

WR-Work
FIRST

June 25, 1996

To: Carol Rasco
✓ Bruce Reed
Jeremy Ben-Ami
Paul Weinstein
Elizabeth Drye

Fr: Lyn Hogan *LA*

FYI, attached for your information is a copy of the final Work First Blueprint I wrote for the DLC. The release is not yet scheduled but should take place within a week or two. The DLC would like me to take part in a release event in whatever capacity would be appropriate for a White House staffer. Please let me know if I shouldn't take part in the event or if you have any other concerns.

Thanks.

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DLC

Democratic Leadership Council

BLUEPRINT
FOR CHANGE

**Work First: A Progressive Strategy to Replace
Welfare With A Competitive Employment System**

A Handbook for Action

June 1996

*Cynthia
FYI*

DRAFT

*for work first
WR*

October 24, 1996

MEMORANDUM FOR THE PRESIDENT

FROM: LAURA TYSON

SUBJECT: DLC WORK-FIRST PLAN AND WELFARE REFORM

In response to your request, attached is a memo from Paul Dimond and Lyn Hogan reviewing the DLC's Work-First Plan for welfare reform and the related labor market issues.

Lyn has recently joined the DPC staff after working for PPI, where she wrote the DLC's Work-First Plan. Paul has chaired your Interagency Working Groups on Community Empowerment and on Education, Training and Employment from their inception for the NEC. He helped put together your proposals for Empowerment Zones, CD Banks, CRA reform, housing vouchers, Brownfields expensing, a CD venture capital tax credit, the Technology Literacy Challenge, and a G.I. Bill for America's Workers. He also contributed to your charter school, public school choice, education tax deduction and Hope Scholarship proposals. Both Lyn and Paul worked on your recent Welfare-to-Work Jobs Challenge.

Their analysis and recommendations raise a number of important issues, including:

1. Performance Rewards and U.I. Reform: Should the state performance awards under the new Act and your Welfare-to-Work Jobs Challenge push for earnings from work sufficient to lift a single mother and two children out of poverty (approximately 1500 hours a year), with full eligibility for the protections of a reformed U.I. system?
2. Promote Competitive Markets for Job Search and Training: (a) To what extent should you use your bully pulpit to encourage states to use the Welfare Block Grant and your WTW Jobs Challenge to promote a competitive market for screening, job search, training, placement and support services to connect welfare mothers to work and to keep them in jobs? (b) Should you put your G.I. Bill for America's Workers -- including vouchers for job search and supportive services as well as education and training -- in your proposed FY98 Budget Reconciliation (e.g., as refundable tax credits to supplement Hope Scholarships) to serve all unemployed and underemployed workers to promote a competitive market for all workers?
3. Federal Housing Subsidies: To what extent and in what form should your FY98 Budget propose converting project-based housing subsidies into vouchers put directly in the hands of working-age families so that they can take greater personal responsibility for choosing where to live to become self-sufficient through work?
4. Consider slowing low-skill immigration: Should you propose reducing both legal and illegal immigration of lower-skill persons during the five-year welfare-to-work transition, while proposing to restore eligibility for benefits to legal immigrants?

I recommend that your economic team look closely at such issues over the next several weeks and report back to you with consensus recommendations or options for your review by December 5 so that you can make your decisions in the context of your FY 98 Budget.

DRAFT

October 24, 1996

MEMORANDUM FOR THE PRESIDENT
FROM: PAUL DIMOND
LYN HOGAN
SUBJECT: DLC WORK-FIRST PLAN AND WELFARE REFORM

INTRODUCTION. In June, 1996, the DLC published its welfare reform proposal, "Work First: A Progressive Strategy to Replace Welfare with a Competitive Employment System" (hereafter "Work-First Plan"). You incorporated several of its recommendations in the policies you have already implemented to reform welfare and in the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (hereafter "Act"). We also used recommendations in the Work-First Plan to shape the Welfare-to-Work Jobs Challenge you announced in August during your address to the nation at the Democratic Convention.

This memorandum provides: (1) an overview of the relevant labor market issues and related Administration policies; and (2) a review of the Work-First Plan with our recommendations additional actions to help make welfare reform work.

1. LABOR MARKET CONTEXT AND RELATED ADMINISTRATION POLICIES

a. Size of Addition to Labor Market Supply. The Act gives each state substantial flexibility in establishing the extent and timing of the increase in the supply of low-skill labor resulting from moving welfare mothers to work. Our discussions with leading labor economists and persons familiar with the dynamics of welfare reform implementation, however, *indicate that the transition to work under the Act will probably result in a maximum net increase of about 1.5 million persons -- mostly single mothers -- to the lower-skill labor market spread out over the next five years.* This is in addition to the approximately 2 million other persons currently on the welfare rolls who are looking actively for work.

b. Other possible impacts from the Act on Labor Markets. The Act does require a minimum transition from welfare rolls to work over the next five years: 25% of welfare mothers working by 1997, 30% by 1998, 35% by 1999, 40% by 2000, 45% by 2001, and 50% by 2002. States are free to do more. The Act also imposes a maximum 5-year time limit on welfare receipt by any head of household, subject to a number of permissible exemptions, including (1) exempting up to 20% of persons on the caseload, (2) counting up to another 20% of the caseload toward the work requirement if enrolled in job training or if a teen parent who attends school and lives at home, and (3) exempting single parents with

children under 12 months. *It is not clear the extent to which states will use these exemptions, as the welfare block grant itself rewards states for moving as many people from state support for welfare as possible.* In addition, states must exempt from any work requirement: (1) any parent with a child age 6 or less who cannot find day care for the child or (2) a parent who is disabled or caring for a disabled child. (This last, mandatory exemption may provide a strong incentive for states to seek to shift the costs of unemployed welfare mothers from the state's welfare rolls to the federal Social Security Disability rolls.)

c. Nature of Current Labor Market Participation by Welfare Recipients.

Research from LaDonna Pavetti at the Urban Institute confirms that *64% of new welfare recipients leave the welfare rolls within two years, with work accounting for almost half of these exits. But 75% of those who exit the welfare rolls eventually return, primarily because they have a tough time keeping jobs.* This indicates a need to consider how:

- to integrate welfare recipients more fully into the labor market, with more regular earning from jobs, more on-going support once at work, and *better access to the unemployment protections* afforded all working Americans if laid off;
- to provide additional tools to get harder-to-employ welfare mothers successfully into the labor market, as you have proposed in your Welfare-to-Work Jobs Challenge.

d. Labor Market Trends. *If economic growth can be sustained without recession for the next 5 years, both Larry Katz from Harvard and Gary Burtless from Brookings report:*

- *most of the 1.5 million net increase in the labor supply can be absorbed in net new jobs over the next five years due to the historic and continuing flexibility in demand in the U.S. labor market for lower-skill labor -- particularly, if the isolation of those in high-poverty concentrations (mostly in the inner-cities and the rural poverty crescent in the South) from most jobs throughout the local region can be overcome;*
- the resulting increase in the lower-skill labor supply (by way of comparison, in 1995 there were 24 million hourly paid workers earning \$7.00 or less per hour) will increase the market pressures on declining wages for lower-skill work that have been going on for 25 years now -- unless relieved by a reduction for 5 years of the same size in the projected supply of lower-skill labor from illegal and legal immigration;
- lower-skill women moving off welfare, like other lower-wage workers, have seen an erosion in their real wages over the last 25 years and have experienced difficulty climbing any ladder of increasing earnings through more rewarding work.

The most recent BLS data also show that the average unemployment rate in America's suburbs has declined to 4.4%, while the average unemployment rate in central cities as a whole has declined to 6.8%; but the reported unemployment rate for women without a high school diploma rose to 11% in March 1996 (compared to 8.6% in 1995). (The non-metro unemployment rate was down to 5.5% in the second quarter of 1996). Recent reports on local labor markets show that inner-city residents, particularly minorities, lack connections to most job openings and are subject to greater rates of rejection by employers of all races because of their apparent skin color.

use similar grant diversion strategies to keep people off of welfare in the first instance.

e. launch a sustained effort to roll back teen pregnancy. Unmarried teen mothers are at highest risk of becoming long-term welfare dependents. The Work-First Plan calls on States to adopt a comprehensive strategy to prevent teen pregnancy, combining a statewide campaign condemning irresponsible child-bearing with legislative action to discourage teenage pregnancy, and to encourage community-based solutions, including second chance homes. The new Act calls for the Secretary of HHS to submit a plan by year-end to reduce unwed parenting and to promote community-based initiatives to reduce teen pregnancy.

In 1994 you challenged all young people to take personal responsibility -- to stay in school and to defer child-bearing until they graduate, get a job and get married so they can support and nurture their own children. In your 1996 State of the Union, you announced that a group of prominent Americans had formed a National Campaign to Prevent Teen Pregnancy. *Your signing the new Act sends a clear message to young people: that all parents -- fathers and mothers -- bear the primary responsibility for the care and support of the children they bring into the world; that no father can escape child support; and that no mother can expect to raise a child from a welfare check from government rather than through earning a paycheck from work.*

Teen birth rates have fallen four years in a row, a total 8 percent drop. Reducing the rate of all unmarried parenting is vital to the success of welfare reform and to reducing poverty. *Belle Sawhill, the chair of your National Campaign, reports that in 1994 45% of first births were to unmarried mothers. Unless this rate can be lowered substantially, the nation runs real risks that: (a) more children will grow up with single parents living in or near poverty in the years ahead and (b) a new, even larger cohort of unmarried mothers will join the welfare rolls at the very time more and more mothers already on welfare are moving to work.*

Recommendations:

- HHS Plan: make sure that the HHS plan for preventing teen pregnancy and reducing unmarried parenting (a) uses the tough terms of the new Act to get out the message that no father can escape his support obligations and no mother can raise a child on welfare rather than earnings from work and (b) supports community-based programs that work to prevent teen pregnancy
- Individual Opportunity, Personal Responsibility and Parenting: use your bully pulpit to let teenagers appreciate your message of (a) expanding opportunity to learn, to work, and to reap the full rewards of marriage, family and children and (b) demanding greater personal responsibility for staying in school, learning, engaging in community service, graduating and deferring child bearing until married and able to support and nurture your own children
- consider whether you should extend a similar message to young adults.

Conclusion. You have created an historic opportunity to replace welfare with work and to enable more poor persons to escape poverty by ending their isolation from jobs. Our recommendations may offer additional ways to enable the nation to realize this opportunity.

e. Relation to Community Empowerment. Your Welfare-to-Work Challenge announced at the convention included another proposal to increase the investment of private capital to build businesses in distressed inner-city communities: a 25% tax credit for investment in community development banks and venture capital funds. Along with your successful efforts to reform the Community Reinvestment Act, to begin to establish a network of community development financial institutions, to establish Empowerment Zones and Enterprise Communities, and to encourage private investment to clean-up of Brownfield, these capital access initiatives can work to provided essential investment for building business and jobs in the inner cities and poor rural areas. But your Community Empowerment Working Group also recognized that *most of the new jobs for those who now live in inner-city neighborhoods -- like the residents of all other neighborhoods in the nation's expanding metropolitan areas -- will come from jobs throughout the local labor market, not just the inner city.* That is why the second round of your empowerment zones also seeks to enable persons in these communities to access jobs and earn higher incomes through work wherever located throughout the local labor market.

f. Relation to Federal Housing Policy. Your new "social bargain" avoids mention of federal support for housing. Federal housing assistance -- unlike the EITC, food stamps Medicaid and, arguably under the Act, daycare -- is provided only to about 25% of the eligible low- and moderate-income, non-elderly families. *As Bob Greenstein from the Center for Budget and Priorities notes in reviewing the issue of child poverty over the past generation, the basic problem is not a lack of affordable housing but a lack of income and earnings for the household head(s) from work.* In addition, almost 3/4 of federal affordable housing assistance consists of project-based subsidies to monopoly providers -- public and private -- whose costs often exceed those for comparable housing subject to real competition in the private market. These project-based subsidies already amount to \$16 billion per year and are projected to rise above the rate of inflation in the years ahead unless fundamentally transformed; by way of comparison, private apartment rents are projected to continue to rise less than inflation because of the continuing high vacancy rate, still over 8%. Just as problematic, *these project-based subsidies operate to increase the isolation of poor families from jobs throughout the local labor market.* That is why, with your approval, Secretary Cisneros proposed in 1995 to put project-based subsidies to a market test by offering assisted families a voucher to choose where they wished to live. The Republican Congress responded -- much as they did in resisting your other individual empowerment proposals like the G.I. Bill for America's Workers -- by protecting the monopoly providers and trying to address the mounting budget burden by enabling the monopoly owners to rent to higher-income persons in order to lower the amount of the federal subsidy per tenant. Your signing of the Act provides a new opportunity to consider this issue: *to work cooperatively with states, localities and the private sector to put housing vouchers directly in the hands of low-income families to choose where to live and to work, but to demand that the favored families who get this housing assistance take personal responsibility for becoming self-sufficient through work.*

2. WORK-FIRST PLAN AND ADDITIONAL RECOMMENDATIONS

1. Make work pay more than welfare. The Work-First Plan calls for offering supports for the working poor that make work pay more than welfare. EITC, Medicaid, food stamps, expanded day care and improved child support enforcement all help do this. Your policies raise the floor of what lower-skill work will pay after taxes, with the EITC and food stamps: *for a family of three, one working parent can support two dependents above the*

poverty line by working for the new minimum wage 1500-1600 hours per year, or about 30-32 hours per week for 50 weeks. Your success in raising the floor of what low-wage work pays is an essential component of welfare reform.

Recommendation:

- Performance Rewards: consider structuring the WTW Jobs Challenge, WTW Tax Credit, WOTC, and the performance rewards for the States under the Act so that incentives are provided for enabling a parent to earn enough income from work to raise a family of three above the poverty line and to qualify for U.I.

b: Promote competitive, market-driven job search and training. The premise of the Work-First Plan is to connect persons on welfare to real jobs in the private labor market and to help them stay on the job rather to return to welfare; Secretary Cisneros in our Community Empowerment planning called this "bridges to work." The Work-First Plan, like your G.I. Bill for America's Workers, therefore, calls for competitive, market-driven job search, placement and training. We are deeply skeptical of relying on a bureaucratic system of state and local welfare and employment service offices -- whether styled as "One-Stop Centers" or otherwise -- to provide effective job search, job counseling, placement, training, and retention services. As you said in your 1995 State of the Union Address, "The old way [of government] dispensed services through large, top-down bureaucracies. The new...way should shift these resources and decision-making from bureaucrats to citizens, injecting choice and competition and individual responsibility into national policy."

The Work-First Plan proposes (1) using job placement vouchers to create a competitive market for job search, related training and support services to keep participants at work and (2) channeling funding for government provision of such services on the same competitive market basis, based on actual performance and results in placing people in real jobs that pay for work for an extended period. The Work-First Plan also calls for transportation subsidies for van pools or for car loans to enable people to work at jobs wherever located.

The new Act permit states to use their block grant to make payments (or provide job placement vouchers) to state-approved public and private job placement agencies that provide employment placement services. However, the Act gives states no incentives to do so and offers no concrete examples of what works. The new Act also appropriates \$1 billion for a performance bonus fund to be paid to "high-performing" states pursuant to performance goals and outcomes set by HHS in consultation with NGA and APWA.

Your WTW Jobs Challenge has also been structured to allow (but not to require) use of job placement vouchers, and the flow of federal funds requires that 25% be contingent on actual placements in jobs that meet the minimum earnings requirements. Nevertheless, the inertia of many state welfare and employment systems may lead to continued bureaucratic -- and ineffective -- administration of job search, placement, retention, and training services for welfare mothers making the transition from welfare to work.

We are beginning discussions with Manpower and Kelly Services; CET, Project New Hope, and Goodwill Job Connection (successful non-profit placement organizations for welfare recipients and low-income persons); and America Works (a for-profit welfare placement firm). We hope to determine the extent to which they -- or new placement firms that they

or others might create -- are willing to compete with welfare and employment service offices to screen, train, place and support welfare recipients in jobs. The design problem -- or the market opportunity -- is that the major for-profit placement agencies only accept money from their primary clients, the employers. We are also discussing the efficacy of using subsidies for van pools and car loans to help poor people go to work at jobs wherever located, both of which would be permissible uses under your WTW Jobs Challenge.

Recommendations:

- Structure of Performance Awards: continue to use your Bully Pulpit, the process of states and localities working with local employers and intermediaries to plan for your WTW Jobs Challenge, and your convening power to promote the development of a competitive market for job-search, placement, training and support; establish performance criteria for the Act's bonus fund that reward actual placements in real jobs with earnings over an extended period of time.
- G.I. Bill for America's Workers as Refundable Tax Credit: *put your proposed skill training voucher (and a job placement voucher) for unemployed and lower-income workers in your proposal for Budget Reconciliation as a refundable tax credit (verified if not administered by the U.I. system). In our view, this should be presented as a universal program for all unemployed and underemployed persons, rather than as any special program for welfare reform: this will promote the development of a competitive market for job search, training, and placement for all, including but not limited to welfare mothers.*

c. **Time Limits.** The Work-First plan called (a) for eliminating AFDC, the FSA and its JOBS program and with them the unconditional entitlement to cash aid and (b) for setting the time limit for income maintenance at zero by requiring all recipients to perform some work immediately. The Act eliminates AFDC, the JOBS program and the entitlement and replaces them with temporary cash aid while permitting (but not requiring) the States to reduce the time limit for cash aid to zero. The very structure of the Act's block grant does provide an economic incentive for the States to move as many people as quickly as possible off of welfare and into gainful employment.

d. **Incentives not to enroll in public assistance programs.** As some states have discovered, many people in need of cash aid have work histories or decent job prospects, but are experiencing short-term emergencies that prevent them from taking advantage of those prospects. The Work-First Plan calls for providing a one-time cash loan or grant (called grant diversion), job placement assistance, and/or transitional medicaid and child care so that people can get back on their feet without actually enrolling in the welfare system. Grant diversion requires an immediate and thorough assessment of an applicant's needs, and a rapid response. Under the new Act, states may implement such a grant diversion program.

Recommendation:

- Promote Keeping People off of Welfare: use your bully pulpit -- as you are doing with your repeated calls on the states to use their welfare block grant to enable employers to pay recipients for work so they earn a paycheck from a job rather than a welfare check from government -- to encourage States to use their new flexibility to