.

As we enter the welfare endgame, it is worth reminding ourselves what the real goal of welfare reform should be: putting people to work. The left-right battle has produced neither the proper design nor enough money to achieve this goal.

Progressives should evaluate the final outcome of this debate by one measure: whether the current income maintenance system is transformed into an employment system. The steps outlined below are critical to making this transformation possible.

Turning The Welfare System Into An Employment System

Welfare reform should be about putting people to work, not about budget cuts and tax breaks, or fear of change. Those in Congress fighting for welfare reform need to step back and remind themselves why they wanted to reform the welfare system in the first place: It is failing both the people it is designed to help and those who pay for it. The system consigns recipients to poverty by ensuring minimal cash assistance, while offering little or no help to actually move them into the mainstream economy.

Able-bodied welfare recipients want to work, and low-wage jobs are available, but many welfare recipients possess neither the labor market connections nor the basic understanding of how the work environment operates to *find* and *keep* jobs. Real welfare reform must address this obstacle. Only by creating an employment system out of the failed income maintenance system will real reform be possible. Following are three necessary steps to create an employment system.

First, everyone must work. We must replace the unconditional entitlement to cash aid with temporary cash aid conditioned on work. We should establish a national policy that makes unsubsidized work the central goal for all recipients and recognizes that work experience is the best preparation for permanent employment.

Recipients should be encouraged to take any job offered them as the first step on the ladder of work. When unsubsidized jobs are not available, that means utilizing subsidized jobs. Recipients need to initially bypass government-run education and training programs in favor of real work experience as the best learning tool. Once a recipient begins the climb up the ladder of work, if additional training is not available on the job, outside education or training makes sense. Finally, community service should be offered as a fallback for those unable to secure other employment.

Second, we need to make work pay more than welfare. Making work pay more than welfare means providing child care subsidies, health care subsidies, the earned income tax credit (EITC), and improved child support collections. As part of the budget process, conservatives in both chambers of Congress are pushing for significant cuts in the EITC and Medicaid. President Clinton is working to reverse many of these GOP cuts. Keeping costs under control while maintaining the intent of the EITC and Medicaid programs will help ensure that the working poor remain in the labor market.

Third, we need to create a competitive, performance-based system that encourages government, nonprofit and for-profit job placement and support organizations to compete against each other to place and keep recipients in unsubsidized jobs. *Most important*, states should pay for performance only. If a program is not placing and keeping recipients in jobs, money should not be flowing into that program.

To be effective, job placement and support services to welfare recipients must build and maintain links with private-sector employers and must offer follow-up or support services to recipients once they are placed in jobs. Caseworkers should be turned into job developers and must prepare recipients for the world of work. The employment system will succeed only if employers are given what they say they want—dependable, reliable, hard-working employees, regardless of their background.

Common-sense structural reforms will go a long way toward creating a competitive employment system. Two such reforms were included in the earlier Senate-passed version of welfare reform.

- ▶ *A pay-for-performance-only job placement voucher system* that puts purchasing power in the hands of recipients and encourages nonprofit, for-profit, and government job placement and support organizations to compete against each other.
- ▶ *A job placement bonus* to states for every person placed and *kept* in a job so states have a tangible incentive to shift their income maintenance systems to employment systems.

What's Working Now?

Wisconsin is one of the few states to enact real work-based reforms that have produced impressive results. Since 1987, Wisconsin has implemented statewide reforms as well as various demonstration projects—including its *Work, Not Welfare* and *Work First* demonstrations—to reduce barriers to work and move recipients into jobs. Between January 1987 and December 1994, Wisconsin reduced its AFDC caseloads by 25 percent, saving the state \$16.1 million. During the same period, other states with low unemployment had rising caseloads.

Further, in anticipation of welfare block grants, Wisconsin is designing a radical overhaul of its system that will eliminate AFDC and replace it with an employment system. The Wisconsin Works or "W2" plan will help participants move directly into work at the earliest possible time.

Final national legislation should be designed to encourage and simplify Wisconsin-type efforts and reward performing states' results.

A Final Opportunity For Real Reform

Welfare reform should not be sacrificed to partisan bickering. Rather, Democrats and Republicans alike who are concerned about children and concerned about producing *real* welfare reform, should be fighting hard for the principles that will turn the welfare system into an employment system. Only then will we enable millions of parents to support their children through work, not welfare.

The President has come a long way toward carving out an acceptable reform package. Those on the left and right owe it to the poor and to the rest of the American public to work with the President to overhaul the failed welfare system.

In the end, the purpose of welfare reform is to put people to work. Only through fundamental system change, coupled with the needed resources to make that change real, will break the bureaucratic welfare monopoly.

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Previous PPI papers on welfare reform include:

Putting Reform Back In The Welfare Debate: Job Placement Bonuses and Job Placement Vouchers Are Key To Real Welfare Reform, Lyn A. Hogan, September 7, 1995.

Job, Not JOBS: What It Takes To Put Welfare Recipients To Work, Lyn A. Hogan, July 17, 1995.

Work First: A Proposal To Replace Welfare With an Employment System, Will Marshall, Ed Kilgore, and Lyn A. Hogan, March 2, 1995.

Job Placement Vouchers: A Progressive Alternative To Block Grants, Ed Kilgore and Lyn A. Hogan, January 25, 1995.

Replacing Welfare With Work, Will Marshall, July 1994.



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July 17, 1995

Dear Friend:

The Republican Congress is edging close to repeating the mistake made in the last round of welfare reform: focusing on the wrong goal. In *Jobs, Not JOBS*, PPI social policy analyst Lyn A. Hogan argues that by emphasizing "virtual work, not work," the Republicans would continue the Job Opportunity and Basic Skills program, a centerpiece of the 1988 Family Support Act. But, as Hogan demonstrates, the evidence is in, and it shows that JOBS isn't working. Even so, Republicans remain attached to the program's structure.

As an alternative, Hogan outlines the "work first" approach advocated by PPI in its March 1995 policy briefing and picked up by the Senate Democrats. She cites emerging evidence that shows that programs with an emphasis on job placement as opposed to training are paying higher dividends.

I hope you'll find Hogan's analysis of what it takes to put welfare recipients to work important information at this critical stage of the debate.

For further information on this or any of PPI's other work on welfare reform, please contact Lyn Hogan or PPI senior fellow Ed Kilgore or Lisa Davis or Jerry Irvine in the press department. All can be reached at (202) 547-0001.

Cordially,

Chuck Alston
Communications Director



Jobs, Not JOBS

What It Takes To Put Welfare Recipients To Work

Lyn A. Hogan

Midway through 1995, Congress is in danger of losing an historic opportunity to fundamentally reform the nation's welfare system—despite a bipartisan consensus on the failure of the current system and strong public support for an approach that helps welfare recipients go to work. Moreover, this year's welfare reform effort could hurtle off the tracks at the same crucial point as the last major reform measure, the Family Support Act (FSA) of 1988, and for the same reason: Its engineers have chosen the wrong destination, "virtual work" instead of work.

Given their determination to abolish the entitlement status of welfare programs and turn them over to the states through block grants, the Republican House and Senate leaders driving welfare reform in the 104th Congress may seem to have little in common with their predecessors in the 100th Congress. But the fundamental task assigned to states in these block grants is the same: to enroll welfare recipients in education and training programs, which was also the primary object of the FSA's centerpiece, the Job Opportunity and Basic Skills (JOBS) program.

Bills passed by the House and reported to the floor by the Senate Finance Committee would release the states from most of the central obligations they have borne for the welfare population since the 1930s; for example, states would define their own population of recipients, instead of following federal rules, and they would no longer have to spend their own money as they do now. Yet both bills actually expand the FSA's mandate that states enroll an ever-increasing proportion of the welfare population in "work activities," as defined in the JOBS program, *which means education and training rather than actual work*. The Senate Finance Committee bill goes further, requiring that states maintain the basic structure of the JOBS program itself. Each fails to recognize that even the best JOBS program is inadequate: only a competitive system that relies less on government and more on private nonprofit and for-profit organizations to place recipients in jobs will put people to work.

The unique Republican attachment to the structure of JOBS as the one existing federal welfare mandate worth preserving is all the more remarkable in view of the recent endorsement by President Bill Clinton and Sen. Daniel Patrick Moynihan—the two chief Democratic architects of the FSA and JOBS—of a Senate Democratic alternative plan that would abolish JOBS and make placement of welfare recipients in full-time private sector employment the primary goal for states.

This role reversal on the object of welfare reform can partially be explained by the unwillingness of congressional Republicans to spend federal funds for the child care and

health care assistance necessary to make real work pay more than welfare benefits. Indeed, the House and Senate budget resolutions call for deep cuts in the earned-income tax credit (EITC), a crucial incentive to "make work pay." Such cuts would reverse a long tradition of Republican support for the EITC as a work-based alternative to public assistance.

But whatever the partisan motives involved, the Senate debate and subsequent negotiations between Congress and the President on a final bill, will revolve around a clear choice of destinations for welfare reform and welfare recipients: work, or virtual work? Should welfare recipients be moved out of the system into private sector employment or ensnared in work activities that involve everything other than real work? Is the goal jobs or JOBS?

As these choices illustrate, there is a real risk that a *confusion of terms* will misdirect welfare reform. In fact, as this paper will demonstrate, a confusion of terms—and of the goals and measurements key to welfare reform—contributed to the compromise that created the FSA and JOBS program in 1988. This confusion has made efforts to evaluate the effectiveness of JOBS an exercise in irrelevancy.

Further, an examination of the premises about welfare dependency and the proper path to employment that underlies the JOBS program will point the way clearly to the kind of paradigm shift necessary to produce real work-based welfare reform, and to the job placement models that actually work.

Genesis of the Family Support Act

Much of the debate preceding enactment of the FSA was characterized by an indictment of welfare programs strikingly similar to that heard in this year's congressional discussions. Republicans and Democrats alike deplored the passive receipt of cash assistance central to the Aid to Families with Dependent Children (AFDC) program, and the absence of any incentives designed to help welfare recipients find work and become independent.

But the two parties largely parted company on what they viewed as the most effective means for securing that common goal. Republicans, arguing that welfare recipients lacked discipline, called for mandatory programs requiring recipients to work off their welfare benefits (known as workfare). Under Sen. Moynihan's leadership, congressional Democrats stressed low skills as the primary obstacle to employment for welfare recipients and pushed for expanded funding for education and training programs.

As an impasse loomed, the National Governors' Association, chaired by then-governor Bill Clinton, offered itself as a bipartisan broker. The compromise ultimately engineered by future President Clinton and accepted by then-President Ronald Reagan adopted the mandatory workfare advanced by Republicans and the specific programs supported by Democrats. Thus emerged JOBS, a *mandatory system of education and training*. Republicans were able to secure work requirements for two-parent families

only.^{1 2} Lost in the shuffle was any clear focus on the goal originally supported by both parties: *independence from public assistance through full-time private sector work.*

Created as an alternative to mandatory work, JOBS became a new (if only partially funded) entitlement to education and training grafted onto an existing entitlement to cash assistance.

The FSA improved child support enforcement, required states to guarantee child care to participants, and offered transitional Medicaid and child care benefits for those leaving welfare, but it was a far cry from the total overhaul of the system initially sought. In fact, JOBS regulations required only 7 percent of those meeting participation requirements to take part in 1990—up to 11 percent in 1992 and 20 percent by 1995.³ (Exempt from participation include those ill, incapacitated or of advanced age; caring for an ill or incapacitated family member; with children under three years of age or younger at state option; employed 30 hours or more a week; and in the second trimester of pregnancy).

The JOBS Design

The rhetoric surrounding enactment of the FSA suggested that the JOBS program would produce a revolutionary change in the structure and incentives of the welfare system. In the words of Sen. Moynihan, welfare would no longer be "a permanent or even extended circumstance" but a "transition to employment."⁴

Yet the incentive system for states and recipients set up by JOBS inevitably made participation in education and training programs an end in itself, rather than a transition to work. Administrators are required to enroll recipients in a minimum of 20 hours of activities a week. To meet this requirement, JOBS administrators track recipients into activities readily available—usually education and training. Placing recipients in actual work is much harder.

Under JOBS, the federal funds available to states are based in part on participation rates in the various programs authorized by JOBS. There is no hierarchy of preferred programs and no premium for those more directly related to actual job opportunities. Indeed, states are not even required to collect or maintain data on the number of recipients leaving the system to work. Participation rates and incremental increases in earnings, not work, are the main objects for measurement.

¹See Julie Rovner, "Welfare Reform: The Next Domestic Priority?" *Congressional Quarterly*, Sept. 27, 1986, p. 2,281.

²See Julie Rovner, "Governors Jump-Start Welfare Reform Drive," *Congressional Quarterly*, Feb. 28, 1987, p. 376.

³1993 *Greenbook*, p. 628.

⁴"The Remarkable 'Quango': Knowledge, Politics, and Welfare Reform," *Journal of Policy Analysis and Management* 10: 4 (1991): 590-602.

The FSA required the secretary of Health and Human Services (HHS) to submit recommendations for outcome-related JOBS performance standards to the Congress by October 1993. When HHS failed to meet the requirement, it was instead directed to develop *criteria* for such standards.⁵

A report by the General Accounting Office (GAO) on the JOBS program highlights these structural problems: "This system holds states accountable for the number and type of AFDC recipients participating in JOBS activities but not for the number who get jobs or earn their way off AFDC...In fact, the number of JOBS participants who get jobs or leave AFDC annually is unknown."⁶

Garland Hawkins, program manager of JOBS/A Real Chance (ARC) in Washington, DC, agrees: "I have to spend all of my time worrying about who does what for how many hours instead of focusing on what really matters—how to get that person a job."⁷

As further evidence of a misplaced focus, JOBS is not linked to other federal programs and services critical to make low-wage jobs pay once a recipient moves off of welfare into work. The EITC, transitional child care and health care benefits, and other Medicaid benefits are available to most who leave welfare for work. However, GAO surveyors found that only about one-half of the nation's JOBS programs inform their participants about the EITC,⁸ while a study of welfare administrators found that few knew Medicaid was available to some families with incomes close to or over the federal poverty line.⁹

Finally, another basic design flaw responsible for the failure of JOBS is its dependence on the welfare bureaucracy to prepare people to work. Caseworkers are trained as eligibility workers and case managers, not employment specialists. These caseworkers need to learn new skills: job development, placement, and support. It is just as important to change the means as it is to change the end.

JOBS Performance—Small Steps in the Wrong Direction

Evaluations of the JOBS program fall into two major categories: those that assess its results according to the limited objectives set by the FSA and those that assess it as a

⁵GAO report to the chairman, Committee on Finance, U.S. Senate, "Welfare To Work: Current AFDC Program Not Sufficiently Focused On Employment," December 1994.

⁶Ibid.

⁷Conversation with Garland Hawkins, JOBS/ARC program visit, 1994.

⁸GAO report to the ranking minority member, Committee on Finance, U.S. Senate, "Welfare To Work: Most AFDC Training Programs Not Emphasizing Job Placement," May 1995, p. 36.

⁹Vicki C. Grant, Genny G. McKenzie, and Sarah C. Shuptrine, *A Study of the Relationship of Health Coverage to Welfare Dependency* (Columbia, SC: Southern Institute on Children and Families, 1994).

mechanism for reducing welfare dependency. The former assessments, naturally enough, show some positive, if mixed, results.

Welfare programs run the gamut from those implemented before the advent of the FSA and JOBS to those new and revamped programs that fit the requirements for JOBS. They all offer similar though not identical, services: education including basic and remedial English and English as a second language, job skills training, job readiness, job development and job placement, and work experience.

Dozens of welfare initiatives have been evaluated over the years by respected research organizations such as the Manpower Demonstration Research Corp. (MDRC), the Urban Institute, and others. These groups generally evaluate the extent to which a welfare program affects the *experimental group* that receives services compared to a *control group* that receives no services but is otherwise similar to program enrollees. Evaluators usually say a program has posted positive results if the experimental group has had an *increase* in employment and earnings and/or a *decrease* in welfare benefits compared to the control group, and when a program's benefits exceed its costs.

While an extensive examination of welfare program results is beyond the scope of this paper, a review of the most comprehensive and frequently cited studies offers an accurate summary of welfare program effects. The first three programs reviewed were the basis for JOBS and the FSA legislation. For this reason, they are critical to understanding both the design of JOBS and its consequent marginal results. The last two studies reviewed are of pre-existing welfare programs altered to meet JOBS' requirements. Each is considered a hallmark welfare program.

The following bullets offer a brief review of program results. Average employment and earnings gains are noted for each.

- ▶ The pre-JOBS Massachusetts Employment and Training Program (ET) began in 1983 as the state's employment, training, and education program for welfare recipients. As in most JOBS programs, ET offered a variety of services including career counseling, remedial education, occupational or vocational classroom training, supported work experience, and job placement. Education and/or training was the choice of the majority of participants, with actual work experience the least favored. An Urban Institute study found that for a six-month period in 1988 the impact on employment for the experimental group was 8.2 percent over the control group. This translated into earnings increases averaging about \$390 per participant for the same six-month period, a 34 percent increase over the control group.¹⁰

¹⁰Demetra Smith Nightingale, Douglas A. Wissoker, Lynn C. Burbridge, D. Lee Bawden, and Neal Jeffries, *Evaluation of the Massachusetts Employment and Training (ET) Program* (Washington, DC: The Urban Institute Press, 1991), 91, 93.

- ▶ Baltimore Options, launched in 1982, included education, training, and job search assistance. It emphasized basic literacy, preparation for the General Equivalency Degree (GED), skills training, and unpaid work experience. During a three-year follow-up, the MDRC found that the impact on employment on the experimental group was 4.8 percent over the control group.¹¹ The annual earnings increases in each year of follow-up were \$140, \$401, and \$511, consecutively, averaging a 16 percent gain over the control group.¹²
- ▶ The San Diego Saturation Work Initiative Model (SWIM), a key program on which JOBS was based, likewise offered a mix of services with an emphasis on education and training, although some up-front job search was required. The MDRC found that over a five-year period the impact on employment of the experimental group was 10.5 percent over the control group.¹³ However, this translated into annual earnings gains of only \$352 in the first year of follow-up, falling to \$148 in the fifth year, averaging a 14.8 percent gain over the control group. Both the employment rate and the average total earnings fell dramatically in the fourth and fifth year of the follow-up period, and the difference between the experimental and control groups for this time period was not statistically significant.¹⁴
- ▶ Washington state's JOBS program, the Family Independence Program (FIP), was designed to help welfare families become self-sufficient by improving job skills through education and training. The Urban Institute evaluated the program and followed recipients three years after enrollment. Most significantly, FIP actually *reduced* employment, *decreased* average earnings, and *raised* the average grant amount, increasing the probability of participants staying on welfare. Evaluators believe no increase in job development and few ties between training and local labor markets are responsible for these results.¹⁵

¹¹Daniel Friedlander, *Supplemental Report on the Baltimore Options Program*, MDRC, October 1987, p.11.

¹²Judith M. Gueron and Edward Pauly, *From Welfare to Work* (New York, NY: Russell Sage Foundation, 1991), 17 (advance copy).

¹³Daniel Friedlander and Gayle Hamilton, *The Saturation Work Initiative Model in San Diego: A Five-Year Follow-Up Study*, MDRC, July 1993, p.xxii.

¹⁴(Gueron and Pauly, *From Welfare to Work*, 17).

¹⁵Sharon K. Long, Demetra Smith Nightingale, and Douglas A. Wissoker, *The Evaluation of the Washington State Family Independence Program* (Washington, DC: Urban Institute Press, 1994), 2-3.

- ▶ California's JOBS program, Greater Avenues for Independence (GAIN), underwent a six-site evaluation. Five out of the six sites posted marginal results, even over the long term. The Alameda County site, posting better results than four out of six sites, is considered the GAIN county most geared toward education and training as opposed to entry-level jobs. An MDRC study over a three-year period found that, in Alameda, the impact on employment of the experimental participants was 8 percent higher than the control group. GAIN averaged yearly earnings increases of \$497 (\$1,492 over three years), averaging a 30 percent increase over the control group, and a 4 percent decrease in AFDC benefits compared to the control group.¹⁶

Interestingly enough, the GAIN site with the best results, Riverside County, has *abandoned* the JOBS model and replaced it with an approach that emphasizes private sector job placement.

Riverside GAIN emphasizes quick entry into the labor market; sends a strong message that employment is central and should be sought expeditiously and that opportunities to obtain low-paying jobs should not be turned down; and has strong job development and placement efforts.

The MDRC study found over a three-year period that the percentage of participants at the Riverside site who were ever employed was 13.6 percent higher than the control group. Over three years, Riverside increased earnings by \$3,113, a 49 percent increase over the control group. Welfare benefits were reduced by \$1,983 or 15 percent compared to the control group.¹⁷

A more recent MDRC study conducted for HHS found that those JOBS programs placing recipients in longer-term education and training programs were significantly less effective than those emphasizing immediate employment. The study examined sites in Grand Rapids, MI, Riverside, CA, and Atlanta, GA, simultaneously comparing two models—the Human Capital Development (HCD) approach stressing longer skill-building education and training activities and the Labor Force Attachment (LFA) approach emphasizing rapid job entry—to control groups. At the end of two years, the HCD model posted no overall significant impact on the employment or earnings of recipients, although average AFDC payments were reduced by 14 percent relative to the control group. In contrast, the LFA impact on employment was 8.1 percent, with earnings increases of 26 percent, and welfare payment reductions of 22 percent, when

¹⁶James Riccio, Daniel Friedlander, Stephen Freedman with Mary E. Farrell, Veronica Fellerath, Stacey Fox, and Daniel J. Lehman, *GAIN: Benefits, Costs, and Three-Year Impacts of a Welfare-to-Work Program*, Manpower Demonstration Research Corp., June 1994, p. ES-6.

¹⁷*Ibid.*

compared to the control group.^{18 19} Again, the successful LFA approach abandoned the traditional JOBS model.

It is true these JOBS programs (and similarly focused welfare programs begun before the 1988 FSA) have posted positive results. However, *the evidence is clear that these results have not led to earnings increases large enough to move single parents off welfare so they can support themselves with their own earnings.*²⁰

Douglas Besharov, resident scholar at the American Enterprise Institute and an expert on welfare reform, agrees. "The bottom line is that these programs are often cost-effective and produce earnings gains but are not policy significant," he said. "States have not invested in JOBS, not because they're broke, but because there is no guarantee that they'll move significant numbers of people off of welfare. For every program that moves a recipient off, another doesn't move one off."²¹

Economist Gary Burtless goes further. He writes that good programs can raise earnings enough to offset the direct and indirect costs of the programs. But "the evidence offers a more depressing lesson, as well. Even the most successful programs fail to raise earnings enough to make a large difference in the poverty status of poor mothers and their children."²²

A 1994 GAO report, requested by Sen. Moynihan, concludes: "In spite of the 1988 legislation to transform welfare into a transitional program aimed at helping an increasing portion of AFDC recipients get jobs and avoid long-term dependence, the current JOBS program has not served a large portion of the AFDC caseload and is not well focused on employment as the goal."²³

A follow-up GAO survey reported that, "About one-half of the county JOBS administrators nationwide stated that they do not work enough with employers to find jobs for participants...Moreover, about 46 percent or more cited that the program and its contractors worked with each of the following only sometimes or rarely: public

¹⁸Stephen Freedman and Daniel Friedlander, *The JOBS Evaluation: Early Findings on Program Impacts in Three Sites*, executive summary, MDRC/HHS/U.S. Department of Education, July 1995.

¹⁹Note that these results are preliminary. The study cautioned that the HCD results could improve over time as the potential benefit of education and training is realized.

²⁰This conclusion is supported by a number of economists as well as the previously cited May 1995 GAO report. See Gary Burtless, "The Employment Prospects of Welfare Recipients," and Rebecca Blank, "Outlook for the U.S. Labor Market and Prospects for Low-Wage Entry Jobs" in *The Work Alternative: Welfare Reform and the Realities of the Job Market*, Demetra Nightingale and Robert Haveman, eds. (Washington, DC: The Urban Institute Press, 1994).

²¹Telephone interview, June 13, 1995.

²²(Burtless, "Employment Prospects of Welfare Recipient," 99).

²³(GAO, "Welfare to Work: Current AFDC Program Not Sufficiently Focused on Employment," 2).

employers, private sector employers, the Chamber of Commerce, or other employer associations.²⁴

At one survey site, researchers found that a woman had successfully completed several training programs—thus satisfying the federal requirements for the state to receive its full share of federal funding—yet she remained unemployed and on AFDC.²⁵

Finally, MDRC president Judith M. Gueron has drawn similar conclusions. She testified before Congress that "JOBS has not fundamentally changed the message and character of AFDC. It has resulted in the provision of more education and training services, and does seem to be increasing work and reducing welfare, but the system has not enforced a participation mandate focused on work."²⁶

Defenders of JOBS offer three basic responses to these dismal assessments. First, they point to the earnings increases reported in the case studies and suggest that any program producing a positive cost-benefit ratio is worth keeping.

This argument cuts to the heart of the question about the basic purpose of welfare reform: Is the object to produce a positive cost-benefit ratio, or is it to move welfare recipients into work? It is hard to imagine welfare programs that would not generate some positive impact on earnings when compared to unconditional receipt of cash assistance. The cost-benefit test is a recipe for perpetual postponement of fundamental reform.

Second, defenders of JOBS say the program has been underfunded and is thus untested. While it is true that many states do not get their full share of government funds because of the matching rate formula, funding is not the primary problem. As in previous years, states did not draw down their full share of federal funds: in 1993 state spending for JOBS totaled \$1.1 billion and the share of federal funds states drew down in 1993 was \$698 million.²⁷

More to the point, the primary effect of expanding funding for JOBS will be to enroll additional participants rather than to change the nature of services offered to those who do participate. Channeling more recipients through JOBS will simply multiply its marginal results—not get them jobs.

Third, defenders of JOBS argue that a more work-focused approach will fail because entry-level jobs in the private sector are unavailable and that welfare recipients do not have the skills to fill them even if they were.

Gary Burtless summarizes the views of labor economists as follows: "With roughly 7 million jobless workers, even at full employment, is it plausible to expect employers could offer an additional 2-3 million jobs for AFDC recipients forced to leave the rolls?"

²⁴(GAO, "Welfare To Work: Most AFDC Training Programs Not Emphasizing Job Placement," 34).

²⁵Ibid.

²⁶Testimony of Judith M. Gueron before the U.S. Senate Subcommittee on Social Security and Family Policy, Jan. 18, 1994.

²⁷(GAO, "Welfare to Work: Current AFDC Program Not Sufficiently Focused On Employment," 3-4).

Surprisingly, most labor economists probably believe the answer to this question is yes." He goes on to say that the job-finding success of unskilled immigrants is further evidence that jobs exist for applicants who are willing to accept them.²⁸

Research by the Urban Institute's LaDonna Pavetti shows that many welfare recipients are finding jobs: 64 percent of new welfare recipients leave the rolls within two years. In fact, work is the most common reason women leave welfare, accounting for 45 percent of all exits. But Pavetti also found that 75 percent of those who leave welfare eventually return. This so-called churning suggests that once recipients find jobs, the real challenge is helping them keep those jobs.²⁹

Case Histories: What Works

Growing evidence now exists that private for-profit and nonprofit programs can connect welfare recipients to jobs and help them achieve sustained independence. This contrasts with the marginal impact of JOBS and contradicts pessimistic claims of JOBS defenders about the feasibility of a work-based approach.

However, these work-based programs *have not* been evaluated by research organizations so there are no control groups to which results can be compared. Yet, these programs show great promise by (a) placing recipients in full-time, usually unsubsidized private sector jobs, and (b) keeping them in those jobs—thus meeting the ultimate measure of success.

The programs described below share four critical elements: each assesses the needs and skills of its clients individually and assumes that each wants to work; each bypasses traditional JOBS activities and instead puts clients to work as quickly as possible; each forms strong links with local employers and works hard to maintain them; and finally, each measures success by counting the number of recipients who get jobs.

- ▶ America Works, a for-profit placement and support organization in New York, Connecticut, and Indianapolis, has helped more than 5,000 welfare recipients find full-time private sector jobs. It has placed 60 percent of those who begin the program in jobs and of that 60 percent, 68 percent are hired permanently at an average wage of \$15,000 per year, including benefits. Seventy-five percent are still off welfare 18 months later. At a cost to government of about \$5,400 per placement, America Works is cost-effective, especially when compared to the cost of \$21,000 per placement

²⁸(Burtless, "Employment Prospects of Welfare Recipient," 87).

²⁹LaDonna A. Pavetti, "The Dynamics of Welfare and Work: Exploring the Process by Which Young Women Work Their Way Off Welfare," John F. Kennedy School of Government, Harvard University, draft October 1992, revised chapter 1993.

for New York City's Job Training Partnership Act (JTPA) training program³⁰ or the \$23,000 a year it costs New York state to support an average welfare family.³¹

- ▶ Cleveland Works, a private nonprofit group funded by public grants, foundations, and private money, has placed more than 2,000 welfare recipients in full-time jobs since 1986, enabling 7,000 men, women, and children to quit the dole. Over 80 percent of the Cleveland Works families have not returned to the welfare rolls, a remarkable result considering that the typical family had been on and off welfare for 10 years.³² Cleveland Works provides its clients with four weeks of general job readiness training and in some cases with basic education and occupation-specific courses. The group then matches clients with jobs offered by some 500 local employers. Once hired, clients receive transitional services and support from corporate counselors to ensure that they stay employed.

- ▶ The Goodwill Job Connection in Sarasota, Florida and Lafayette, Louisiana offers job placement and support services to chronically unemployed members of the surrounding community. Goodwill placed and kept 311 people in unsubsidized private sector employment last year alone; since the program began in 1987, it has placed more than 1,000 people in jobs. Goodwill works hard to build relationships with local employers and, after providing basic job readiness and work skills, places people permanently into unsubsidized jobs and offers follow-up support to make sure they stay in jobs.³³

- ▶ Project Match in Chicago follows a ladders-of-work approach, encouraging its participants to begin with work at their level of ability, including, if necessary, volunteer or part-time work. Clients move one step up the ladder of work at a time, with the ultimate goal being full-time,

³⁰The Office of the New York City Comptroller of the New York City Department of Employment, "Adult Training Programs' Effectiveness in Providing Vocational Training to Public Assistance Recipients and Placing Them in Jobs," Bureau of Management Audit #2C93-110, February 6, 1995.

³¹The package of available welfare benefits in the state of New York conservatively ranges from \$16,000 to \$25,000 annually depending on the mix of services one receives. A typical package of benefits would include food stamps, AFDC, medicaid, and housing subsidies.

³²Cleveland Works corporate documents, 1994, David B. Roth, executive director.

³³Figures from Goodwill corporate document, "Welfare-To-Work Program: Goodwill Industries-Manasota, Inc.," February 1985.

unsubsidized work. Project Match is a very small program but has successfully placed 100 long-term welfare recipients in jobs.³⁴

- ▶ Milwaukee's New Hope Project, another private nonprofit group, also stresses job placement. Clients go through eight weeks of an intensive, supervised job search. Those who do not find private sector jobs are offered minimum-wage community service positions at nonprofit organizations for a maximum of one year. When necessary, New Hope subsidizes its clients' wages to bring them up to at least the poverty line. It also provides health and child care benefits based on income and helps clients receive the EITC. Preliminary results from the first phase are very encouraging. Seventy-one percent of those who entered the program are working in private or public sector jobs. Of these, all but one work full-time.³⁵

Building An Employment System: Putting Work First

The evidence shows that government-run welfare programs help few recipients become self-sufficient. Real work experience, on the other hand, connects recipients to the labor market and gives them the experience to move on to a better job.

As Will Marshall, president of the Progressive Policy Institute (PPI), has argued, government-run JOBS programs rarely give welfare recipients the skills they need to "leapfrog" entry-level jobs. For most people, work is a ladder and everyone must start at the bottom rung. Once people land jobs and gain significant entry-level work experience, higher education and/or training might make sense.³⁶

Besharov argues: "The most successful welfare programs to date have moved people directly into jobs...These programs have not spent much time focusing on the classroom."³⁷

An emphasis on education and training over work also ignores employers' needs. Employers say they value informal skills—showing up to work on time, being conscientious, notifying employers of absences, and communicating well with co-workers—more than they do formal training that often is not relevant to their needs or to the local labor market. Welfare recipients need connections to the real world of work and the personal habits that make for reliable employees.

³⁴Toby Herr and Robert Halpern, *Changing What Counts: Re-Thinking the Journey Out of Welfare* (Evanston, IL: Center for Urban Affairs and Policy Research, Northwestern University, 1991), 15.

³⁵The New Hope Project, corporate documents, 1994, Sharon Schulz, executive director. Percentages were calculated by PPI from numbers reported in corporate documents.

³⁶Will Marshall, "Putting Work First," *The New Democrat* 7: 1 (January/February 1995): 43-6.

³⁷Telephone interview, June 13, 1995.

Richard L. Barclay, vice president of Barclay Enterprises Inc. in Riverside, CA, agrees: "For unskilled or semi-skilled work, it's not trained people that businesses need; it's dependable workers...I can train a person to disassemble a phone; I can't train her to not get a bad attitude."³⁸

The system's incentives need to encourage administrators and caseworkers to focus on job readiness and work rather than activities. Nothing less than radically altering the culture of the bureaucracy will suffice.

Once incentives are shifted from activities to employment, we must engage the private for-profit and nonprofit sectors in the effort to move recipients into work. We cannot rely solely on government to offer services, even if those services are work-based. We must tap into the business sector, community organizations, and nonprofit groups to create a true work-based system.

The Work First Architecture

To create a true employment-based system, real systemic reform is needed, not more incrementalism. Merely expanding JOBS means settling for marginal results at best. A Work First approach should shift incentives to encourage states and social service providers to put private sector work first, over education and training. Such an employment system should pit private nonprofit and for-profit job placement and support agencies against government-run programs to move recipients into work. Finally, success should be measured by counting permanent private sector job placements.

PPI's Work First plan,³⁹ advanced by PPI president Will Marshall, senior fellow Ed Kilgore, and the author of this paper, would convert welfare into an employment system through three main steps:

(1) Abolish both JOBS and AFDC and substitute a Work First employment system that would establish as national policy that: (a) unsubsidized private sector work is the goal for public assistance recipients; (b) immediate work experience, not participation in education and training programs, is the best preparation for permanent employment for the vast majority of welfare recipients; and (c) all recipients of public assistance should perform some work, with community service as a fallback. In effect, the time limit for income maintenance would be zero.

(2) Pool AFDC and JOBS funding, calculated by the current formula but with a single match rate, to create a performance-based grant that offers financial rewards to states that succeed in placing and keeping welfare recipients in full-time, unsubsidized private sector jobs.

(3) Give states financial incentives to convert a portion of their employment system dollars into job placement vouchers that welfare recipients—as well as fathers

³⁸Richard L. Barclay, "The Poor? I Hire Them," in *The Wall Street Journal*, May 24, 1995, A14.

³⁹Will Marshall, Ed Kilgore, and Lyn A. Hogan, "Work First: A Proposal to Replace Welfare With an Employment System," PPI Policy Briefing, March 2, 1995.

of children on welfare who might contribute to family support through work—may use to purchase welfare-to-work services. Such services would comprise job placement and support, rather than education and training. By putting purchasing power directly in the hands of welfare recipients, vouchers would help stimulate a competitive market for job placement and draw private as well as public investment.

The PPI proposal promotes real welfare reform, not phony reform by block grants. PPI's more radical alternative transforms income maintenance and education and training programs into a single flexible, performance-based grant that allows states to design individual benefit packages targeted to what each recipient needs to quickly enter the workforce: It also strongly encourages the use of job placement vouchers to bypass federal and state bureaucracies and place resources directly in the hands of welfare recipients. This approach supplies unprecedented flexibility to respond to local economic conditions and program characteristics; moreover, it also gives the federal government a potent lever for reinventing social policy in ways consistent with the broad public consensus for programs based on work and reciprocal responsibility.

In addition, the proposal would allow states to begin addressing the "missing link" in welfare reform—absent fathers—by offering job placement services to noncustodial parents as part of an overall effort to create non-welfare streams of family income.

The Senate Democratic Alternative Proposal

Important features of the PPI Work First proposal have been incorporated into a Senate Democratic alternative proposal for welfare reform crafted by Senate Minority Leader Tom Daschle (D-SD) in close cooperation with Sens. John Breaux (D-LA) and Barbara Mikulski (D-MD).⁴⁰ Although its sponsors have not yet introduced specific legislation, the basic thrust of this proposal—also called Work First—represent a clear decision to break with the status quo and create the incentives necessary to convert the welfare system into a real employment system.

The Senate Democratic alternative would abolish the JOBS program in its entirety and replace it with an employment block grant focused on moving welfare recipients into private sector jobs as quickly as possible.

The most striking elements of this proposal are its wholesale adoption of the Work First philosophy of welfare reform, and its transformation of the welfare system's incentives for welfare recipients and the states to make job placement the overriding goal and measure of success.

While maintaining an individual entitlement to participation in the system, the Senate Democratic plan makes that entitlement temporary and strictly contingent on full cooperation and steady progress towards permanent employment. The proposal makes

⁴⁰The Senate Democratic alternative was discussed at a press conference held by Sens. Daschle, Breaux, and Mikulski on June 19, 1995, and is expected to be introduced as a substitute to the Senate Republican welfare reform bill.

job placement services available to the noncustodial parents of children on public assistance.

The proposal offers states performance bonuses for placing and keeping welfare recipients in private sector jobs and levies sanctions on states that fail to achieve significant improvements in job placement rates. Both provisions contrast sharply with the House and Senate Republican welfare proposals, which make participation in "work activities," defined as education and training programs preparatory to work, the key goal for states, and which offer no tangible incentive to states to actually place recipients in jobs.

Of equal importance, the Senate Democratic alternative "makes work pay" by making available transitional child care and health care assistance.

As noted at the beginning of this paper, both President Clinton and Sen. Moynihan have endorsed the Daschle-Breaux-Mikulski plan, and the unity evident among Senate Democrats in support of a Work First approach appears to have contributed to the breakdown of Republican support for the block grant strategy. Accounts of the contentious negotiations among Senate Republicans to reach agreement on a bill to send to the Senate floor cite unhappiness with "weak work provisions"—along with disputes over the funding formula for the welfare block grant and the failure to include the House-passed language prohibiting public assistance for unwed teen mothers.

Last Chance for Work-Based Welfare Reform

The pending Senate debate may offer a clear choice between genuine work-based welfare reform and an inadequately funded and recklessly structured version of the status quo.

Seven years ago, the last national drive toward welfare reform foundered when partisan differences obscured what should have been a strong bipartisan consensus to make work the clear object of reform.

Congress should not, and need not, repeat the same mistake.

Lyn A. Hogan is social policy analyst for the Progressive Policy Institute.

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July 17, 1995

MEMORANDUM TO DEMOCRATIC LEADERS

From: Al From, DLC president

Subject: How Democrats Can Seize the Initiative on Welfare Reform

After months on the political defensive, Democrats in Washington now have the opportunity to gain the upper hand on a politically potent issue—welfare reform.

This opportunity comes for two reasons:

- ▶ First, Senate Democrats and the White House have coalesced around a new plan, called "Work First," that is sensible, coherent, and well-focused on the type of welfare reform overwhelmingly supported by the public: helping welfare recipients get and keep private-sector jobs.
- ▶ Second, ideological splits in the Republican coalition have made it impossible so far for Senate Majority Leader Dole to bring the Finance Committee's welfare bill to the floor. Republicans are deeply split among economic conservatives whose only interest is to save federal money, cultural conservatives whose first goal is to punish unwed mothers, and GOP governors who want control of federal programs. Those who favor work-based welfare reform have been elbowed out of the debate altogether.

To take advantage of these favorable circumstances, Democrats need to set aside internal differences on welfare and press hard for the Work First plan. If they do that, they can reverse the advantage the Republicans now have on the welfare issue, redeem the most important promise of the 1992 Clinton campaign, and convert Republican disarray on welfare reform from a tactical retreat to a strategic defeat.

If, however, Democrats remain passive on welfare reform or, even worse, yield to interest group pressure to protect the current system, they will squander the chance to gain the advantage on what could be the most important political issue of the year. If Democrats want to win the welfare debate, we've got to ratchet up the pressure on Sen. Dole and the Republicans. We simply can't allow them the breathing room to patch together a GOP compromise, avoid a full Senate debate, or even delay the issue until next year.

The Politics of Welfare

As those with short memories may have forgotten, Bill Clinton *owned* the welfare reform issue during the 1992 campaign. In fact, his pledge to "end welfare as we know it" was essential to giving him the credibility to campaign as "a different kind of Democrat." Not surprisingly, according to the Battleground '96 survey, in January 1993 Americans trusted Democrats more than Republicans to reform the welfare system, by an astounding margin of 39 percentage points. But since then, Democrats have lost their advantage on welfare reform. By April of this year, voters trusted Republicans more than Democrats on welfare reform by a margin of 21 percentage points.

That's a 60-point shift in public perceptions on welfare reform—more than on any other major issue. And there's not much doubt why this shift occurred: At both ends of Pennsylvania Avenue, Democrats have subordinated welfare reform to a variety of other issues (including health care), and when they've focused on it at all, they are perceived, rightly or wrongly, as defending the status quo. Welfare reform happens to be one issue where such perceptions are fatal: an April 1995 New York Times/CBS poll showed only 3 percent of the population favoring only minor changes in the welfare system, with an astounding 95 percent favoring either fundamental change or a complete overhaul.

The path is clear: Democrats can reduce or even reverse the Republican advantage on welfare reform, and redeem a key promise of the Clinton campaign, only if we support real change in the system.

The Democratic Work First Plan

The Work First plan represents such a fundamental change. Drafted by Sens. Daschle, Breaux, and Mikulski, it takes its name and much of its substance from the Progressive Policy Institute's February 1995 proposal; it would make cash welfare payments temporary and contingent on rapid movement toward full-time, unsubsidized work.

It abolishes the two big and ineffective welfare programs—AFDC and JOBS—and replaces them with a streamlined system that rewards states for placing welfare recipients in real jobs and keeping them there. States would have nearly as much flexibility as in a block grant, but would be held accountable for results, earning performance bonuses if they succeed in placing and keeping recipients in jobs, and suffering sanctions if they don't.

The Republican Welfare Mess

The contrast between the Work First proposal and the Republican welfare block grant reported by the Senate Finance Committee could not be clearer. The GOP bill lets states figure out what they want to do with the welfare population, but it denies them the resources to make work pay better than a welfare check. It does require that the states enroll welfare recipients in "work activities," but when you read the fine print, these activities turn out to mean just about everything other than actual work. Instead of changing the incentives of the system to focus on job placement, it gives states the same

block grant amount whether or not welfare recipients find work, and it even abolishes the requirement that states put up some of their own money.

In essence, Republicans have abandoned welfare reform entirely, and are simply shifting the current system from the control of federal bureaucrats to state bureaucrats, with less money and no direction. When the Finance Committee dropped from its bill the harsh measures against teenage mothers and their children that were part of the House-passed welfare plan, cultural conservatives in the Senate threatened a filibuster. So far, Sen. Dole has kept the bill off the floor, knowing that if the cultural conservatives get their way, the Republican bill will not only be weak on work and silent on reform, but will also include a mean-spirited assault on unwed teen mothers and their kids.

Pressing the Democrats' Advantage

Here's how Democrats can press their advantage on welfare. First, Senate Democrats and the President, need to push the Work First plan at every opportunity, while putting public pressure *daily* on Sen. Dole to bring welfare reform to the Senate floor prior to the August recess.

Second, if the Republicans don't bring welfare to the floor in a timely fashion, Democratic senators should offer the Work First plan as an amendment to other legislation on the floor. In other words, if the Republicans try to avoid a vote on welfare reform, we ought to force one.

Finally, Democrats need to stay united behind the Work First bill and a common message, subordinating quibbles about the details of the bill and ignoring the inevitable carping of interest groups who want to maintain the status quo. That is essential to making this strategy work. Again, 95 percent of the public favors fundamental welfare reform, and sizeable majorities specifically favor an approach that puts welfare recipients to work, even if it costs more money in the short run. We've got exactly the right message, and the right proposal to carry it forward.

Implications for the Future

Welfare reform now offers a textbook example of the best way for Democrats to counter Republican initiatives: challenge the Republicans with bold, forward-looking ideas. As long as we remain on the defensive—protecting the programmatic status quo—the Republicans will more often than not seize the political advantage, even when the programs we are trying to protect are popular. But when we counter the Republicans with better ideas, we can expose the real weaknesses in their positions, and reverse the political equation.

Despite the hype of the Republican Revolution, the Republicans have offered very little. And we can beat them every time if we challenge them on the battlefield of ideas.

For further information contact the DLC at 202-546-0007.

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