

February 2, 1994

TO: Working Paper Reviewers

FROM: Wendell Primus

SUBJECT: Welfare Reform Working Paper 4 - REVISED  
"Evidence from Employment, Education, and Training  
Programs: Background Relevant to Welfare Reform"

Attached for your final review and comment is a revised draft of the working paper on employment, education, and training programs. This paper incorporates much of the information that was included in the earlier version (dated 9/30/93) that was prepared by the Transitional Support Issue Group. It also draws heavily from the "Work and Welfare" paper prepared by the Department of Labor.

I would particularly appreciate your comments on the usefulness and appropriateness of inserting into the text descriptions of some employment, training and education programs which illustrate innovation and have potential for wider implementation. We currently have available descriptions of 9 such programs (copies are attached). Your suggestions on which of these should be included in the paper would be welcome, as would any suggestions for (and information about) other programs that might be added to the paper.

Please remember that this is a draft paper for internal discussion only, should be safeguarded as sensitive material, and should not be released.

Please provide your comments to Ann McCormick by close of business on Friday, February 11. You can reach her by phone at 690-5880, or fax at 690-6562.

Attachments

Reply:  
No use releasing  
this paper

WR Job Training

## EMPLOYMENT, TRAINING & EDUCATION PROGRAMS

Education, training, support services and perhaps more need to be available to ensure that those either desiring to leave welfare or who may be required to leave welfare are prepared to compete in the labor market and life. Existing training programs need to be expanded, improved, and better coordinated to ensure that human capital levels are raised to appropriate levels. Current welfare reform efforts seek to accomplish this. Previous employment and training programs have yielded extensive research and knowledge regarding the options and opportunities available.

The California Greater Avenues to Independence (GAIN) program continues to be a model program of employment and training services for AFDC recipients. The San Diego Saturation Work Initiative Model (SWIM) also illustrates some innovative approaches by utilizing community work experience programs (CWEP) to help AFDC recipients obtain needed job skills and experience to help them become more employable. The Baltimore Options program exposed participants to a large range of educational and training activities including job search, educational activities, and on-the-job training. Project Match, operating in Chicago, Illinois, offered guidance and counselling, and linked participants to vital services offered in the community to ensure that available services were properly utilized and needs were met. The Parent's Fair Share demonstration offered JOBS program services to non-custodial fathers of AFDC children in order to encourage the ability of these fathers to participate in the child support system.

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## GREATER AVENUES FOR INDEPENDENCE (GAIN)

### General Information:

California's Greater Avenues for Independence (GAIN) Program is a statewide initiative aimed at increasing the employment and self-sufficiency of AFDC recipients.

### Participant Eligibility and Exemptions:

Participation in GAIN is for single heads of families with children age 3 and over and principle wage-earners of two-parent families. Medical exemptions are granted. Participation is mandatory only if slots are available.

### Program Features:

Registrants are sorted into one of two streams. Those who are deemed in need of basic education (registrants who lack high school diploma, cannot speak English, or fail a math and literacy test) can choose to attend a basic education class or a job search activity first, but if they choose job search and fail to obtain employment, they must then enter basic education. Registrants judged *not* in need of basic education usually must participate in job search first. Registrants already enrolled in education and training program when they enter GAIN can continue in them if the activities meet certain criteria. Participants in any of these three sequences who do not find employment after completing their initial activities undergo an employability assessment designed to help them choose their next activity, e.g., skills training, vocationally oriented post-secondary education, on-the-job training, or unpaid work experience.

### Supportive Services:

GAIN helps registrants find, and pays for, child care services for children who are under age 13 -- assistance that continues for a one-year transitional period if the registrant leaves welfare for employment. Funds can be used to reimburse program participants for relevant public transportation costs, program-related expenses such as tools and books, and to identify the need for counseling for personal or family problems that arise from or hinder participation or employment.

### Sanctions:

GAIN registrants who, without good cause, fail to participate in GAIN's orientation and services may incur a "sanction" i.e., the loss of the parent's portion of the grant.

### Distinctive Features:

Three features of GAIN that make it significantly different from JOBS programs in other states include (1) the highly specific sequencing of activities, (2) and counties that serve a broad cross-section of mandatory caseload.

### Source:

*GAIN: Two-Year Impacts in Six Counties* by Friedlander, Riccio, Freedman; MDRC, May 1993.

General Information:

The Riverside GAIN site operates as other GAIN sites but with some distinctive features (as discussed below).

Participant Eligibility and Exemptions:

Participation in GAIN is mandatory for single head of families with children age 3 and over and all principle wage-earners of two-parent families if slots are available.

Program Features:

Registrants are sorted into one of two streams. Those who are deemed in need of basic education (registrants who lack high school diploma, cannot speak English, or fail a math and literacy test) can choose to attend a basic education class or a job search activity first, but if they choose job search and fail to obtain employment, they must then enter basic education. Registrants judged *not* in need of basic education usually must participate in job search first. Registrants already enrolled in education and training program when they enter GAIN can continue in them if the activities meet certain criteria. Participants in any of these three sequences who do not find employment after completing their initial activities undergo an employability assessment designed to help them choose their next activity, e.g., skills training, vocationally oriented post-secondary education, on-the-job training, or unpaid work experience.

Supportive Services:

GAIN helps registrant find, and pays for, child care services for children who are under age 13 – assistance that continues for a one-year transitional period if the registrant leaves welfare for employment.

Sanctions:

GAIN registrants who, without good cause, fail to participate in GAIN's orientation and services may incur a sanction (i.e., the loss of the parent's portion of the grant).

Distinctive Features:

Riverside differs from other GAIN counties with its emphasis on assisted job placement and aggressive marketing to prospective participants. The atmosphere encourages enthusiastic participation. The Riverside County GAIN program focuses on a quick turn around for clients. Employment increased 24% while AFDC payments decreased 7% among participants.

Source:

*Greater Avenues For Independence (GAIN) Program* pamphlet, County of Riverside Department of Social Services

17. SATURATION WORK INITIATIVE MODEL (SWIM) - SAN DIEGO

General Information:

The Saturation Work initiative Model (SWIM) operated in San Diego, California from 1985 through 1987 as part of a demonstration project sponsored by the U.S. Department of Health and Human Services. The demonstration tested the feasibility and effectiveness of required employment-related activities for the AFDC population. It sought to maximize individuals' participation in job search activities, unpaid community work experience programs (CWEP), educational programs, and job training programs.

Eligibility:

All non-exempt AFDC heads of household were required to participate. Exemptions included single mothers whose youngest child was not yet 6 years old.

Program Features:

The SWIM program model consisted of a fixed sequence of activities, beginning with a 2-week job search workshop. Those who did not find employment during this time were assigned to a 3-month unpaid work position concurrent with bi-weekly job club sessions. CWEP slots were 20 to 30 hours per week. Those who were still unemployed at the end of this time period were assessed and then referred to educational and training programs.

Outcomes:

The average earnings for the participant group as compared with the control group were 14.8% greater, and 4.9% greater for AFDC-UP participants. Employment among participants increased, but the rate of wages did not. AFDC payments decreased by a rate of 10.9%. In terms of program administration, SWIM returned \$2.30 in earnings and decreased AFDC outlays for every \$1 spent.

Sanctions & Incentives:

Participation was mandatory and sanctions for non-compliance were used to enforce participation requirements. Sanctions ranged from partial loss of benefits to full suspension.

Source:

*The Saturation Work Initiative Model in San Diego: A 5 Year Follow-up Study*  
Friedlander and Hamilton, MDRC, July 1993

General Information:

Kenosha County, Wisconsin, is a mixed urban and rural county of 128,000 people. The mission of the Kenosha County JOBS program is to empower participants in public assistance programs to attain and sustain economic self-sufficiency.

Eligibility:

Federally mandated and volunteer AFDC recipients are eligible.

Major Components and Client Flow:

Participants are introduced to the philosophy of the program (the JOBS Center concept) in a group orientation. All clients are then required to participate in motivation classes and job seeking skill development classes. During their first several weeks of participation, clients are sorted into one of the following four classifications for tracking purposes: (1) pass throughs, (2) the underprepared, (3) the service intensive, and (4) the functionally limited. "Pass throughs" are the most job-ready and are tracked immediately to job-search related components. Efforts for the "underprepared" and the "service intensive" groups are devoted to raising skills and removing barriers in order to move these clients to the more employable classifications. The "functionally limited" group of clients have severe physical or emotional problems and are referred to more suitable programs such as SSI or explicitly given what is considered a contract for extended welfare support.

Supportive Services:

Kenosha County provides child care services, special needs (work clothes, auto repairs, tools, and miscellaneous items) and offers temporary "last resort" transportation.

Sanctions:

[No information available yet]

Distinctive Features:

Four features that are distinctive in Kenosha JOBS include: (1) a facility called the JOBS Center in which the co-location of (IM) and JOBS activities allows selected IM and JOBS functions to be integrated through a team approach; (2) the systematic targeting of services to need; (3) the JOBS Center Information System (JCIS) that keeps a detailed "event history" of each client's welfare/JOBS experience; and (4) the simulated work week—a weekly obligation of 30-35 hours for every participant through a combination of part-time work and training.

Source:

*Doing JOBS: A Comprehensive Research and Demonstration Program for Kenosha County, Wisconsin* A Research Proposal submitted by the Kenosha County Department of Social Services. February 4, 1991

## 19. MASSACHUSETTS EMPLOYMENT & TRAINING CHOICES PROGRAM (ET)

### General Information:

The Massachusetts Employment and Training (ET) Choices Program, begun in 1983, is the state's employment, training, and education program for welfare recipients.

### Eligibility:

All AFDC applicants and recipients (JOBS participants) are eligible for ET.

### Major Components and Client Flow:

All adult AFDC clients are formally enrolled into ET by a worker in the local welfare office. There is no set sequence of activities. After assessment, clients can participate in any of the following activities: (1) intensive assessment (e.g. educational, psychological, occupational testing, and assessment or career planning); (2) pre-employment services (e.g. counseling, workshops, group sessions); (3) employment network (job placement or job development); (4) remedial education (classes to prepare for the GED test, ESL classes, adult basic education classes, or high school); (5) post-secondary education; (6) vocational skill training; (7) supported work experience (up to one month of pre-worksite counseling and employment preparation, up to nine months of worksite employment and supported services, and follow-up counseling as needed); and (8) miscellaneous work experience (e.g. referral to and participation in special programs for displaced homemakers or ex-offenders, or involvement in the youth community service corps).

### Supportive Services:

Child care is the primary supportive service, but clients also can receive transportation allowances, work-related expenses (e.g., tools), and clothing allowances. Once a client obtains a job, she is eligible for extended child care subsidies through the ET voucher system, and for 12 months of medical coverage through the Health Choices program.

### Sanctions:

Because of federal mandates, all AFDC clients who are over age 16 and not in school are registered with ET. Once registered, however, clients themselves decide whether they will continue ET activities or defer their participation until a later time. Sanctions are rarely imposed on clients who do not participate beyond registration.

### Distinctive Features:

The ET program emphasizes client choice, receives most of its funding from the state rather than the federal government, contracts all employment, training, and education services to outside organizations, and includes an intensive marketing effort aimed at "satisfying" participants, employers, and agencies.

### Source:

*Evaluation of the Massachusetts Employment and Training (ET) Program*, Nightingale, et al.; Urban Institute Report 91-1; 1991.

General Information:

The Baltimore Options program was one of nine employment initiatives operating in Maryland in the Fall of 1982. The program offered job assistance, unpaid work experience, and education and training to able-bodied recipients of AFDC. The goal of the program was to encourage self-sufficiency.

Eligibility:

Selected recipients residing in Baltimore were required to participate. All selected participants were single mothers with the youngest child age 6 or above receiving or applying for AFDC.

Program Features:

The program featured participation in numerous activities designed to lead to employment. These ranged from job-search activities, which were intended to help participants locate immediate employment, to educational classes to help some participants achieve GEDs. Other activities included on-the-job training, job skills training, and other employment services. Under the Options program, enrollment was kept low in order to ensure that adequate resources were available for full participation in program activities. The number of cases per case manager was also kept low to maximize the meeting of needs of individual families.

Outcomes:

The results showed that participants in the Baltimore Options program fared better than recipients in the control group in many categories designed to measure the change in behavior of Options program participants. The percentage of those who gained employment increased, as did earnings. AFDC participation declined slightly, as did the amount of AFDC collected, as compared with the control group.

Sanctions & Incentives:

While enrollment for selected participants was mandatory, maintaining participation via the threat of sanctions was not a goal of the program. Participation in ongoing activities was considered a requirement while receiving AFDC. Non-compliance was dealt with through individual meetings with case managers and recipients to reconcile problems and promote further participation. Very few recipients received sanctions for non-compliance. In many cases, non-compliance was due to a lack of available activity assignments.

Source:

*Supplemental Report on the Baltimore Options Program, MDRC, October 1987*

General information:

The Parents' Fair Share Demonstration Projects (PFS) were established as part of the Family Support Act of 1988. There are 9 programs operating in 11 sites nationwide. The purpose of the demonstration is to provide JOBS services and other support to non-custodial parents (who are mostly fathers) in order to increase their earnings potential and their child support payments to children in AFDC families.

Eligibility:

Unemployed non-custodial parents whose children receive AFDC. Participation requirements vary from state to state.

Program Features:

The basic model consists of 4 components:

1. Occupational training and job search activity emphasizing on-the-job training rather than classroom experience;
2. Enhanced child support enforcement activities which emphasize rewarding those who pay support owed and penalizing those who do not;
3. Peer support and guidance to emphasize and reinforce positive behavior; and
4. Mediation services to work out disagreements between fathers and mothers which interfere with child support payments.

Distinctive Features:

PFS conducts extensive outreach to locate participants through employment services providers, hospitals, community outreach, and custodial parents. The program is designed to address the unique needs of non-custodial parents and to provide services which benefit such parents.

Sanctions:

Sanctions for non-participation in JOBS programs vary. Sanctions for non-payment of child support obligations are similar to standard sanctions.

Funding:

Funding for the PFS comes from state governments, federal matching funds, and private foundations including Pew Charitable Trusts, the Ford Foundation, and AT&T Foundation.

Source:

*Caring and Paying: What Fathers and Mothers Say About Child Support* by MDRC, July 1992 1st report in a series on the Fair Share Demonstration Projects.

General Information:

Ohio's Learning, Earning, and Parenting (LEAP) Program is a statewide initiative that uses financial incentives and penalties to promote school attendance among pregnant and parenting teenagers on welfare.

Eligibility:

All pregnant women and custodial parents under 20 years old who are receiving AFDC (either as the head of their own case or as minor mothers) and do not have a high school diploma or GED certificate are eligible. Temporary exemptions are provided for teens who are in the last seven months of a pregnancy, are caring for a child under three months old, are unable to obtain child care or transportation, or for other specified reasons.

Program Features:

All eligible teens are required to regularly attend a school or program leading to a high school diploma or GED. This applies both to teens who are in school when they become eligible for LEAP must remain enrolled and to drop outs, who must return to high school or enter an Adult Basic Education (ABE) program to prepare for the GED test. Each LEAP teen is assigned to a case manager, who is responsible for explaining the program's rules, monitoring the teen's compliance to determine whether a bonus or sanction is warranted, and helping the teen overcome barriers to school attendance.

Supportive Services:

Teens are eligible to receive assistance with child care and transportation as needed to attend school.

Sanctions and Incentives:

LEAP uses a three-tiered incentive structure. First, teens who provide evidence that they are enrolled in a school or program receive a bonus payment of \$62. They then receive an additional \$62 in their welfare check for each month in which they meet the program's attendance requirements. Second, teens who do not attend an initial LEAP assessment interview, fail to provide proof of school enrollment without an acceptable reason, or exceed the allowed number of unexcused absences have \$62 deducted from their grant each month until they comply with program rules. Third, enrolled teens who exceed the allowed number of total absences but not the allowed number of unexcused absences in a month earn neither a bonus nor a sanction.

Source:

*LEAP: Interim Findings on a Welfare Initiative to Improve School Attendance Among Teenage Parents* Bloom, et al, May 1993, MDRC.

General Information:

Project Match, initiated in 1985, is an employment assistance demonstration program that serves 200 to 300 residents of the Cabrini-Green public housing project and surrounding area each year. The project is in an inner-city community in Chicago.

Participant Eligibility and Exemptions:

Participants are volunteers. Eligibility is not restricted by age, sex, or parenting status.

Client Flow:

Participants enter the program through a three-day orientation workshop, followed by individual career planning sessions with counselors. The program brokers services — linking participants to make efficient use of existing private sector jobs and training programs. The combination and sequence of activities vary by individual case. Placement options include education, training, internships, and volunteer work. Participants and their employer or teachers are contacted regularly after placement to monitor progress, identify problems, and intervene before problems escalate. Staff initiate regular contact and use a variety of techniques to recruit participants. When placements do not work out, participants are helped with transitions to keep them on track toward self-sufficiency (e.g., placed in another job if they are fired or moved to a job after training is completed). There is no set schedule of how participants move through program components.

Supportive Services:

The program operates under what is known as a brokerage model. Case managers help link existing supportive services for participants and provide only temporary services until clients can obtain needed services from other sources. For example, services include child day care, transportation, educational or training programs, and other services offered in the community.

Distinctive Features:

Program features that are unique from other programs include: (1) the project is operated through a community-based agency instead of a public aid office; (2) a long-term commitment is made to participants, rather than expecting short-term isolated services to have an impact; (3) enrollment is open to the entire community, allowing family and friends to participate in the same program; instead of limiting eligibility to categorical groups; (4) participants are followed and counseled after they are placed in jobs or in programs--most programs end their responsibility once participants are placed; (5) participants' progress is flexibly measured against realistic, incremental milestones.

Source:

*Overview of the Project Match Program* Toby Herr, Director, Lynn Olson, Research Director, Warrine Pace, Service Director.



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October 14, 1993

TO: Working Paper Reviewers

FROM: Wendell Primus

SUBJECT: Welfare Reform Working Paper 2  
"Child Support Issue Paper" - 9/22 Draft

Welfare Reform Working Paper 3  
"Child Care and Welfare Reform - Challenges and  
Choices" - 8/20 Draft

Welfare Reform Working Paper 4  
"Evidence from Employment, Education, and Training  
Programs: Background Relevant to Welfare Reform" -  
9/30/93

Your review and comments are requested on the usefulness and appropriateness of the subject draft documents as background papers for the working paper series. Please remember that these are draft papers for internal discussion only, should be safeguarded as sensitive material, and should not be released.

The paper on child support issues is attached.

The child care paper was one of the papers prepared by the Child Care Issue Group that some of you received last week.

Some of you also received the employment, education and training paper last week. It was included as the second topical chapter in the package from the Transitional Support Issue Group.

Please provide your comments to Ann McCormick by close of business on Thursday, October 21. You can reach her by phone at 690-5880, or fax at 690-6562.

Attachment(s)

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# CHILD SUPPORT ISSUE PAPER

## DRAFT 9/22

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### OVERVIEW

Child Support is a critical component for ensuring economic stability for millions of single-parent families. While many single parents can and do raise their children well on their own, the financial burden from serving as the family's sole provider too often puts children at risk of living in poverty. Research points clearly to the severe economic difficulties often encountered when raising children without the financial support of two parents. The present child support enforcement system too often functions poorly and fails to ensure that the financial support for these families comes from *both* parents.

This paper addresses both the growing need for adequate child support enforcement throughout the country as well as the problems and complexities plaguing the child support system today.

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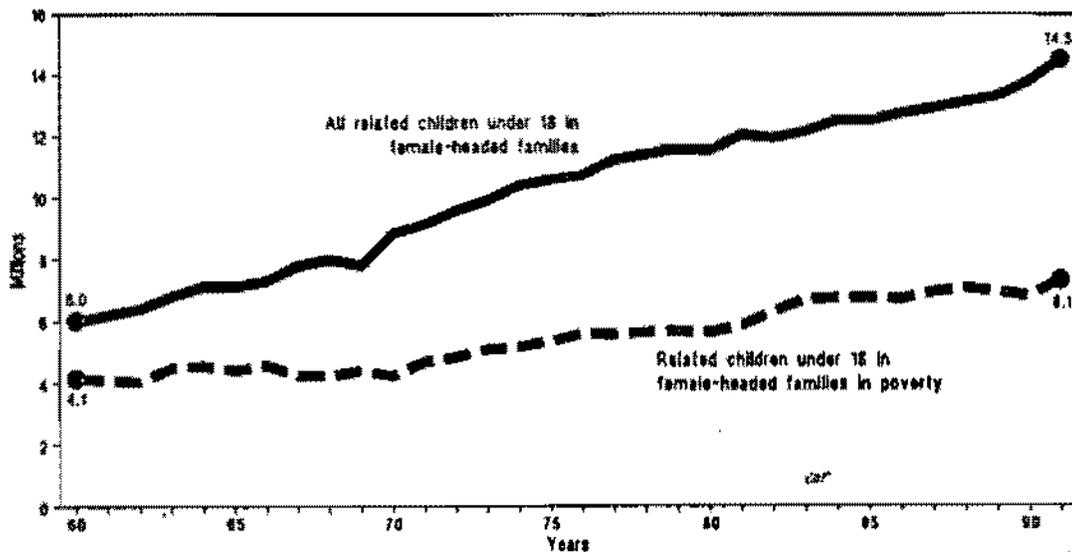
### BACKGROUND

The American family has undergone dramatic structural change over the last several decades. Increases in the percentage of out-of-wedlock births coupled with high rates of divorces are denying children the traditional support of a two-parent family and, because single parents are much more likely to struggle economically, are subjecting millions of children to a childhood of poverty.

#### The Rise of the Single-Parent Family

Even though the total number of children under the age of 18 fell from 69 million in 1970 to 65 million in 1991, the number of children affected by divorce, separation and unwed parents continued to rise.<sup>1</sup> Increasing numbers of children now face life in a single-parent family -- in 1991, 14.5 million children under the age of 18 lived in a female-headed family, almost double the number in 1970.<sup>2</sup>

**Table 1. Children in Female-Headed Families**  
 "All Related" and "In Poverty"



SOURCE: U.S. Bureau of the Census, *Current Population Reports*, series P-60, No. 181 and earlier reports.

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... about half of all children born in the 1980s will spend some time in a single-parent family.

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This means that now nearly one out of every four children is living in a single-parent home. Taken over time, the changes look even more bleak. According to recent estimates, about half of all children born in the 1980s will spend some time in a single-parent family.<sup>3</sup>

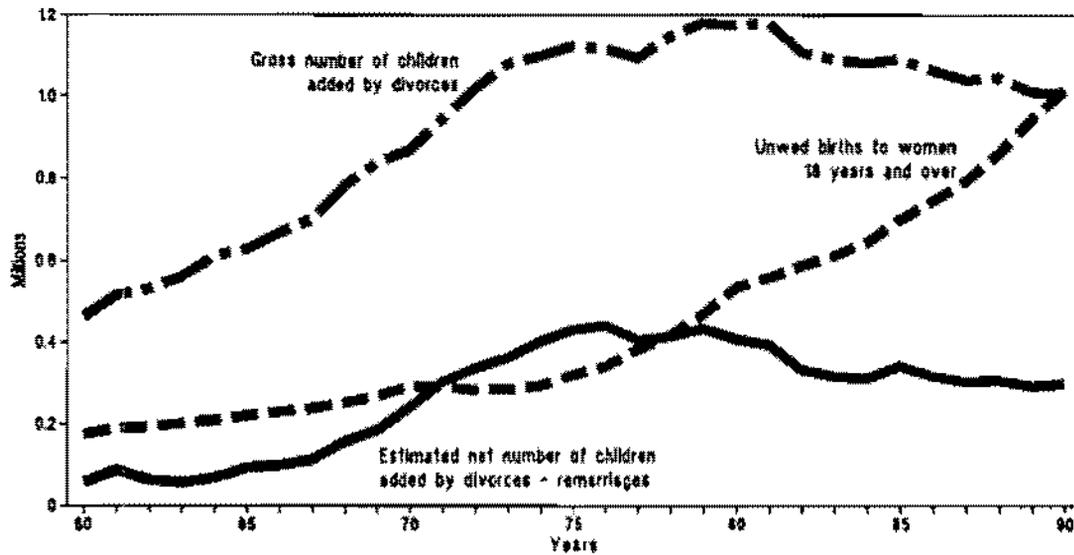
The rise in single parent families affects all economic classes as well as all races. Eighty percent of all African American children, 43 percent of all Mexican-American children, and 36 percent of all white children will spend at least some time in a single-parent family before reaching age 16.<sup>4</sup>

Clearly, the days of Ozzie and Harriet are gone. In 1960, less than six percent of all births occurred outside of marriage and intact, two-parent families were the norm, not the exception. Now, the number of divorced parents has almost tripled since 1970, while the number of never-married parents has grown more than twelvefold.<sup>5</sup> Overall, nearly one half of all marriages end in divorce and over one million children are born out of wedlock each year. Of these newly formed single-parent families, a large majority – 86 percent – are headed by women.

Despite the high rate of divorce, which has remained fairly steady since the mid 1980s, this recent rise in one-parent families is attributed largely to the dramatic growth in out-of-wedlock births during the 1980s.

**Table 2. Gross Additions to Children in Mother-Only Families**

Annual Additions from Unwed Childbearing and Divorce Net of Remarriage



SOURCE: National Center of Health Statistics, *Vital Statistics of the United States, annual and Monthly Vital Statistics Report*, Vol. 41, No. 9, Supplement, February 23, 1985.

The number of unwed mothers increased by 64 percent since 1980. As a result, one out of every four children in the United States is now born out of wedlock.<sup>6</sup>

Broken down by race, 67 percent of all black mothers compared to 20 percent of all white mothers and 37 percent of all Hispanic mothers gave birth to children out of wedlock in 1990. However, although the rate was higher for black women, births to unmarried women rose faster for white women during the 1980s -- actually doubling for white women while rising 43 percent for black women.<sup>7</sup>

Contrary to what many people believe, however, most of these out-of-wedlock births are not to teenage mothers. Unmarried teen mothers, age 19 or younger, were responsible for only about a third of all out-of-wedlock births in 1991. In fact, the proportion of all births to unmarried women has increased for all ages except for young teens ages 15 to 17; while the rise in nonmarital birth rates for women between the ages of 25 to 39 in particular has had the greatest impact on nonmarital childbearing.<sup>8</sup>

### Single-Parent Families Are Much More Likely to Be Poor

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[C]hildren in female-headed families are five times more likely to be poor. In 1991, 56 percent of all children in mother-only families lived in poverty compared to only 11 percent of children in two-parent families.

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The most disturbing aspect of these trends is that children in female-headed families are five times more likely to be poor. In 1991, 56 percent of all children in mother-only families lived in poverty compared to only 11 percent of children in two-parent families.<sup>9</sup> In fact, the

National Commission on Children reported that three of every four children growing up in a single-parent family will live in poverty at some point during their first ten years of life. Also, these children are much more likely to remain poor longer. Recent research has shown that children raised in a single-parent family face a much higher risk of experiencing long-term poverty -- according to one study, as many as 61 percent will live in poverty for at least seven years compared to only two percent of all children growing up in a two-parent family.<sup>10</sup>

Teen mothers, who are the least likely to receive child support and paternity services, are particularly susceptible to a lifetime of poverty. According to a 1988 Children's Defense Fund report, 73 percent of unmarried teens received welfare within four years of giving birth. A Wisconsin study also found that only 20 percent of single, teen mothers pursued paternity establishment; and only one in ten of these young mothers ever received child support, compared to one in four older mothers.

Household characteristics clearly have a major impact on a family's economic well-being. Studies show that children born to never-married mothers are much more likely to live in poverty than those living with divorced or remarried mothers. And many single mothers who manage to remain off of welfare are either teetering on the edge of poverty or are faced with on-going economic insecurity even at much higher income levels.

"I am 28 years old and have three very beautiful boys. . . . My oldest son is very intelligent and at the top of his class in school. He wants to go to college to be a doctor. He is working very hard to get there. But I know I may not be able to afford this for him.

I have to worry every month if our food will run out, or if our utilities will be shut off. My children already want jobs to help mommy out. This is not fair for them to worry about. They should be children. . . .

My children keep saying "mommy, it'll be alright. We'll take care of them, not them for me. They don't understand how daddy lives so good. He has a new car, goes to Colts and Cubs games, has a nice house, and lives great. And mommy has to fight so hard to survive for so little. They are used to a different life and it's hard for them to see why it's changed. I only want to do my best for them. I can only pray for the country's children you will find a way to help them and us all."

Letter from Carla Huffer, Lafayette, IN

This low income status of female-headed families is not surprising when one parent is expected to do the job of two. Because many non-custodial parents fail to provide financial support, single parents must serve the difficult and dual role as both nurturer and provider. Full-time work must be balanced with the need for child care, the management of daily crises including sick children, doctor's visits, and school holidays, as well as every day obligations such as packing lunches and putting dinner on the table. Life as a single parent is arduous and demanding because these responsibilities often fall on only one parent's shoulder. Additionally, these responsibilities, coupled with traditionally low wages, limit seriously how much a woman can earn. According to 1990 Census data, the average annual income for all working, single mothers is only \$13,092, barely sufficient to raise a family of three out of poverty.

While some noncustodial parents provide emotional and financial support, too many provide little assistance. As Table 3 shows, single mothers often become the sole financial contributors to the family. While 91 percent of fathers in married-couple families contribute more than \$2,500 in earnings to their families annually, and 64 percent have earnings greater than \$20,000, less than 14 percent of fathers to families headed by the mother contribute more than \$2,500 annually. Thus, a typical, single mother only receives a total of \$1,070 a year in both child support and alimony. Such payments, taken alone, are rarely enough to support a child. In fact, a recent governmental study estimated that the average cost to raise a child under age 18 ranges from \$3,930 to \$5,860 per year.

**Table 3. Distribution of Financial Contributions by Fathers and Mothers in Families with Children by Type of Family**

Contribution	Father's earnings in husband-wife families	Child support and alimony in female-headed families	Mother's earnings in husband-wife families	Mother's earnings in female-headed families
None	5.5%	63.4%	30.1%	31.4%
\$1 - \$2,499	1.0%	21.0%	11.2%	8.0%
\$2,500 - \$4,999	1.0%	8.0%	7.4%	5.5%
\$5,000 - \$9,999	5.8%	3.8%	14.2%	11.5%
\$10,000 - \$14,999	10.1%	1.0%	12.9%	13.1%
\$15,000 - \$19,999	11.1%	0.3%	9.7%	10.3%
\$20,000 - \$24,999	12.5%	0.2%	6.4%	7.1%
\$25,000 or over	51.8%	0.2%	8.9%	12.2%
Total	100.0%	100.0%	100.0%	100.0%
Overall average	\$27,883	\$1,070	\$4,899	\$10,462

NOTE: In some cases, the husband, wife, or female-head is not the biological parent of the children  
 SOURCE: Hans, Mary Jo and David T. Edwood, "One-Fifth of the Nation's Children: Why Are They Poor?" Science, Vol. 245, September 8, 1989.

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## THE CHILD SUPPORT ENFORCEMENT SYSTEM

Despite significant improvements achieved through almost two decades of legislation, as well as bold initiatives taken by a number of States, the record of the child support enforcement system remains poor. Rising numbers of children potentially eligible for child support, due primarily to the surge in out-of-wedlock births across the nation, are pressuring already overburdened State systems to both secure and enforce adequate and consistent child support payments from noncustodial parents. The current child support structure, given its complicated layers of government and widespread inefficiencies, is ill-equipped to handle this growing need.

### The Evolution and Structure of the Child Support System

Historically, family law was based solely on State law, leaving all legal matters concerning the family to the discretion of the State. Until 1975 only a handful of States even operated child support programs. However, driven largely by the view that the collection of child support could help offset Federal and State costs for women on welfare, Congress passed the Child Support Enforcement program which required each State to develop its own IV-D child support program -- so called because of their location in Title IV-D of the Social Security Act. The enactment of this program began the first in a series of steps taken by Congress to influence significantly State laws in the areas of paternity establishment and child support enforcement.

Additional reforms nearly a decade later, through the Child Support Amendments of 1984, gave more specific directives to states and mandated the adoption of a number of State laws and procedures. Most significantly, the Amendments emphasized that States must make child support services available to *all* children regardless of their welfare status.

The Family Support Act of 1988 further strengthened the Child Support program by requiring major changes in State practices including standards for paternity establishment, income withholding from noncustodial parents' wages, presumptive support guidelines for setting child support awards, and the periodic review and adjustment of IV-D orders. Also, to improve processing efficiency and to bring States up to date technologically, the Act required States to develop automated systems statewide by October 1, 1995 for the tracking and monitoring of child support cases.

"Eight years have passed with no solution to collect the over \$38,000 due in back support. This amount represents hundreds of boxes of cereal, hundreds of gallons of milk, years of utility bills and years of saying no you cannot have a new coat, no you cannot have new shoes, no there is not anymore to eat. Our family does not qualify for welfare, I earn \$400 a year too much to get food stamps or utility, medical or housing assistance. The mortgage takes most of my paycheck, I am behind on the utility bills and winter is almost here again. I see no relief."

Testimony of Erin Hunter-Pupos, Linden, NJ

### The Current Structure of the Child Support Enforcement System

The present child support enforcement program, operated at the State and local levels, is overseen by the Federal government through the Office of Child Support Enforcement (OCSE). OCSE provides technical assistance and funding to States to operate IV-D child support programs.

State IV-D programs must provide child support services to all IV-D cases -- both AFDC (Aid to Families with Dependent Children, the primary "welfare" program) recipients (who must assign all rights to child support over to the State) and all individuals requesting assistance from the State to secure and enforce their support obligations. Non-IV-D cases -- all other cases not included in the IV-D system -- are handled through private arrangements. It is now estimated that as many as one half or more of all collections come through the IV-D collection system, 30 percent of which are AFDC collections. (Precise estimates are not possible since cases outside of the IV-D system are not tracked).

The present child support system involves every branch and level of government and 54 separate State systems with their own unique laws and procedures. At the State level, there is a further lack of centralization and uniformity, as many programs are county-based, creating tremendous variation in program operations even within individual States. In addition, functions that might more effectively utilize resources if they were centralized -- such as payment collection and disbursement of child support obligations -- rarely are. Several States, including New York and Colorado, have begun to move towards centralized collections both to improve efficiency and reduce costs. In New York, procedures are now being tested in 11 districts representing 25 percent of the State's total caseload, with the hope that the program can be operating statewide by next year.

Individual cases are also treated differently depending on their status -- IV-D cases (including AFDC and non-AFDC cases) or non-IV-D cases (all non-AFDC cases) -- resulting in widespread

inequities. Incentives designed to encourage States to assist AFDC cases have biased efforts inadvertently against non-AFDC cases. And the poor reputation of many child support agencies often deters many noncustodial parents from entering the system at all.

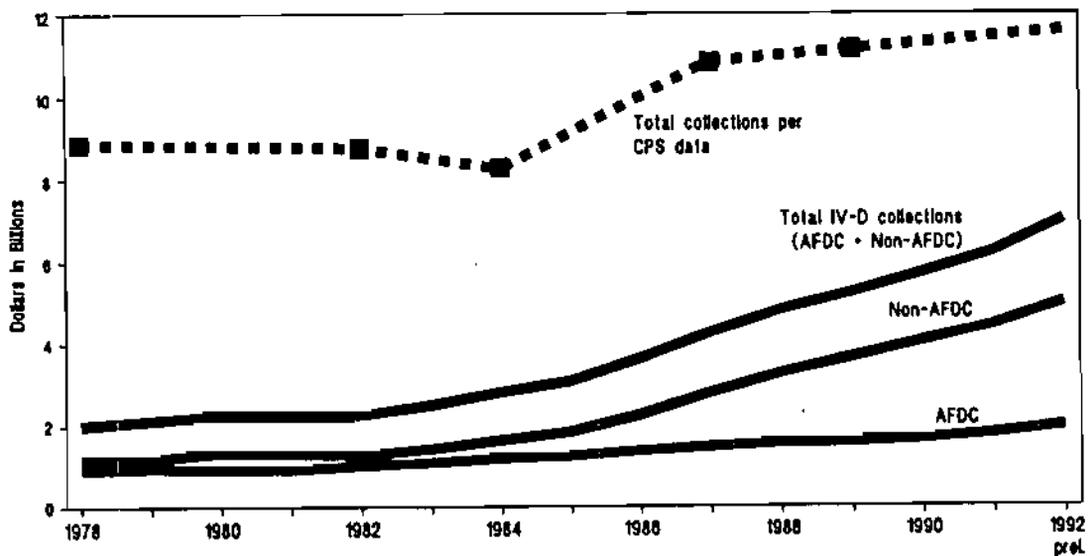
### Child Support Enforcement Today

Many observers credit the series of Federal acts and mandates on the states for the significant improvements in child support enforcement from where the system would otherwise be. Total IV-D collections are on the rise -- increasing from 3.9 billion in 1987 to 6.9 billion in 1991. And the number of paternities established through IV-D agencies has nearly doubled over a five-year period, rising from 269,000 in 1987 to 515,000 in 1992.<sup>11</sup>

Still, despite these improvements, States in many respects are simply treading water. Even though States are showing marked improvement in collections, in relative terms gains have only been modest. The dramatic rise is due primarily to the growing number of parents choosing to handle their child support cases through the government rather than exchanging the support privately. As Table 4 shows, while the number of collections has risen only slightly over the last decade, child support collections for non-AFDC cases have increased dramatically as more non-AFDC cases have moved into the system.<sup>12</sup>

**Table 4. Total Distributed Collections**

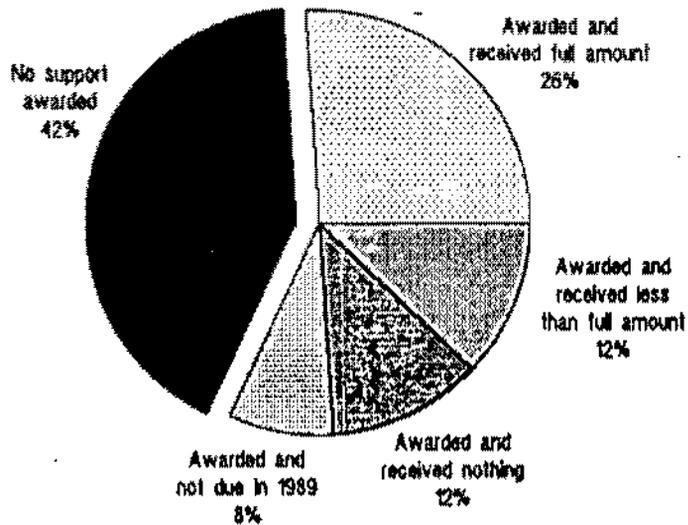
Total and IV-D Collections (1989 dollars)



SOURCE: U.S. Bureau of the Census, *Current Population Reports*, series P-60, No. 173.

While State child support collections are on the rise, the fact still remains that very few eligible women report receiving consistent child support payments. Only 26 percent of all women potentially eligible for child support had an award in place and received the full amount they were due, while 12 percent had an award but received nothing.<sup>13</sup> In other words, over half of all women potentially eligible for child support (5.4 million families) received no payment at all.

**Table 5. Award and Reciprocity Rates of Women**



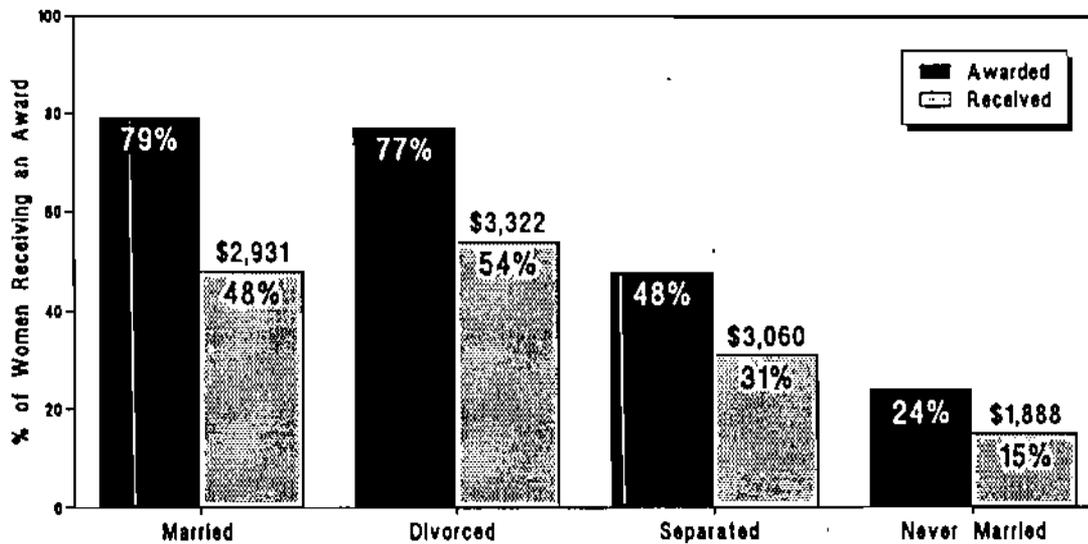
10 million women in 1989 lived with children and the father was not present

SOURCE: U.S. Bureau of the Census, *Current Population Reports*, series P-60, No. 173

Whether child support is awarded and support is actually received, varies dramatically by income and marital status. As many as 57 percent of all poor women potentially eligible for support have no child support awards. And, of those that do, only 25 percent actually receive any payment.

In addition, never-married mothers face a much higher risk of never receiving child support from the father than women in other marital arrangements. Only 24 percent of never-married women were awarded child support compared to 77 percent of divorced women; and only 15 percent of never-married women *actually received* support payments compared to 54 percent of divorced women.

**Table 6. Child Support Payments Awarded and Received by Marital Status**

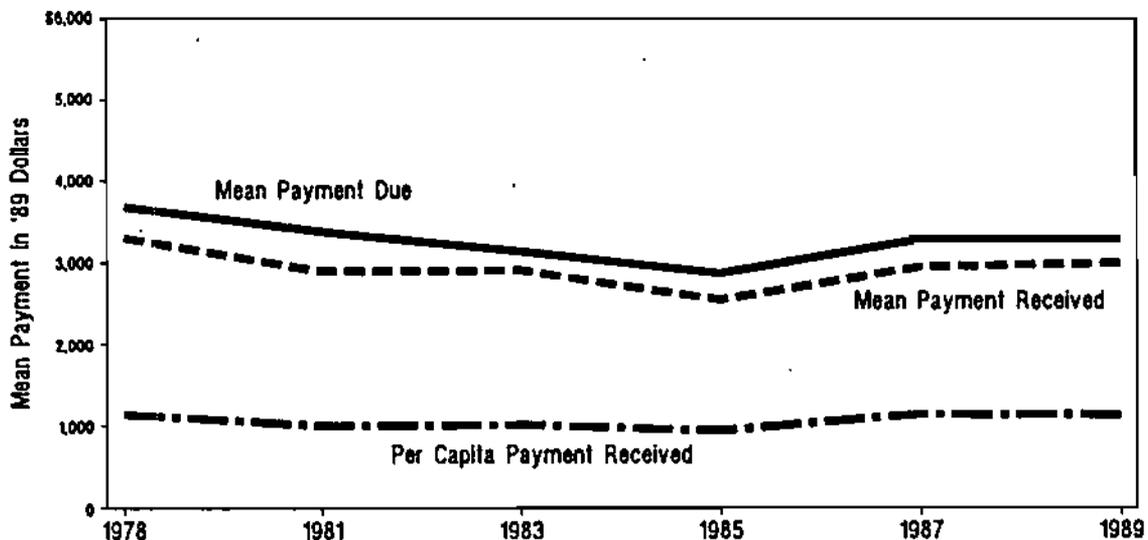


Women 15 years and older with own children under 21 years of age present from absent fathers as of spring 1990  
 SOURCE: U.S. Bureau of the Census, *Current Population Reports*, series P-80, No. 173

For all women, the status of their awards has not improved in recent years. The percent of women with awards, the average child support payment due, the average amount received, and the per capita payment received has remained virtually unchanged over the past decade.

**Table 7. Mean Child Support Payments**

Women 15 years and older with own children under 21 years of age present from absent fathers as of Spring 1990



SOURCE: U.S. Bureau of the Census, *Current Population Reports*, series P-23, No. 173

For example, the mean payment due in 1989 of \$3,292, just slightly below the average due in 1978 of \$3,680 (in 1989 dollars).<sup>14</sup> Unless custodial parents receive equitable orders of support and those orders are updated frequently to reflect the noncustodial parent's current ability to pay, increasing numbers of single parents will be forced to rely on governmental assistance for support.

### The Enforcement Gap

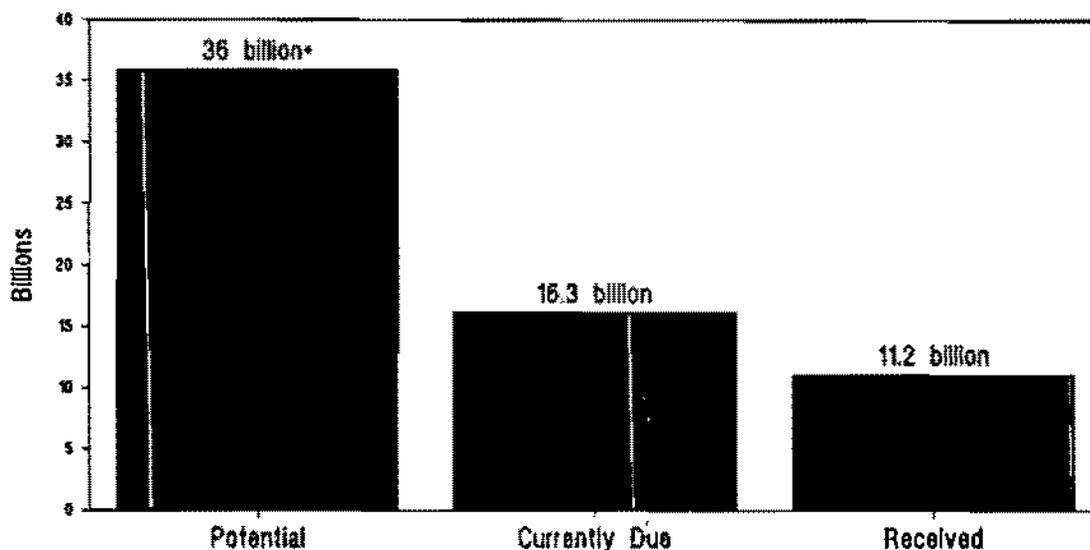
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**[I]f child support orders were established for all children with a living noncustodial father and these orders were fully enforced, aggregate child support payments would have been \$53.5 billion dollars in 1990.**

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Recently, the Urban Institute completed a study on the child support potential. The findings confirm that the present system falls far short of collecting the support that could theoretically be collected. According to the findings, if child support orders were established for all children with a living noncustodial father and these orders were fully enforced, aggregate child support payments would have been \$53.5 billion dollars in 1990. [Revise with new figure] (See Appendix for methodology) This estimate represents 3.5 times the amount noncustodial fathers paid in child support in 1990. This means that there is a gap between what is currently paid and what could theoretically be collected of nearly 38 billion dollars. [revise figure]

**Table 8. The Collection Gap**



\* 1982 estimate adjusted by CPI

SOURCE: U.S. Bureau of the Census, *Current Population Reports*, series P-60, No. 173

There are three reasons for this gap. The first is that many potentially eligible custodial parents do not have a legal child support award or order. This accounts for [add dollar figure or percent] of the gap between what is now paid and what could potentially be

received. While some of those without an award have recently separated or are in the process of legally establishing an award, the bulk of those without awards do not have one because they do not have paternity established, a prerequisite for obtaining an award.

The second reason for the gap is that many of the existing awards are not adequate. For the most part, this is due to the fact that most have not been modified since they were established and they do not reflect the current ability to pay. Also, the awards have been eroded by inflation. Approximately \_\_ percent of the gap is due to the inadequacy of awards.

The third reason for the gap is that not all existing awards are paid -- for lack of enforcement. Currently, about thirty percent of what is ordered is not paid. Thus, even if everyone eligible had an award and the award was adequate<sup>15</sup>, there would likely be a continuing gap between what is ordered and what is paid. Closing the enforcement gap will therefore require that policy address all three major reasons for the gap - paternity establishment, inadequacy of the awards, and enforcement.

### **Fundamental Reform Is Needed**

As the number of parents needing and requesting child support enforcement services continues to rise, States must be equipped to handle ever-increasing caseloads. Unless dramatic and fundamental changes in the child support system are made, however, States will be sorely prepared to adjust to the rapidly changing needs of the child support population. Problems with the current system are imbedded in the very way we treat the support obligation and the different individuals involved. All too frequently the custodial parents are punished because of the noncustodial parents' lack of support -- often leaving welfare as their only alternative -- while the noncustodial parents simply walk away.

**Child support must be treated as a central element of social policy, not because it will save welfare dollars, though it will, but because children have a fundamental right to support from their parents. It is the right thing to do. It is central to a new concept of government, one where the role of government is to aid and reinforce the proper efforts of parents to provide for their children, rather than the government substituting for them. Child support must be an essential part of a system of supports for single parents that will enable them to provide for their family's needs adequately and without relying upon welfare.**

### **Lack of Paternity Establishment**

A tremendous barrier to ensuring that both parents provide their children adequate support is the large number of eligible families who have never even been awarded support -- of the 10 million women potentially eligible for support, 42 percent do not have a child support award in place (refer to Table 5).<sup>16</sup> In fact, the total has changed little over the last decade, only increasing by two percentage points over the period.

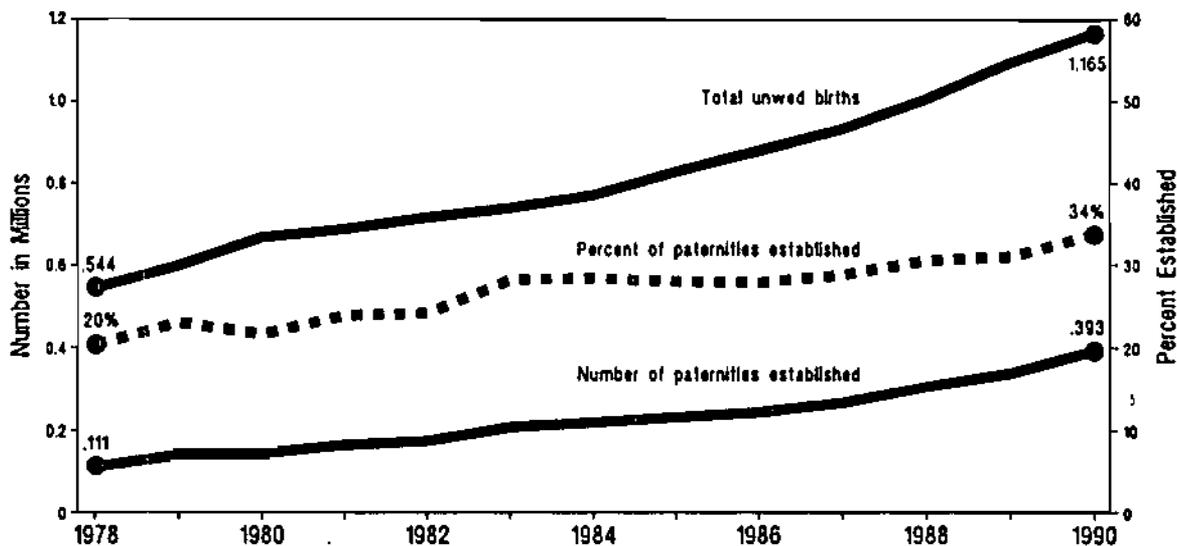
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**[O]f over a million out-of-wedlock births each year, only about one-third actually have paternity established.**

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A large part of this problem begins with paternity establishment. Before a support order can be established in nonmarital cases, the parents must first establish paternity for the child. Unfortunately, however, many of these cases do not even get this far. Paternity is not established for the majority of children born out of wedlock. In fact, of over a million out-of-wedlock births each year, only about one-third actually have paternity established.<sup>17</sup>

**Table 9. Unwed Births & Paternities Established**



SOURCE: National Center for Health Statistics, *Vital Statistics of the United States, annual and Monthly Vital Statistics Report, Vol. 41, No. 9, Supplement, February 25, 1993*; Committee on Ways and Means, *Overview of Entitlement Programs, 1992 Green Book*.

While the percentage has been rising slowly over the last decade, tremendous barriers still exist which impede further improvement.

Paternity establishment is the first, crucial step towards securing an emotional and financial connection between the father and the child. Without this connection, the child may be denied a lifetime of emotional, psychological and economic benefits. Not only does a legal parental link open the doors to possible governmental benefits and medical support, but also to less quantifiable benefits such as the value to the child of knowing his or her father, an opportunity for extended family ties, and access to medical history and genetic information.

Despite these benefits, several possible explanations account for the low paternity establishment rate. As mentioned above, States are working against the trend towards an increasing numbers of out-of-wedlock births. Even more telling, however, is that paternity establishment has not been a high social or governmental priority in the past. Unless the mother goes on welfare, paternity has been viewed as a private matter for which the State has no responsibility. This can be seen in current State practice. In most States, the paternity establishment process does not begin until the mother applies for welfare or seeks support from the child support agency. Mothers with no ties to welfare at the time of the child's birth are often left on their own.

Those who do choose to establish paternity face many more hurdles. Despite changes in public laws and perceptions, current rules and procedures still often reflect archaic laws which remain from the time that paternity proceedings were criminal matters. As a result, the process, which has typically fallen under the domain of family courts, can be intimidating and adversarial both for the mother and the putative father, and can engender a lack of cooperation and trust. In addition, the complexity of the process leads to prolonged and frequent delays. Numerous layers of bureaucracy and several court hearings are often necessary to process even the most simple cases. While the process varies dramatically by State and local jurisdiction, Table 7 provides an example of the multiple steps a mother may have to go through just to establish paternity and a child support order in some states.

At least eight States, including Washington, Virginia, and Montana, have begun to make the process more of an administrative function, eliminating unnecessary steps and establishing paternity quickly for cases in which the father acknowledged paternity voluntarily or genetic tests prove a presumption of paternity with an extraordinarily high degree of accuracy.

### ■ Inadequate Incentives

Those individuals faced with the decision to pursue paternity, as well as the State involved, often lack the incentives to complete the process. For example, if the father's earnings are low, both mothers and States see little payoff in the short run if he is ordered to pay any support.

One problem is that too much emphasis is placed on short rather than long-term gain. Financial incentives built into the child support system favor those cases with immediate high payoffs, discouraging work on paternity cases, especially those cases where the father has low income. This bias against paternity cases occurs primarily because Federal incentives paid to States are based on the ratio of collections to administrative costs. The higher the collections per dollar spent, the greater the incentive payment.

Cases outside the AFDC system face even further biases by the State since incentive payments for collections on non-AFDC cases are capped. While this provision was designed to encourage States to collect support on AFDC cases, the resulting bias, particularly since States also do not receive AFDC savings for these cases, affects a large number of families.

This lack of long-term focus is particularly damaging to the success of the child support program. In the long term, paternity establishment is cost effective.<sup>18</sup> In fact, recent research strongly suggests that the earnings of unwed fathers, although initially low, have the potential to rise significantly over time. Within a few years after birth, unwed fathers' earnings nearly match those of other fathers.<sup>19</sup> However, if paternity is not established early, the opportunity may be lost entirely.

# Table 10. Establish Support Order

## Paternity

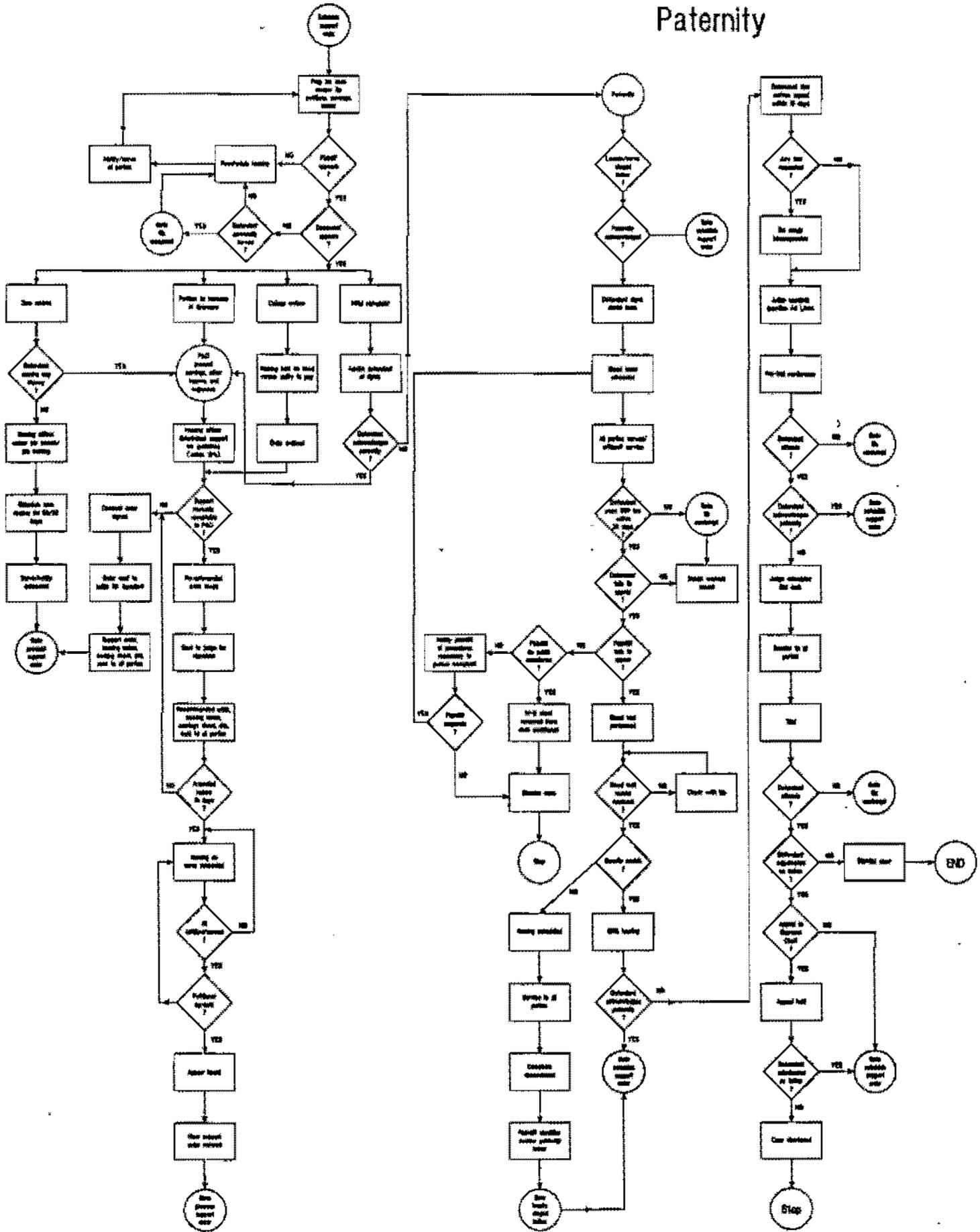
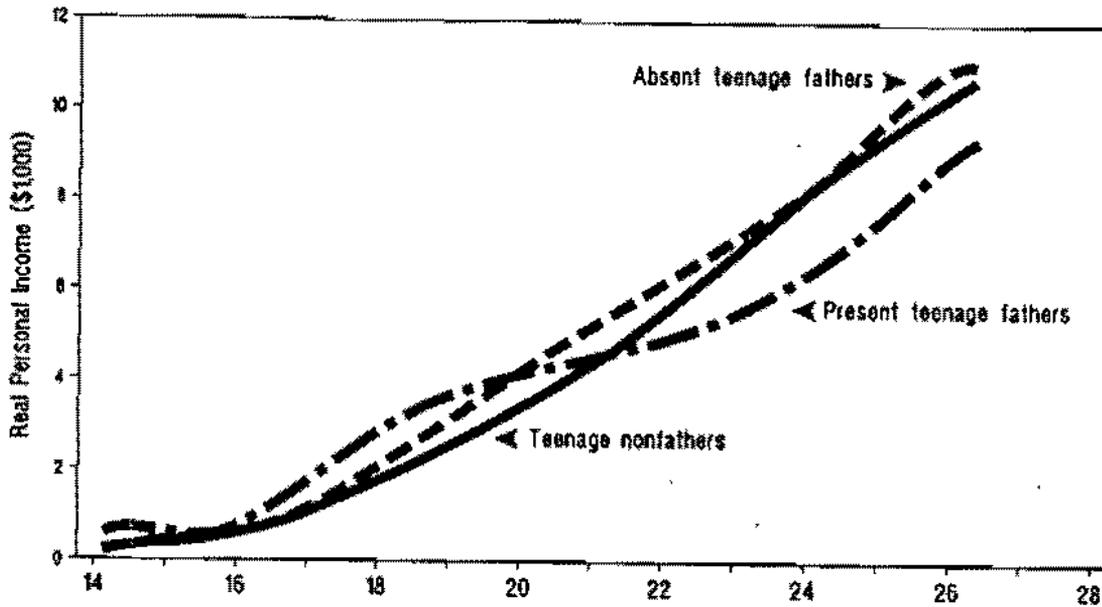


Chart originally prepared by DSHS

Table 11. Age-Earnings Profile for Teen Fathers



SOURCE: Maureen A. Proq-Good, "Teen Fathers and the Child Support Enforcement System" (1992)

### ■ Time Is of the Essence

Experience indicates that timing is essential. A number of studies suggest that the mother almost always knows the identity of the father as well as his location at the time of the child's birth, and that she is usually willing to make the information available. In fact, research has shown that the majority of births to young, unmarried parents are not the result of casual encounters, but instead, almost half of these parents were living together before the baby's birth. While ties are close, many fathers show a clear desire to acknowledge their connection to the child. But as time passes, interest often fades, and the chances for successful paternity establishment decline rapidly.<sup>20</sup>

Recent research, as well as the experiences of some States, have pointed to the hospital as one of the best places to establish paternity. One study of young parents found that two-thirds of fathers to children born out of wedlock actually come to the hospital for the birth and a large percentage feel that it is important for the father's name to appear on the birth certificate.<sup>21</sup> In addition, the State of Washington, which offers paternity establishment services in hospitals statewide, expects to have doubled the number of paternity affidavits signed between 1991 and 1988, before the program began.

While at least 20 States have enacted programs to establish paternity at birth, the Administration's paternity measures, as mandated under the Omnibus Budget Reconciliation Act of 1993, will require *all* States to provide in-hospital paternity programs. This new law will move a long way towards the goal of establishing paternity for all out-of-wedlock births. Still, additional measures may be necessary to focus more attention and incentives on paternity establishment and to further streamline the process.

## ■ Inadequate Child Support Awards

Even when paternity and support has been established or a custodial parent has a child support award through a separation or divorce proceeding, child support awards are often inadequate. Approximately 38 percent [revise] of the gap between what is currently due and what could theoretically be collected, [add dollar figure here], is attributable to low or out-of-date awards.

In fact, a child's prospects for receiving an equitable award depend greatly on the mother's marital status. Not only are never-married mothers much less likely to receive a child support payment from the father, but the amount of support actually awarded tends to be lower. Never-married women only receive an average of \$1,888 annually compared to divorced women who receive about \$3,322 and remarried women who receive approximately \$2,931 a year (refer to Table 6).<sup>22</sup>

Until very recently, awards were left to the discretion of individual judges. Now, awards must be set based on State guidelines which have at least assured more uniformity and somewhat higher awards *within* States. Still, many observers and researchers claim that the amounts awarded under current guidelines are too low and do not properly reflect an equitable contribution by noncustodial parents. Also, with 54 different guidelines, there is still little equity *between* States. Awards for children in similar circumstances vary dramatically depending on the State where the award was set.

## ■ Updating is Essential

The major problem with inadequacy, however, is not the guidelines for support but the failure of child support awards to be updated to reflect the noncustodial parent's current ability to pay. When child support awards are determined initially, the award is set using current guidelines which take into account the income of the noncustodial parent (and sometimes the custodial parent as well). But parent's situations change over time, as do their incomes. Typically, the noncustodial parent's income increases and the value of the award declines with inflation, yet often awards remain at their original level.

Non-updating of awards can hurt either parent. If a custodial parent wishes to have the award updated, the burden is often placed on him or her to seek the change. If, on the other hand, the noncustodial parent's income declines, such as through a sudden job loss over which he or she has no control, that individual may have difficulty seeking a downward modification of the award and instead faces growing arrears which cannot be paid.

Periodic updating of awards is necessary to improve the fairness of the system. The Family Support Act reflected this notion by requiring that, beginning in October of 1993, all orders be updated every three years for AFDC cases and at the request of either parent in non-AFDC cases. To improve upon these requirements, at least 13 States are adopting *pro se* practices to simplify the process for those individuals seeking to update an award on their own.

However, several major problems remain. First, States, particularly those with court-based systems, may have difficulty complying with the standard unless their procedures for updating undergo dramatic change towards a more streamlined, administrative system. In the four States conducting demonstrations on review and adjustment of orders, the average length of time to complete the process was as long as 196 days (or 6.4 months). Second, non-AFDC parents still must initiate the review leaving the burden on the custodial parent to raise what is often a controversial and adversarial issue for both parents. Automation will serve as a central element to this process, enabling States to schedule review and adjustments automatically and to simplify the calculation of child support awards.

"Because of the inadequacies of the state court based child support system, throughout the years my family has had to rely on partial welfare. We have needed food stamps so that we could eat. We have received Medicaid. I was put on a four-month waiting list so that I could go through a government- assisted job training program to find adequate employment and keep my family from being totally on welfare. While I waited to begin on the program I delivered newspapers and magazines to keep a roof over our heads and food on the table. I could not afford day care so I had to get my children up at 2:30 in the morning, load them into the car where they stayed while I delivered the newspapers."

Bobbie J. Coles, Silver Spring, MD

### Lack of Enforcement

Currently, only about 70 percent of the child support now due is actually paid. Many noncustodial parents who owe support have successfully alluded state officials, leading to a perception among many that the system can be beat. This perception must change. Payment of child support should be as inescapable as death and taxes, and, for those who are able to pay, collection must be swift and certain. A broad variety of enforcement tools have been tried successfully in a number of states -- matching delinquent payors with other state data bases to find asset and income information, attaching financial accounts and seizing property, and placing administrative holds on driver's or occupational licenses (enacted in 14 States). In addition, as many as 12 States have enacted and at least 13 other States have proposed programs to address problems implementing wage withholding for parents who work intermittently or change jobs often. For example, the Washington State program, which requires employers in targeted industries to report all new hires to the State, has proven highly successful in identifying obligors who had not made any payment in the

previous year. These types of enforcement tools must be evaluated to determine whether they should be used nationally.

Under the current child support system, the burden of nonsupport from the noncustodial parent falls on the custodial parent (usually the mother) who has the difficult responsibility of raising and providing the financial support for his or her children alone. Ideally, if the custodial parent has an award in place, then any disruption in regular payments should trigger automatic enforcement mechanisms. However, this is rarely the case. Because local child support offices are so overwhelmed by growing caseloads, little attention is paid to the more difficult cases unless the mother acts as the enforcer, seeking new information and leads about the noncustodial parent (sometimes even tracking him down in other States) and constantly pressuring her caseworker to do more. When custodial parents do not see results or when the system is too slow to respond to requests or to new information, they are left frustrated and disillusioned, yet often have no place to turn.

### ■ Interstate Enforcement

When the collection of support crosses state lines, enforcement is even more difficult. As the U.S. Commission on Interstate Child Support reported, some of the State's most difficult cases involve families which reside in different States, largely because States do not have similar laws governing essential functions -- such as the enforcement of support, service of process and jurisdiction.<sup>23</sup>

According to a recent GAO report, even though interstate cases are just as likely to have awards in place, the chance of then receiving a payment is 40 percent greater for in-state versus interstate cases.<sup>24</sup> This discrepancy raises a significant problem given that interstate cases represent almost 30 percent of all child support awards, yet only yield seven percent of all public collections. Despite efforts to improve collections on interstate cases through the Uniform Reciprocal Enforcement of Support Act (URESA), cumbersome paperwork, procedures and registration requirements, as well as insufficient staff and automation, provide States little incentive to expend scarce time and resources on cases out of State.

The U.S. Commission on Child Support has made numerous recommendations to improve interstate enforcement including the adoption of the Uniform Interstate Family Support Act (UIFSA). Many of these recommendations need to be implemented if interstate collection is going to be improved.

### ■ Automation

While automation has begun to catch up with States -- States are required to be fully automated statewide by October, 1995 -- many are still plagued by delays in case tracking and processing. In fact, despite the clear benefits of automation -- streamlining the process, eliminating burdensome and time-consuming paperwork, and improving State's ability to track and collect child support payments -- progress in implementing the systems among States has been slow. As of January 20, 1993, only 13 States are operating certified systems and as many as seven States are still only in the transition phase.<sup>25</sup>

Massachusetts provides a clear example of how creative use of automation can improve the collection process. The Massachusetts Department of Revenue Child Support Enforcement Division has developed an automated child support collection program to intercept unemployment benefits. The process utilizes fewer staff and is expected to increase the amount of child support collected from unemployment benefits from \$4.6 million in 1991 to \$20.6 million in 1992.<sup>26</sup>

### ■ Limiting the Fragmentation

The fragmentation of the system often is cited as one of the reasons child support enforcement has failed to improve significantly, despite the efforts of the Family Support Act and previous legislation. Before States can be expected to improve their records of enforcement and collection, the child support enforcement system needs to be simplified and made more uniform. Problems of duplication, coordination, and lack of automation, complicated by States' continued over reliance on overburdened court systems, have produced lengthy delays and widespread inefficiencies. Incremental reform efforts ultimately get bogged down in the myriad of systems and bureaucratic barriers involved in the process.

Some people are calling for a stronger Federal role, possibly including the use of the Internal Revenue Service to a greater degree. Others feel that the States can do the job right if they centralize operations, maintain central registries of support orders and move towards more administratively imposed enforcement measures rather than relying constantly upon an over-burdened court system for even single enforcement measures.

Clearly, whichever route is chosen will require some fundamental changes if the government is going to close the huge gap between what could be transferred and what is now paid. But the challenge of change must be met. Closing that gap is essential to providing the necessary financial support for children in single-parent families.

## ENDNOTES

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2. Current Population Reports, Series p-20.
3. Bumpass, L.L. and J.A. Sweet, "Children's Experience in Single-Parent Families: Implications of Cohabitation and Marital Transitions, " Family Planning Perspectives 21 (1989): 256-260.
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12. Current Population Reports, Series p-60.
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14. Current Population Reports, Series p-60.
15. The study cited uses the Wisconsin guidelines for determining adequacy. Other guidelines would generally produce similar results.
16. Current Population Reports, Series p-60.
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18. See for instance, "Costs and Benefits of Paternity Establishment," Center for Health and Social Services Research, 1985.

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21. Wattenberg, 1991.
22. Current Population Reports, Series p-60.
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26. U.S. Department of Health and Human Services, Office of Child Support Enforcement.

COVER LETTER

MAKE WORK PAY PAPER SERIES

Attached are a series of papers that are evolving out of the work of the Make Work Pay issue group. The documents that are envisioned to be included in this series are:

(included) Part I. A paper that discusses the general relationship between welfare, work, and child well-being (poverty). This paper introduces important dimensions of the debate and clarifies certain key terms and concepts.

(included) Part II. A paper that discusses the relationship between welfare and work in greater detail and which introduces the main strategies and approaches to making work pay.

(available 10-5-93) Part III. A paper outlining major recommendations concerning the Earned Income Tax Credit (EITC).

(draft included) Part IV. A paper discussing options for proceeding with a Work Support Agency or some equivalent.

(Next week) Part V. Some general comments on putting a Make Work Pay strategy together.

ATTACHMENTS:

(included) (A) An exhaustive list of policy and program options designed to make work pay.

(included) (B) A detailed list of options for improving the EITC, only some of which are discussed in Part III.

(included) (C) Brief outline of EITC Administrative process.

It is assumed that all of these papers and attachments are working documents and, thus, are works in process. They will be improved and refined over the next several weeks based upon the feedback received from various sources and, most importantly, as the process of integrating the work of the various issue groups into a more coherent whole takes place. The integrity and sensibility of arguments and policy recommendations made within the isolation of a given issue area may not hold as the pieces of a coherent plan are put into place.

The papers generally have been written to serve two purpose; as stand alone documents and as documents that might serve as part of a set. We are not sure how well the latter has been achieved since several authors are involved and all the pieces have yet to be assembled (as of 10-3-93). Because of this dual purpose, readers will notice some redundancy across the documents.

10-3-93

THE MAKE WORK PAY DOCUMENT SERIES

PART I

WORK, WELFARE, and WELL-BEING

INTRODUCTION

Welfare in the United States has long been identified with the Aid to Families with Dependent Children (AFDC) program--the most visible source of public income support for poor children. Welfare reform, therefore, typically is defined as a significant modification of the scope, generosity, design, or administration of that program.

Whether or not it is fully recognized, the debate about the AFDC program inevitably confronts two policy objectives--how to alleviate poverty, particularly among children, and how to minimize welfare dependency, a concern particularly directed at their adult caretakers. This is one reason why the debate is so problematic, why reform is such a "wicked" social problem. We are legitimately concerned about the well-being of poor children to whom we assign no blame for their plight. At best, however, we have mixed feelings about their parents, toward whom we more likely to assign some responsibility for the family's economic plight. This creates normative descensus within society and often within each individual's deliberation of the nature of the problem.

Let us start with the issue of child poverty. The economic situation of children is not good. More than one child in five is considered poor, and 40 percent of all the poor are children. Simple comparisons place the question in perspective:

- \* A child in 1991 was twice as likely to be poor as a prime-aged adult and almost twice as likely to be poor as an elderly person.
- \* The poverty rate for children was halved between 1959 and the mid-1970s. Progress against child poverty stalled in the 1970s and subsequently increased by over one-third in the past 15 years. The number of poor children has increased from less than 10 million in 1978 to over 14 million today.
- \* Child poverty among those industrialized countries for which data exist has been greatest in the United States. By the mid-1980s, the U.S. rate was more than twice that of the United Kingdom and Canada, four times the French rate, and over ten times the Swedish rate.

At the same time, legitimate concerns exist about an apparent increase in welfare dependency. For both children and particularly their adult caretakers, welfare dependency is ordinarily defined as significant<sup>1</sup> reliance upon the cash benefits available through the AFDC program.

- \* The number of children receiving AFDC benefits remained relatively stable between 1971 and 1989 at 7.3 million. Since then, that number has increased by almost one-third to about 9.6 million children in July of 1993. Likewise, the total number of recipients jumped dramatically from 10.8 million to 14.2 million since 1989.
- \* For the first time in history, the number of families receiving AFDC benefits exceeded the 5 million mark earlier this year. Spending on AFDC benefits jumped by over 30 percent between 1989 and mid-1993 (in current \$) to an annualized rate of \$22.6 billion.

Theoretically, AFDC and related welfare transfers ought to reduce economic insecurity among children. As noted, recent experience identifies an unsettling conundrum--both child poverty and welfare dependency are getting worse, suggesting that the traditional welfare approach to assisting economically disadvantaged children is not particularly efficacious.

Straddling the welfare and well-being dimensions of the reform debate is the question of work. Labor force participation remains the preferred mechanism for supporting families, even female headed families who represent a disproportionate share of poor families and welfare recipients. Mead suggests that labor force attachment, or the lack of it among certain groups, is the welfare reform issue.

- \* The official unemployment rate for women heading families fell to 8.7 percent, down 3.5 percentage points from a decade earlier. In 1991, about 60% of married women with children under six were in the labor force as were almost three in four of married women with older children. Single mothers with children were no less committed to the labor force. Almost two in three were in the labor force in 1991, despite the greater cost and difficulty associated with their work effort.
- \* It is commonly accepted that wages have largely stagnated since the early 1970s. Median family earnings have hardly changed while the highly educated have gained and those with

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<sup>1</sup>. This word is ambiguous intentionally. Different views of this but welfare spells longer than two years are viewed by many as significant.

less human capital have lost ground. The proportion of year round, full time workers with low annual earnings<sup>2</sup> was halved between 1964 and 1974 but has risen by 50 percent by 1990.

- \* Welfare and work is a rare combination. In 1991, 6.4 percent of AFDC mothers worked full or part time, down from 13 percent in 1983. Another 12.5 percent were at school or training. And another 11.3 percent were looking for work, leaving about 70 percent essentially out of the labor force.

The macro trends indeed are puzzling, particularly for female headed families who long have been the primary target population of the AFDC program. More women heading families are getting AFDC. And more women heading families are working. And more children living in families headed by women are impoverished. Obviously, the interactions among welfare, work, and well-being are complex and require a more detailed discussion.

Part one of this paper briefly examines the limits of welfare strategies and examines non-welfare approaches to helping the poor--particularly strategies designed to make work a rational choice for low-income family heads. It introduces the complex interactions among welfare, work, and the (economic) well-being of America's children and sets out some of the language and dynamics of that dialogue.

## PART I: CONTEXT

### Getting the Question Right.

The first step in doing public policy is to get the question right. Despite an apparent deterioration in the economic well-being of American children, the reform discussion in this country has focussed almost exclusively on dependency--the failure of the adult caretaker to become self-sufficient. Reducing welfare dependency is quite straightforward as a policy challenge. One could reduce the generosity of benefits and make access to those benefits more difficult, a tack that sums up much of welfare policy in recent years.

This approach, however, may have little to do with assisting poor children, the second policy objective, as evidenced by growing child poverty rates. On the other hand, substantially reducing child poverty is certainly feasible in the short run. We could restore the generosity of AFDC benefits to a point where

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<sup>2</sup>. The person could not earn enough to raise the family above the poverty threshold.

they might serve an anti-poverty purpose. By definition, however, this would increase welfare dependency and is politically infeasible.<sup>3</sup>

The traditional policy challenge has always been to reduce welfare dependency and poverty at the same time. Doing one at a time is a reasonably straightforward technical task, though it may pose difficult political and fiscal challenges. Accomplishing both simultaneously elicits political, fiscal, and technical dilemmas.

**Defining Key Concepts.**

A second key step in the challenge of doing welfare reform is to define the critical concepts that underline the debate. There are many constructs used casually in the reform debate. At a minimum, we ought to have some common understanding, if not consensus, on what is meant by terms such as welfare and dependency along with other constructs that appear deceptively self-evident but which, upon closer examination, can prove obscure.

Conventional definitions may or may not suffice. Welfare, for example, often is defined programmatically. Aid to Families with Dependent Children (AFDC) and General Assistance (GA) clearly fall into the welfare category but there is less consensus about Food Stamps and Housing Assistance. The issue is more confused when we think about other actual or proposed government transfer programs (e.g., the Earned Income Tax Credit or what is called the Assured Child Support concept). These are government cash transfers and are intended to provide income support to the economically disadvantaged. But are they "welfare" transfers?

It may be more useful, in the long run at least, to define welfare according to its critical underlying attributes. Essentially, welfare can be thought of as public transfers that can be received in the absence of work and where the rate at which that benefit is reduced in the face of earnings (the marginal tax rate) substantially exceeds the marginal tax rates

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<sup>3</sup>. For the State of Wisconsin to restore its AFDC guarantee for a family of three to where it was some two decades ago, the grant level for those without other income would have to be raised from \$517 per month to about \$800 per month. There is nor conceivable set of circumstances under which this will occur.

imposed on other members of society.<sup>4</sup> Some observers further restrict welfare to cash transfers.

Neither is it difficult to envision the degree to which definitional confusion might obfuscate an imprecise term like dependency. An able-bodied adult who relies continuously on AFDC and other welfare benefits as exclusive means of support would be considered to be dependent by most observers. But what about the person who exits AFDC for work; then re-enters the AFDC system again only to exit a second time for employment; and repeats this pattern several times. Is that person dependent? Or the person who works but requires an EITC refund and Food Stamps to get above the poverty threshold. Are they dependent?

Though no one definition will satisfy all,<sup>5</sup> we will use the following in the welfare reform context: dependency is a continuing reliance on "cash" welfare transfers by those who have no documentable proof that they are unable to participate in the labor market. It is easier to state this as a definition than it is to operationalize the concept in terms of individual attributes and extant labor market conditions.

This definition does provide some guidance on what kind of public assistance we are concerned about in the short run. We are concerned about cash assistance and not in-kind benefits received by the poor.<sup>6</sup> We are concerned about persistent use of this

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4. As discussed further in the next section, we impose other strange "realities" on those in this welfare system. Most are aware that when a welfare mother takes a job and tries to earn enough money to be free of welfare, she only nets 30 to 40 cents for each dollar earned at best, less if she stays with the job long enough. If she tries to get ahead by saving some money, she is thrown off the program. If she buys a car that is reliable enough to get her to work and back, it is probably worth too much and she thrown off. She might even lose access to health care for her children if she is too successful in working her way off.
  5. Charles Murray has argued that only earnings and privately generated non-earned income should be used to calculate income in determining poverty. This might suggest that he would argue that any public transfer would be a sign of dependency.
  6. This in no way is meant to imply that we should not be concerned about a broader dependency in the long run. This is meant to argue that the first round of policy attention ought to start with "cash" assistance, that which causes the most public and political concern.

cash assistance and not a short term use to get one over a temporary crisis. We are concerned only about cash assistance that is provided through welfare payments as described above. And we are concerned about cash welfare payments to those who appear capable of doing more for themselves and their children. This definition does allow for a great deal of public help for the economically disadvantaged but does suggest curtailing a certain form of public assistance.

### The Fatal Flaw of Welfare.

As defined above, welfare-type programs are ill equipped to address simultaneously poverty among children and dependency on the part of their parents. Welfare does not raise the poor out of poverty. Welfare does not help bring the poor into mainstream society. And welfare is very unpopular--among the poor and even among those who would spend more to help the poor.

Ultimately, welfare is logically flawed by presenting to recipients inefficient and debilitating choices--nonrational economic choices--and by imposing unconscionable tax rates on earnings. The essential conundrum of welfare is that several equally desirable program goals--adequacy, vertical equity, and target efficiency--cannot be satisfied simultaneously. Adequacy is defined as providing some reasonable level of economic security to those not expected to work.<sup>7</sup> Vertical equity can be thought of as the principle simply operationalized as the more you work the more disposable income you have to enjoy. And the principle of target efficiency argues that good public policy would dictate that the highest feasible proportion of welfare transfers ought to go to the poor.

The objective of adequacy can easily be accomplished by raising welfare guarantees--the amount received by a recipient with no other income. Theoretically, this leads the recipient to substitute leisure for work. This adverse outcome would be minimized if vertical equity could be assured--if welfare recipients could work and not experience a substantial decline in benefits (i.e., face only modest benefit reduction or marginal tax rates). Adequate benefits and reasonable tax rates can be assured but only if the target efficiency objective is relaxed and benefits are extended to those who are no longer economically

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<sup>7</sup>. In the early 1970s, the Supplemental Security Income program (SSI) was created for welfare recipients under the old so-called categorical programs--the aged, blind, and disabled. Federal payment standards were established that were considerably more generous than the state determined guarantees provided under the AFDC system. SSI recipients were, however, not expected to work.

impoverished.

If targeting available resources on the poor is considered important, guarantees must be lowered, sacrificing adequacy; or tax rates, the rate at which benefits decline in the face of earnings, must be increased, sacrificing the economic rationality of work. These logical constraints--the iron law of welfare reform--have long bedeviled reform efforts from within the program and have directed many to seek solutions outside of the welfare concept. Given that the AFDC guarantee in the typical state is less than 40 percent of the poverty threshold for a family of three, it would appear that this conundrum has been resolved by sacrificing the adequacy goal.

#### Heterogeneity and Complexity--starting places.

Thinking more imaginatively and productively about addressing dependency and poverty begins with two simple points:

- \* the poor and dependent are not homogeneous but represent a population that is diverse both in terms of situational circumstances and personal attributes.
- \* There is no single approach to reform; no unidimensional initiative that, by itself, will solve the reform conundrum.

But setting these simple propositions as fundamental assumptions of the policy dialogue is difficult given the tendency to cast the reform debate in simple oppositional terms. Some situate the cause of poverty and dependency within the individual, whereas others emphasize institutional and structural factors bearing upon the individual. Acceptance of one position or the other leads observers toward different images of who the dependent poor are, toward quite divergent explanations for poverty and dependency, and toward radically different solutions.

Experts and the public alike engage in various forms of perceptual reductionism, the tendency to simplify complex phenomenon so that they conform to unidimensional understandings. That is, the poor are all like this or all like that. Truncated or simplifying images of the poor encourage restrictive theoretical thinking; e.g. people are dependent and poor because of individual failings or because of institutional failings. And simple theories lead to simple solutions.

Even the briefest review of the welfare dynamics suggests that the dependent poor are not all alike.<sup>8</sup> They can be disaggregated into distinct groups. Point in time estimates

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<sup>8</sup>. One finds similar dynamics when one examines poverty or labor force attachment in the secondary labor market.

indicate that most AFDC recipients--60 to 70 percent--are (or will become) long-term users of welfare. Patterns of use among new entrants to the welfare system are quite different, however. Of those initiating their first spell on assistance, some 30 percent are likely to be short-term users of assistance (less than 3 years), 40 percent are expected to be intermediate users (3 to 8 years), while the remaining 30 percent will become chronic/persistent users.

Moreover, dependency clearly is not a static phenomenon when we view it from new entrants onto AFDC. Some 70 percent of new welfare entrants will exit within two years. Unfortunately, these exits are not permanent. About seventy percent of these exiters will subsequently return to the rolls within five years. These estimates are not etched in stone and are likely to change with cycles in the economy, in response to modifications in administrative practice and rules, or with changes in local circumstances.

Even if subsequent analysis were to change the estimates somewhat, these data argue against simpler notions of the world which divide the world into those dependent on AFDC and those who are not. Such dichotomous views belie the underlying complexity of the real world and make mono-causal views of the world less tenable.

An equally simple insight is that no single reform strategy, by itself, is a panacea. A growing literature suggests that program impacts associated with welfare-to-work initiatives are quite modest. Simple work requirements (e.g., mandatory job search) do not improve the earnings of recipients as much as we would like, nor do they reduce welfare use as much as earlier hoped. Training programs may do better for some better, but the net impacts remain small. Private child support transfers, even after more than a decade of attention and systems enhancement, remove few children from poverty or dependency on welfare programs. Other reform strategies either have not been rigorously evaluated or are equally disappointing.

It is tempting to agree with the essence of Rossi's Law--that the expected value of any social intervention is zero.<sup>9</sup> That may not be an appropriate conclusion, however. The lesson is not that nothing can be done; rather, it is that no single strategy will do the whole job.

### **The Principles of Reform**

The current welfare reform process recognizes the complexity of the task and the heterogeneity of the target population. It

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<sup>9</sup>. MDRC caveat (will complete later).

recognizes that there are no silver bullets. Consequently, there are four major themes that guide and inform thinking about welfare reform:

- \* **Make Work Pay.** The critical starting point for helping people get off and stay off (or never come on) is ensuring that those who work are not poor. Caretakers of children who play by the rules should have an income at or above the poverty threshold. They should not have to worry about the cost of medical care. They ought to have access to quality child care. They should get the support they need to ensure that they can work and adequately support their families.
- \* **Make Both Parents Responsible.** Both parents have a responsibility to support their children, yet only one-third of custodial parents receive any court-ordered child support. In particular, the system for identifying fathers in non-marital situations and ensuring that their children receive the support they deserve must be strengthened. Government ought to ensure that children receive the support they deserve from both parents.
- \* **Make Work A Real Possibility.** Education, training, support services, and perhaps more need to be available to ensure that those either desiring to leave welfare or who may be required to leave welfare are prepared to compete in the labor market and in life. Existing training programs need to be expanded, improved, and better coordinated to ensure that human capital levels are raised to appropriate levels.
- \* **Make Welfare Transitional.** Finally, with the objectives of the other themes having been realized, a time limited, transitional system of income support followed by work will be created. Welfare will no longer be an entitlement. With the first three steps in place, we can move to a truly transitional system where healthy and employable people move off welfare quickly. Those who can't find private sector jobs will be expected to support their families through public sector work opportunities.

The call to "end welfare as we know it" has come to be associated with the last theme. Before that theme can be operationalized, the others have to be addressed successfully if the dependency and poverty are to be reduced at the same time.

#### **Make Work Pay: A place to start.**

The make work pay concept is simple. Children living in families with a full-time, year round minimum-wage worker should not be poor. That is a simple concept in principle but, like welfare and dependency, perhaps requires a fuller definition.

We can make work pay if income derived from and based upon the caretaker's own work effort is sufficient to offer a rational economic alternative to welfare<sup>10</sup>. That is, can we develop a set of public policies which ensures that those who work will be better off than those who rely upon welfare, a variant of the vertical equity question that baffles within welfare reform efforts? If the policy issue is framed in this manner, at least one answer is quite obvious. Welfare guarantees can be allowed to drop, either gradually or suddenly, until a contemporary version of "less eligibility"<sup>11</sup> is achieved.

Many people misunderstand the character of the poor. They assume that work is a guarantee through which to escape poverty and that the majority of those left behind are part of the ghetto underclass. However, less than 10 percent of poor children live in big city ghetto neighborhoods, typically associated with social and economic isolation. At least twice that number live in two-parent families with at least one full-time worker. Consciously or unconsciously pursuing a policy that makes work pay relative to welfare simply by allowing benefit levels to fall will do little for this later group.

Consequently, we define make work pay as a condition where a single parent working full time will earn enough, when combined with child support and other non-cash welfare assistance, will have enough income to raise their family above the poverty threshold. This is important. The "make work pay" standard is set relative to an income threshold and not merely a welfare concept. The reasons for this are not difficult to infer.

Many people work and still are poor. It is estimated that some 9 million work at least some during the year that their income falls below the poverty threshold. These are the working poor, those who are actively attached to the labor market but whose earnings do not raise the family above the poverty threshold. This may be because they do not work the entire year/or do not work full time, or because they live in a large family which has the practical effect of raising the poverty threshold. In 1991, there were 6.1 million families with children under 18 in poverty. Of these, 3.3 million (54 percent) were poor despite the fact that at least one member worked some time during the year, and 1.1 million (18 percent) had a member who worked full-time, full-year.

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<sup>10</sup>. In this instr

<sup>11</sup>. "less eligibility" is an historic welfare concept where attempts were made to keep welfare benefits below the lowest wages available in a given labor market so that work would always be more remunerative than welfare.

It may seem remarkable that so many people are able to work, yet still be poor. It is a particular problem of families with children and with families where there is only a single worker. In 1992, a single person working full time and earning the minimum wage easily would have earned enough to escape poverty. Absent any other income, a mother with two children would have had to earn \$5.64 per hour to escape poverty. If she had a third child, she would need a full-time job paying \$7.23. per hour.

### Dimensions of the Policy Challenge

The work and well-being relationship can be viewed as a simple matter of economics, how close can prevailing wage rates match what is required to escape poverty. The work and welfare relationship introduces additional complexity. In short, welfare is not designed to complement work. Put conversely, the earnings from work essentially substitute for welfare income. Naturally, the rules governing this substitutive relationship are complex, changing as the number of months that one tries to combine work and welfare. But the net effect is clear, the two are not easily wedded.

It is one small step to further complexity when one examines examples of the relationships among work, welfare, and well-being. A single mother may find a job that pays enough to get off welfare and to escape poverty. But that job may not provide health insurance, or family coverage, or benefits that come close to those provided through the Medicaid program. Access to Medicaid, in many though not all circumstances, is tied to one's welfare status.<sup>12</sup> Stay off welfare long enough and a mother could find themselves in the position of jeopardizing the medical well-being of her children.

There is more to the Make Work Pay theme. If there is one lesson we have learned from the poverty research of the 1980s is that the poor are attached to the labor force and that many of the welfare poor exhibit considerable labor force attachment. The world does not conform to the simple and static images that we like to impose upon it. The world cannot easily be divided into those on welfare and those who are not; those who work and those who don't; the poor and the affluent. There is an extraordinary amount of transitioning among these states; welfare, work, and well-being.

What accounts for this dynamism is in part a matter of conventional economics--wage scales and job availability. And it partly is a matter of counterproductive welfare rules--high benefit reduction rates and welfare-based benefits (e.g.,

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<sup>12</sup>. Child care is another example of a valued good that can be linked to one's welfare status.

Medicaid). But there is more to it than simple economics. There are the logistical, psychological, interpersonal, and other stresses and problems that new entrants into the work world face. Many of those stresses are particularly severe for those single parents making the welfare to work transition.

All of these economic and personal challenges to getting into the world of work are very complex. In the next paper (Part II), we examine them in much greater detail.

10-3-93

THE MAKE WORK PAY DOCUMENT SERIES

PART II

THE DYNAMICS OF WELFARE AND WORK

THE EARLY WELFARE AND WORK RELATIONSHIP

AFDC--The Early Concept.

The Aid to Families with Dependent Children (AFDC) is a classic example of a program whose original design was maintained despite dramatically changing socio-economic circumstances and cultural norms. AFDC (originally ADC or Aid to Dependent Children) was incorporated virtually without debate into the Social Security Act of 1935. The lack of debate reflected the extent to which the program, as first constructed, fit within the social, economic, and normative context of that time.

The original program built upon what local governments were already doing. The program provided federal support to financially strapped states trying to maintain systems of mothers' pensions during a national depression. Moreover, it was anticipated that the program would be temporary; that it would become superfluous as more and more mothers and children came under the protection of Social Security.

The defining attribute of the early program is that it complemented the economic realities and requirements of the depression era. It was designed to keep certain impoverished mothers out of the labor force so that they would not compete with men for scarce jobs and so they could fully attend to their caretaker responsibilities--provided they followed the behavioral rules laid down by the states. The program was largely designed to help worthy widows who were deprived of spousal support through no fault of their own. More than one observer noted that to receive ADC benefits could be interpreted as a badge of honor, a reflection of the skill the caretaker had evidenced in her childrearing role.

For the first two or three decades AFDC benefits were conditioned on the behavior of the recipient. A host of criteria were applied to determine whether beneficiaries of public largess were "fit" to receive help. Ties to the local community were examined. Sexual practices were monitored. In some jurisdictions, school attendance and performance were reviewed.<sup>1</sup> The

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1. Welfare caseloads remained low and relatively stable through this period (1935 to the early 1960s). Some changes were introduced in the 1950s (), but they were marginal.

behavioral requirements that dominated the implicit "social contracts" of those early decades were not focused on labor market behavior but on the quality of parenting available to the children being supported by the program.

Attention to the poor and to the welfare poor emerged in the early to mid 1960s. It was a response, in part, to the fact that neither economic want nor AFDC disappeared despite a maturing social insurance system and a vigorous economy. The rising economic tide was not lifting all boats. One response was a declaration of a War On Poverty. As part of the "war," the poor and the welfare-dependent were to be offered a "hand up," not a "hand-out." But the task of changing people and communities taken on by the early poverty warriors proved technically difficult, politically problematic, and somewhat costly.

At approximately the same time, an "income definition" of poverty emerged. Poor people were perceived as different from the rest of society primarily in their lack of money, and the solution was to correct the income shortfall in a simple, efficient, and standardized manner. Services were separated from cash assistance. Flat grants as opposed to individualized budgets were introduced. Client protections were strengthened. In terms of AFDC design and administration, AFDC became an entitlement, with benefits based almost solely on categorical status (single parenthood) and economic need.

This transformation had several motives, some well intentioned and others born of frustration. It was generally agreed that behavior-conditioned assistance was labor intensive and thus somewhat costly. It was also argued that services were ineffective or the providers of those services intrusive and even abusive in the lives of the poor. In any case rising caseloads rendered moot any substantive discussions of individualized treatment of the poor.

### **Linking Welfare and Work**

At the same time that welfare was becoming an entitlement, norms and expectations were undergoing a qualitative shift that ultimately would lead to a fundamental restructuring of public assistance programs and a restatement of the public purposes they were intended to serve. For some time, however, the ideological, conceptual, and policy landscapes were quite confused. On the one hand, compelling arguments were made for an "incomes solution" to poverty, particularly as reflected in Nixon's Family Assistance Plan (FAP) and other variants of Negative Income Tax schemes that gained currency during this period. On the other, there was increased concern about the "behavioral consequences" of dependency and increasing calls for policies and programs that would integrate clients into mainstream systems.

Some sentiment for change could be detected in the early 1960s. The average monthly caseload, after declining from

651,000 in 1950 to 602,000 in 1955, began to rise. By 1964, over a million families were receiving AFDC each month. By the beginning of the 1970s, the average caseload was approaching two million cases.

Size was not the only factor. The character of the AFDC caseload was undergoing a transformation. In the early days, the caseload was overwhelmingly white and composed largely of widows and divorcees who had been carefully screened. Today, less than 40 percent of the caseload is white<sup>2</sup> and less than 2 percent are categorically eligible due to the death of a spouse.

The factors driving change were not all located within the welfare population or within welfare rules. It was becoming increasingly clear that women were entering the labor force in increasing numbers, and that the expectations for mothers also were undergoing change. The fact that women, including those with children, were entering the labor force in such large numbers by the 1960s made it increasingly difficult to argue that motherhood, by itself, was reason not to strive for self-sufficiency.

The call for reform began early in the 1960s and increased as the size and character of the caseload changed. The 1962 social service amendments supported substantial increases in the training that welfare caseworkers were to receive and in the services to be made available to recipients. Social work technologies were to be brought to bear on the root causes of dependency. At the same time, the federal government was getting involved in manpower and training efforts, initially through the Area Redevelopment Act (ARA) and the Manpower Development and Training Act (MDTA).

A second track of human capital enhancements modestly got underway through experimental Community Work and Training (CWT) programs aimed specifically at welfare recipients. Human capital focus was to be given full play in the subsequently developed War On Poverty. In the late 1960s and early 1970s, federal and state governments were fully involved in both labor supply and labor demand questions. The Work Incentive Program (WIN) had been developed specifically for the welfare population while the Comprehensive Employment and Training Act (CETA) was developed for the general population of the economically distressed. Under various labels and through different strategies, the public sector has remained involved in the task of moving the disadvantaged into the labor market.

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2. It should be pointed out that the proportion of the AFDC caseload that is comprised of African-Americans (about 40 percent) is actually less now than in the early 1970s.

In the late 1960s, the WIN program modified the welfare rules to meet the expectation that mothers whose youngest child was six or older should be expected to work or try to improve themselves through education and training as a strategy for exiting welfare. Significantly, WIN was the first attempt to introduce conventional economic logic into the welfare system. In addition to recognizing that expenses associated with work had to be recognized, AFDC recipients were allowed to earn \$30 before any of their cash benefits were reduced and also allowed to keep one-third of their earnings as an incentive to work. That is, an effort was made to keep the nominal marginal tax rates faced by AFDC recipients below 67 percent.<sup>3</sup>

As more and more mothers with young children entered the labor force due to the economic and social forces particularly evident by the early 1970s, public expectations continued to change. WIN was modified several times to strengthen the work requirement and to increase the proportion of the population covered by the program. By the early 1980s, when more than half of mothers with children three to five years old were in the labor force, it was considered fashionable for mothers to be attached to the labor force. Not surprisingly, welfare rules relating to expectations about recipients' responsibility to engage in activities leading to self-sufficiency were also modified. Women on welfare whose youngest child was three or older were expected to work or be in training. States were given the authority to experiment with establishing self-sufficiency standards for mothers with even young children.

## THE LARGER TRENDS

### Welfare and Dependency

About 20 years ago, Daniel Patrick Moynihan wrote that "The issue of welfare is the issue of dependency."<sup>4</sup> He wrote this

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3. It is perhaps best way to conceptualize the change introduces at this point in the following way. For each "net" dollar earned, a recipient was losing a dollar in benefits or facing a 100 percent marginal tax rate in that an extra dollar earned did not result in any increase in available income. There might well be significant differences between the nominal marginal tax rates built into the AFDC program and the actual increases in disposable income.

4. The politics of a Guaranteed Income, New York: Vintage Books, 1972, p.17. Interestingly, Moynihan went on to comment in a footnote that "If American society recognized home making and child rearing as productive work to be included in the national economic accounts ...the receipt of welfare might not imply

after the goal of work had been explicitly established for AFDC recipients in the 1967 WIN legislation and during a period of explosive caseload growth. Between 1969 and 1973, an additional 3.4 million persons were added to the AFDC roles. In 1988, the Family Support Act further strengthened the relationship between work and welfare. Again, the AFDC roles increased by another 3.4 million persons. Between 1973 and 1989, the aggregate number of recipients remained virtually constant.

The nominal relationship between attempts to integrate welfare (AFDC) recipients into the labor force and aggregate caseload figures remains complex. As suggested earlier, the AFDC caseload grew modestly between the late 1950s and mid-1960s; significantly expanded between 1967 and 1976; remained relatively constant until 1989; and then expanded from 3.8 to 5 million cases by 1993. But obtaining clear measures of dependency trends remains problematic. For example, the proportion of all children relying on AFDC grew from about 3 percent in the 1950s to over 10 percent by 1971 and then to 13 percent by 1991. On the other hand, it is possible to conclude that dependency has actually declined. The proportion of poor children getting help from the AFDC program actually fell from 80 percent in 1973 to 60 percent in 1991.

Other factors that might effect both caseloads and our interpretation of AFDC dependency require comment. Clearly, two probable determinants of caseload growth are the number of single parent households with children (categorical eligibility) and poverty (economic deprivation). The number of single parent households with children grew from less than 3 million in 1960 to 9.5 million in 1991. Both the poverty rate for female headed families with children and for children declined until the 1970s before increasing again in the 1980s. The poverty rate for female headed families with children under 18 fell from 60 percent in 1962 to 40 percent in 1979 before increasing to 47 percent in 1991. The child poverty rate was halved between the late 1950s and the early 1970s. It has since increased from 14 percent to about 22 percent in 1991.

Another key to understanding the broad welfare trends over the past several decades is to examine AFDC guarantees. Prior to the emergence of what we call the flat grant in the early 1970s, what a recipient family would get in cash assistance was highly individualized. Still, Moffitt estimates that the typical guarantee (the amount available to a family without other income) increased by over 75 percent between the mid 1950s and the early 1970s. Since then, the guarantees have steadily eroded in value,

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dependency. But we don't. It may be hoped the women's movement of the present time will change this. But as of the time I write, it had not." It still has not.

by some 45 percent between 1970 and 1992. With Food Stamps included in the package, the decline is a bit over 25 percent. The AFDC guarantee in a typical state is set at 39 percent of the poverty threshold for a family of three. Benefits amount to only 70 percent of the poverty threshold when food stamps are included.

### The Economy and Work

The major relevant economic trends can be summarized as follows. In the quarter-century following World War II, the U.S. economy was vibrant and growing. Real wages began increasing by 40 percent per decade, with inflation adjusted incomes about doubling between 1947 and the early 1970s. And then the growth stopped. Wages stagnated and some groups began to lose ground.<sup>5</sup> For example, average hourly wages for entry-level workers (1-5 years of labor force experience with a high school education) fell 18.9 percent (from \$8.32 to \$6.74 in 1991 dollars) over the 1980s. For males, the drop was 22.4 percent, for females, 13.5 percent. [add]

Beginning around 1983, one of the longest peace time economic recoveries began. Work by Rebecca Blank suggests that this recovery proved unique. While poverty declined, the extent of that decline was far less than would have been predicted by historical precedent. This is reflected in the fact that the poverty rate among workers actually increased from 13.7 percent to 15.2 percent, after declining from 26.9 percent in 1964 to 13.7 percent in 1979.

This troubling pattern is also reflected in the general trend of the low-wage distribution over the 1980s. Low wage male workers (e.g., those at the 20th percentile) lost as much as 16 percent of their hourly wage between 1979 and 1989. More relevant to the welfare to work debate, the lowest female workers (at the 10th percentile), after experiencing wage gains over the 1970s, lost 17.8 percent of their hourly wage over the 1980s.

And beginning in 1990, the economy entered yet another recessionary period. Though unemployment rates did not increase significantly, median wages declined sharply. Some observers feel we continue to witness a fundamental restructuring of the economy; a restructuring that will make it difficult for young family heads to earn a family wage. Young male workers with high school degrees have seen a 9 percent wage drop between 1989 and

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1993. The loss has been less steep for comparable females, 3.3 percent, but they started from lower levels.<sup>6</sup>

The trends of the last two decades have altered the environment in which women who head families decide whether to engage in paid work. First, women's participation in the labor force has continued to climb sharply--from 55 percent in 1975 to 74 percent in 1990 for women aged 25 to 54 and from 57 percent to 63 percent for women aged 16 to 24. Theoretically, a greater attachment to the labor market should reduce the mothers' reliance on AFDC.

It has been the decline in inflation-adjusted earnings that generates the most concern. The earnings of men have declined relative to those of women; perhaps affecting their attractiveness as marriage partners and their ability to pay child support. Real earnings of men aged 18 to 34 with exactly four years of high school have fallen especially fast since the early 1980s. By contrast, earnings of young women with a high school education stagnated until recently.

Women were largely insulated from the decline in real earnings that affected similarly educated men for a number of reasons. Two of the most important are the concentration of women in the service occupations and industries, which fared well compared with manufacturing industries until recently, and increasing work experience as their labor force participation rates have risen. By the end of the 1980s, however, real earnings of young women were also declining--from about \$14,885 in 1988 to about \$13,560 in 1991.

### The Demographic Earthquake

Some three decades ago, less than one child in 10 lived in a single parent family. Now the figure is about one in four, 86 percent of whom will reside in families headed by a female. More than half of all children born today will spend some of their minority years in a single parent household; 80 percent of African-American children, 43 percent of Hispanics, and 36 percent of whites. There are now 1.2 million non-marital births each year, almost three births in ten. In some cities, over half of all births are non-marital.<sup>7</sup>

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6. Interestingly, low-wage females have recovered a small part (3.3 percent) of the lost ground over the 1989 to 1993 period, due in large part to the raise in the minimum wage.

7. For example, beginning in 1988 more than half of all births in Milwaukee, Wisconsin were to non-married mothers.

The economic consequences, on average, for a child in a single parent household are not trivial. Three children in four who are raised in a single parent household will experience some poverty during the first 10 years of their life. In 1991, some 56 percent of children in female headed families were poor, compared to 11 percent of those living in two-parent households.

The reason for this is not difficult to infer. The next table gives a simple picture of how much less a male provides when they are not living with their children than when they are.

<u>\$ Contribution</u>	<u>2-parent Family</u>	<u>Female-Headed</u>
FROM MALE----	\$27,983	\$1,070
FROM FEMALE--	<u>8,696</u>	<u>10,464</u>
TOTAL---	\$36,679	\$11,532

These numbers are not surprising given the well known failure of our system of private child support. The child support numbers have become almost public policy constants. Only 60 percent of those potentially eligible for an award have one and only half of those pay the full amount due while another quarter make partial payments. The record is particularly dismal in never married cases where paternity is established in only three in ten cases. Compounding the problem are awards that are often inadequate to begin with and which further erode in value over time. The numbers generated by the current system are quite disappointing; \$16 billion owed and only \$11 billion collected. But the potential numbers are more disturbing. Assuming adequate awards in all cases that are fully updated and perfectly collected, it is estimated that some \$36 billion might be available to children not living with both parents.

In the early 1960s, most working poor families were married couples with a nonworking wife. Married couples increasingly have put the two partners into the labor force, enabling them to escape poverty more easily than the rising number of single parent families with children. Between 1959 and 1990 the proportion of the working poor being made up by single parent families increased from 17 percent to 46 percent.

It is not likely that female heads of families can entirely make up the economic loss that is evidenced when the father is not in the home. She cannot be expected to do the job of two persons. While she can be expected, on average, to do more than currently is the case for those women on AFDC, any balanced "make work pay" strategy must also require that fathers contribute more to the economic well-being of those children with whom they do not reside.

## Entangled Trends

There has been much speculation on the possible causal relationships among the observable trends in the key factors affecting family and child well-being; welfare, work, and demographics. Some of the causal links that have been argued are starkly simple; government tried to be compassionate (partly by expanding welfare) and things got worse.<sup>8</sup> Such arguments have intuitive appeal because they suggest easy and painless solutions to the complex policy conundrums we face.

[danziger stuff]

### THE POOR

#### The Working Poor

The working poor, as introduced above, can be defined as those who are attached to the labor market but who still reside in families whose income remains below the official poverty threshold. At first, blush, the issue of the working poor does not appear to be problematic. In 1991, only 2.6 percent of all full-time, year round workers were poor, and 7.0 percent of those with any work experience lived in poverty. In absolute numbers and as a share of the poverty population, however, the working poor constitute a disturbing social problem. Nearly 9.3 million workers remained poor in 1991, 2 million of whom worked full-time, year round. Many more poor people lived in families with at least one worker. Altogether, nearly three-fifths of the poor lived in households where someone worked during the year.

In 1990, 21.8 million people lived in poor families with children. Of these, 14.5 million lived in families with a worker, and 5.5 million people lived in poor families with children that had at least one full-time, year round worker. In 1991, the latest year for which there are poverty statistics, there were 6.1 million families with children under 18 in poverty. Of these, 3.3 million (54 percent) were poor despite the fact that at least one member worked some time during the year, and 1.1 million (18 percent) had a member who worked full-time, year round. In that year, 4 percent of white families, 10 percent of African-American, and 16 percent of Hispanic families were poor despite the fact that there was significant labor force attachment.

It may seem remarkable the so many people and families are able to work yet still be poor. Of course, the overwhelming majority (over 95 percent) of two-parent families with children

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8. Cite *Losing Ground* by Charles Murray as an example of mono-causal analysis.

do avoid poverty if they have one or more full-time workers. But work is no guarantee of success for those at the lower end of the human capital scale. This has been increasingly so, particularly since the 1970s.

The proportion of full-time, year-round workers with earnings below the Census established low-earners threshold<sup>9</sup> declined sharply between 1964 and 1974, and remained largely unchanged between 1974 and 1979. Since 1979, however, the proportion has increased, reaching nearly one in five in 1990.

#### PROPORTION OF WORKERS WITH LOW EARNINGS

	<u>1964</u>	<u>1969</u>	<u>1979</u>	<u>1989</u>	<u>1990</u>
ALL WORKERS--	48.4%	42.3%	40.1%	40.4%	41.9%
FULL TIME; FULL YEAR----	24.1%	14.4%	12.1%	16.3%	18.0%

#### Some Causes

Work is not always an effective anti-poverty strategy because the worker does not work the entire year and/or does not work full-time, or because they live in a large family and, thus must have a relatively high income to escape poverty. Even earnings from a full-time year round job may not be sufficient to lift a family above the poverty threshold. In 1992, a full-time, full-year worker would have had to earn \$5.64 per hour to lift a family of three out of poverty (assuming no other earners) and \$7.23 per hour to do the same for a family of four.

As we have noted throughout, There is substantial evidence that inflation-adjusted wages have declined among less skilled workers, particularly men. The average weekly earnings of employed men between the ages of 18 and 65 with less than 12 years of education declined by 12.7 percent between 1979 and 1989, while women in this same category earned 0.5 percent less. This is in sharp contrast to workers with more education. For all non-elderly male workers, average weekly earnings increased 5.6 percent and, for non-elderly female workers, by 21.6 percent.

As with all economic trends, the issue does not lend itself to mono-causal explanations. Growing earnings inequity might be attributable to a variety of factors, including greater employer demand for college-educated workers, the fall in the value of the

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9. equivalent to the poverty threshold for the average sized working-poor family of 3.8 individuals or \$11,570 in 1989 dollars.

minimum wage, the decline of labor unions, the shift in the work force from manufacturing to the service sector, and immigration. No doubt, the relative importance of these factors varies for different types of workers.

Let us look at one factor in some detail, the minimum wage. Figure \_\_\_ presents the value of the minimum wage over time, and in relationship to the wage levels needed to raise families of size three and four over the poverty threshold. In 1992, the value of the minimum wage was 18 percent below its inflation adjusted value in 1956, about a quarter of its late 1970s value and about a third of its late 1960s value. Until the 1980s, the full-time, full-year minimum wage job could raise a family of three above the poverty threshold in most years. The current version would have to be increased by at least \$1.50 to accomplish the same thing today.

### The Recipient Poor

The AFDC population, as might be expected, does not reflect the U.S. population nor is it synonymous with the working poor. Who are what we call the recipient poor, those who receive AFDC. The vast majority of AFDC families (80 percent) are headed by single females; 7 percent are two parent families and 12 percent are families where neither of the biological parents reside. About 40 percent are African-American, 38 percent are white, and 17 percent Hispanic. The average size of the assistance group is 2.9 people, down from 4 in 1969.<sup>10</sup> Over half of the AFDC families are headed by never-married women; divorced women accounting for about a third of all cases; and widows (the program's original target group) now accounting for less than 2 percent of the caseload. Two-parent still constitute a relatively small proportion of all cases. And the AFDC population remains generally young, have somewhat better educational histories than prior cohorts, but still evidence marginal work histories.

As noted earlier, the caseload statistics over the last quarter century show a marked increase in dependency around 1970 and then little change until the early 1990s. There has been some changes in the characteristics of recipient families. Rising school levels during this period have produced a caseload in which a high school diploma is the rule rather than the exception. Fewer than one in ten recipients is under 20, though many were under 20 when their first spell started. The incidence of cases involving young children has increased slightly, while the fraction of cases involving blacks or families living in public housing has declined somewhat

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10. Only 10 percent of the cases contain four or more persons.

Reliable statistics on the temporal dimension of receipt are rare in these caseload data. A suggestive measure is the average length of time a recipient has been receiving welfare. In 1970, the average case had been involved in a welfare spell for roughly two years. By the mid to late 1980s, that average had increased to over 3 years. But by the early 1990s, it had fallen back to its 1970 level of about two years. It is difficult to infer trends in dependence from these data.

Are the recipient poor qualitatively different from other poor families. There is no definitive answer to that question. Zill and his (then) colleagues at Child Trends summarized data on the AFDC population, non-AFDC poor families, and other families. They found that the difference between the poor and non-poor (irrespective of welfare status) were far more profound than between the non-recipient and recipient poor families. Economic impoverishment and insecurity, and not the mere receipt of welfare, might be the defining characteristic in the lives of these families.<sup>11</sup>

#### THE INTERSECTION OF WORK AND WELFARE

It has always been assumed that some portion of those categorically eligible for AFDC are in a position to choose between work for pay and welfare.<sup>12</sup> A simplified view of this work/welfare decision entails comparing the net returns from work (earnings and fringe benefits after taxes and the earned income tax credit, less any out of pocket work-related expenses such as child care and transportation) with the net returns from welfare (AFDC, Food Stamps, Medicaid, and sometimes housing and other benefits).<sup>13</sup>

In reality, the comparison is more complex. If earnings were low enough, the person who chose to work could also be eligible for a reduced package of food stamps, housing benefits,

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11. Jennifer Mezey has a working paper on this issue for those wanting more detail.

12. Some families are able to work for pay and receive welfare simultaneously, particularly in higher benefit states. As welfare guarantees continue to decline, this becomes a less likely option.

13. Some of this is drawn from a CBO Staff memorandum titled "Forecasting AFDC Caseloads with an Emphasis on Economic Factors" Congressional Budget Office: Washington D.C. (July 1993). It is argued that for this choice to be fully operative, jobs must be available, child care and transportation accessible, and serious health problems absent.

and medicaid and might also receive child care. Moreover, a family's child support payments from the absent parent might rise when the family left AFDC if the payments from the absent parent were greater than \$50 per month. Finally, intangible factors would probably influence the decision: the importance of being a full-time or part-time homemaker, the subjective benefits or costs of work and the working environment, the stigma of being on welfare, and the preference for leisure.

Comparing two important pieces of this work/welfare decision--earnings represented here by those women aged 18 to 24 with exactly four years of high school, and the AFDC maximum benefits--shows the ratio of earnings to benefits increased modestly during much of the 1973 to 1991 period. During most of the 1980s the ratio was relatively stable.

What is apparent is that most view the work/welfare choice as a mutually exclusive proposition. At any point in time, only about 5 percent afdc recipients combine work and welfare (a group that has been called simultaneous work/welfare packagers), down from 15 percent in the late 1970s.<sup>14</sup> In March 1988, 59 percent of all women with children aged 3-5, and 65 percent of non-poor mothers, were working or looking for work. Moreover, 38 percent of all women with children in this age range were working full time, as were 45 percent of non-poor mothers. In contrast, 29 percent of welfare mothers with children aged 3-5 were working or looking for work, and only 8 percent were employed full-time.

These simple point-in-time estimates understate the proportion of AFDC mothers who package work and welfare either simultaneously or sequentially over a period of time. As discussed below, some research suggests that perhaps 40 percent combine work and welfare within a two year period. The undeniable fact remains, however, that work and welfare do not easily fit together.

As noted in part I, welfare, by definition, is not consistent with work. Consider a mother who lives alone with her two children in Milwaukee Wisconsin. Such a family is counted as poor if its annual income is less than \$11,890 (about \$990 per month). Should she qualify for assistance under AFDC, this mother would receive \$517 in cash and \$235 in food stamps each month, for a total monthly income of \$752 (assuming she has no other income). She would also be enrolled in a health maintenance organization through Medicaid.

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14. In some high benefit states, the proportion of work/welfare packagers was even higher. In Wisconsin, some 25 percent of the caseload worked while on welfare in the 1970s.

→ Learn this example

Now suppose this woman takes a minimum wage job and works 30 hours per week. After six months on the job, her take home pay is \$489 per month. Her monthly AFDC benefit is \$171, and she receives \$211 per month in food stamps. The net gain from moving from no work to 30 hours of work is just \$118 per month, or about 94 cents an hour. The family is not out of poverty (monthly income including food stamps is now \$871) if the mother stays on welfare. She has the prospect of a federal and (in Wisconsin) state tax refund through the Earned Income Tax Credit program (EITC). If available immediately, this would add \$135 to the monthly income and get the family barely above the poverty line.<sup>15</sup> In real life, of course, tax refunds can't be had until tax time. The federal EITC is in theory available immediately, but in practice about one-half of one percent of those who claim an EITC avail themselves of this option for one reason or another.

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What happens if this AFDC recipient decides to reduce her employment to 20 hours per week? Surprisingly, under AFDC rules the effect on income is virtually nil. Monthly income (including food stamps but not the EITC) falls only \$12, from \$871 to \$859. In AFDC, a recipient gains a little from working some but very little more from moving toward full-time employment.

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Figure      illustrates this point well, using a set of economic choices that would have been available to a Pennsylvania mother with two children in 1994--using tax rules that existed prior to recent expansion of the federal EITC.<sup>16</sup> Disposable income does increase as the mother enters the labor force and begins working 10 hours per week. After that, additional work effort nets her little. If she moved from 20 to 40 hours per week, her annual gross income would increase by \$4,440 but her net take-home would only increase by \$550. This is equivalent to confronting an 87.5 percent marginal tax rate. Put another way, those extra 20 hours per week is like working for 53 cents per hour.

Of course, this might just be the beginning of the troubles that either of these mothers would face when they try to join mainstream society and improve the economic well-being of their families. If they start work and try to "package" welfare and work, they first are confronted with a changing stream of income as the welfare rules for determining countable income change as

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15. Only a handful of states have an EITC program that can be added onto the federal program. This family would remain officially poor if it were not for the state EITC.

16. The old EITC rules were used to highlight the set of poor economic choices that women trying to raise families have faced.

one remains in the labor force." Second, they must continuously report their earnings on a monthly basis or risk losing their benefits, an onerous and stigmatizing exercise. Third, if they purchase a car that is reliable enough to get them to work and back, the rules will kick them off AFDC because the car probably exceeds the allowable asset limit. And if they try to save up a little money to further their education or even start a little business, we throw them off as well.

If they do earn enough to get off welfare, the rules contain some additional unpleasant surprises. After working for awhile, the mother may discover that she has lost access to a very good health insurance program (Medicaid) and have no coverage for her children, poor coverage for her children, or costly coverage for her children. These are not pleasant alternatives for a mother in the secondary labor market. And she may find her access to affordable child care disappear or discover that there is little help in negotiating the complexities of the child care world when one is fully independent of welfare. What recipients often find is that there is help to get into the labor market and to get off welfare; but there may be little assistance after that.

## THE DYNAMICS OF WELFARE AND WORK

### Welfare Dynamics

The typical welfare recipient has been viewed as one who functions within a static or what might best be described as a binary world. They use welfare or they do not use welfare. They

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17. Under current law, a family receiving AFDC that enters employment is potentially eligible to receive: 1) a \$90 work expense disregard; 2) for the first 12 months of employment, a \$30 work incentive disregard; 3) for the first 4 months of employment, a work incentive disregard of one-third of gross earnings after deducting the \$90 and \$30 disregards; and 4) actual dependent care expenses subject to a limit of \$175 per child (\$200 per child under age 2). Thus the family faces a nominal marginal tax rate of something like 67 percent for awhile; and a marginal tax rate of 100 percent. As a result of this steep benefit reduction rate and the low benefit levels in most states, a 40-hour a week minimum wage job results in immediate loss of AFDC benefits for a family of three in about half the states; and in many of the rest, would lose all benefits after 4 months. This does not get at the complexity of the rules. They could be thrown off if their gross income exceeds 185 percent of the state's need standard. Or they could suddenly get hit with a large reduction of benefits if they receive their EITC refund. It is, in short, difficult for even the most savvy of recipients to plan for what will happen when they go to work.

leave welfare or they remain. It is a world of simple choices and simple worlds.

The longitudinal data sets that became available in the 1980s permitted a richer examination of patterns of welfare use. The earliest research on the topic found that there was considerable movement on and off welfare roles, casting considerable doubt on the static view of the welfare world.<sup>18</sup>

The more recent research on the dynamics of welfare finds that there is even greater movement than suggested by the earlier research. By exploiting the recent availability of monthly longitudinal data on welfare receipt, the more recent investigations capture short-term exits and re-entries missed by the work that relied on annual data. It is extremely common for women to leave the welfare roles and to do so quite soon after the onset of a welfare spell. However, this movement off welfare tends to be short term for many women, a dynamic that has been replicated in several state-level studies.<sup>19</sup>

Estimates from the National longitudinal Survey of Youth (NLSY) indicate that 70 percent of all young women who begin a spell of welfare receipt exit the rolls within two years; 90 percent evidence at least one exit within seven years. However, within a year, 45 percent of those women who exit return to the rolls. And by the end of seven years, more than three-quarters (77 percent) have returned. Clearly, some of these exits represent administrative churning (failing to report all required information causing temporary suspension of benefits) rather than a real exit. The data suggest that almost half of the exits occur when the mother begins working.

#### Work Dynamics

We know less about the dynamics of work for women in the secondary labor market. The welfare dynamics literature does tell us something about volatility in the labor market. It is now estimated that some quarter of all welfare recipients will exit AFDC for work during the first year. Work exits, in fact, constitute close to half of all exits over a typical AFDC recipients career. However, fully forty percent of all recipients who leave the welfare rolls for employment return to the welfare rolls within the first year. If they stay off a year, the return rate is halved but still quite high.

The evidence that we do have suggests that the available jobs do not pay well, are not always secure, and do not always

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18. See Bane and Ellwood (1983). fill in.

19. See Mark Greenberg

lead to upwardly mobile careers. Nearly one-fourth of Americans work at the margin--in part-time, contract, or temporary jobs--most of which are low-paying, have less than adequate benefits, and provide little job security.

It has been argued that even the more employable AFDC recipients face periods unemployment and underemployment.<sup>20</sup> A sample of women who use welfare over a two year period was examined using SIPP data. The 43 percent of the sample (representing approximately 1.2 million women) whose income package included both AFDC and paid exhibited the following work patterns. They worked for an average of more than 1,800 hours over the two year period, approximately the same number of hours as all working mothers.

During the two year period they held an average of 1.7 jobs, for a total of 54 weeks of employment (their longest job lasted an average of 46 weeks). Almost half the sample (44 percent) had two or more jobs. Of the group with multiple jobs, 60 percent had two jobs, 25 percent had three jobs, and the remainder had 4 or more jobs during the 24 month period. On average, these women spent almost 4 months (out of 24 months) on layoff or looking for work. Finally, for the 45 percent of all work/welfare packagers who had more than one job, there does not appear to be any evidence that job change resulted in upward mobility in terms of increased wages, length of employment, or likelihood of working full-time.

Taken together, the worlds of work and welfare paint a turbulent and volatile world. [see figure from project Match.

### THREE DILEMMAS

#### The Nature of the Secondary Labor Market

There is some consensus, however, that the a long-term restructuring of the U.S. economy continued; the labor market shed manufacturing jobs that were associated with decent wages and benefits for noncollege-educated workers, replacing them primarily with lower-paying service sector employment opportunities. These wage and employment trends continue in the current recovery, particularly as reflected in an unprecedented rate of part-time and temporary job creation. Such jobs are associated with low wages and, of particular importance to single mothers, the lack of health insurance.

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20. See testimony presented to the Working Group on Welfare Reform by Roberta Spalter-Roth and Beverly Burr, representing the Institute for Women's Policy Research on August 19, 1993.

The seeds of growth in the low-wage labor market were planted over the 1980s. Between 1979 and 1989, the 17.2 million net new jobs involved a loss of roughly 1.7 million manufacturing jobs and an increase of 18.8 million jobs in the service sector, with the largest growth (80 percent of the new jobs) in the lowest paying sectors of service employment. Projections over the remainder of this decade indicate that the fastest growing occupations will be found in the low-paying service sector. According to the BLS, of the 10 occupations expected to add the greatest number of jobs from 1990-2005, six are traditional low-wage, low-skill jobs; retail salespersons, office clerks, janitors, nurse aids, food service workers and waiters.

An unprecedented number of the new jobs created in the current recovery have either been temporary or part-time. The temporary-help industry, which comprises less than 2 percent of total employment, accounted for about 28 percent of new jobs. Part-time jobs accounted for 26 percent of the jobs created in the recovery, and three-fourths of them were filled by involuntary part-timers--people wanting full-time jobs. This is the only post-war recovery in which there was not a significant reduction in involuntary, part-time work.

#### **Welfare Mothers as Potential Employees**

There is also considerable concern that welfare mothers, particularly those in the existing stock of cases, may not be very competitive in the labor market. There appears to be some basis for concern.

The AFDC caseload in the late 1980s was composed of adults with considerable labor market deficits. Some three-fifths were 19 or younger at the birth of their first child (as compared to one-fourth of non-poor mothers). Some 43 percent had less than a high school education (compared to 12 percent of the nonpoor mothers with children). A sample of young women who went on to collect welfare scored one standard deviation below the norm on the Armed Forces Qualification Test (AFQT).

Using NLSY data, it was found that a majority of women aged 22-30 who received welfare payments in 1987 reported some work experience over the previous five years, but not much. The mean number of weeks worked by welfare mothers was 59 out of a possible 260 weeks. About 57 percent of the welfare mothers in the NLSY had worked less than a in the last years, and 27 percent had not worked at all during that period. On the other hand, 20 percent of the welfare mothers had worked for the equivalent of 2 years or more during the previous decade. By comparison, 43 percent of the poor, non-AFDC mothers had worked 2 years or more, as had 71 percent of the non-poor mothers, and 90 percent of the non-mothers.

It has also been estimated that one-fifth of women receiving AFDC may have a health limitation; one-in-four reported alcohol-related problems; and one-third reported frequent bouts of depression (compared to 8 percent of married mothers not on AFDC). Among women aged 22-30 who received AFDC payments in 1987, 32 percent held negative attitudes about women with children being employed outside the home. Some recent work by \_\_\_\_\_ seems to indicate that almost one recipient in five may have some disability that would prevent active engagement in the labor force.<sup>21</sup>

### The Culture of Welfare Systems

A third dilemma is located in the culture of the welfare bureaucracy. Some three decades ago, welfare agencies were designed to deal with the kind of problems that kept people from functioning well. Irrespective of whether they carried out these functions well, the mission of welfare system was to identify and address both economic and social needs. This dual mission can be traced back to the "friendly visitors" and "scientific charity" movements of the late 19th century where what was then termed "outdoor relief" or direct cash assistance was to be accompanied by social and psychological assistance.

For a variety of reasons, we severed this relationship some 20 to 25 years ago. The core technology of the welfare system was dramatically altered; the new mission being to gather and process data related to the issuance of cash and in-kind assistance. Early in the separated system, the prime objective was to calculate eligibility and issue benefits efficiently, imposing as little burden and stigma on the recipient as possible. Later, the intent evolved into one that stressed fraud prevention and the minimization of error. Within a decade or so, the organizational culture evolved from a service orientation to technician to guardian of the public treasury.

Slowly, and without public admission, the institutional mission is being restored to its former purpose. The OBRA sponsored experiments, the Family Support Act, and a variety of state initiated waiver programs (e.g., Learnfare) have required that behavior be attended to along with economic need. Institutional change is not easy and it is not easy to graft new purpose onto such a large and unwieldy system; particularly the kind of change being contemplated. Government systems, particularly those designed and directed from Washington, are best at collecting and distributing money. It is much more difficult for public systems to alter individual or collective behavior. It may not be impossible, simply more difficult.

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21. These are empirical questions.

## POLICY TRENDS REVISITED

In one form or another, the attempt to link welfare for mothers raising children with work has been around for about three decades.<sup>22</sup>

## POVERTY AND DEPENDENCY REVISITED

We started Part I with a conundrum; how do we reduce (welfare) dependency and (child) poverty at the same time. And we noted yet another puzzle; AFDC caseloads, child poverty, and work effort are all up. About 5 million families are on AFDC, over 14 million of our children are poor, and the highly educated (by historical standards) civilian labor force is approaching 120 million persons.

The subsequent discussion may not have definitively resolved the set of conundrums laid out but hopefully have shed some light on this complex topic. One, the economy has changed. Secure jobs that pay a family wage are not as common and require ever higher levels of human capital. Two, the demographic news is catastrophic. Single parent households have a very difficult time earning enough to ensure the economic well-being of the family. The numbers of such families continue to grow. Third, public policies have, in some instances evolved in an inhospitable direction. The value of the minimum wage is very low relative to its historical levels. Likewise, the AFDC guarantee has fallen to levels of generosity not seen since the 1950s.

One solution to the conundrums and puzzles presented earlier is to generate millions of high paying jobs with benefits. That is the preferred solution but not one that is highly feasible in the short run.<sup>23</sup> Another partial solution is to make sure that both parents contribute to the economic well-being of their children, even if they are not living with them. Improvements can and are being made in this regard but there are limits here given declining real wages among men and some tendencies toward serial families.

While other strategies might also be introduced, clearly government must assume a some greater responsibility for making

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22. The attempt to link welfare with work for males, and when no children are involved, has always been part of welfare policy making.

23. In the longer run, larger and more appropriate investments in human and physical capital can make the U.S. workforce more competitive internationally, the sine qua non for such an approach to work.

work pay. A lengthy list of possible strategies for doing this are enumerated in attachment A. But they fall into two basic approaches; at least for the population in which we are primarily interested:

- \* We can try to change the rules from within the current welfare logic. We can reduce benefit reduction rates and liberalize asset limitations in certain ways and so forth. But this is a well worn policy path that has offered few lasting solutions. For one thing, families must enter what has become an almost universally reviled system to obtain this kind of help. For another, there has been a tendency for yesterday's welfare "reform" idea to become today's scandal.<sup>24</sup>
- \* The second approach is to try to make work pay outside of welfare. This does not mean that government has no role in providing direct assistance to those who are poor." Rather, it would provide that help in different ways. The EITC is a public transfer to the working poor and near poor that may rival AFDC in cost and scope. But it is not welfare (according to the definition in part I) because you cannot get it without working. An Assured Child Support benefit<sup>25</sup> is also not welfare because, though you can get the transfer without working, it is not subject to the extortionary marginal tax rates (or benefit reduction rates) we ordinarily impose on typical welfare benefits.

It is obvious that we prefer approaches that operate outside of the welfare system. The implication is that the kinds of policy changes needed can, at best, only be influenced by the welfare reform agenda. In fact, welfare reform is a very small engine on which to base the necessary changes. The key decisions about the EITC, minimum wage legislation, substantive child support reform (including an Assured Benefit), universal health care access not tied to welfare status, and other major initiatives must be driven by larger constituencies and larger

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24. In the early 1980s, President Reagan increased benefit reduction rates on AFDC recipients, arguing that the program should be a real safety net and should not be used to supplement wages. A decade later, Wisconsin Republican Governor Tommy Thompson identified this terrible flaw in the welfare rules and liberalized the benefit reduction rates well beyond their pre-Reagan parameters, at least for younger recipients.

25. Discussed in attachment A. In its pure form, it is a publicly guaranteed minimal child support payment that an eligible child will receive if the amount collected from the responsible absent parent is less than that amount and which is not reduced as the custodial parents earnings rise.

public purposes. But they are essential ingredients to a comprehensive strategy to make work a rational alternative to welfare and an effective route out of poverty.

A second lesson from the prior discussion is that there are two large domains in the make work pay arena. The first is to make work a rational economic option; relative to welfare and relative to achieving some more relevant standard such as escaping poverty. As outlined in the "menu," there are numerous strategies for accomplishing that end. But that is not enough. To really make work pay one must deal with a host of personal, interpersonal, logistical, informational deficits, and transaction costs that, at best, make work less desirable and sometimes make it an impossible dream. Both the economic and what we have called the administrative challenges ultimately must be addressed. Admittedly, we know far more about the former than we do the latter.

Despite the complexity of the task, making work pay is a fundamental and necessary first step in any attempt to "end welfare as we know it." If we fail in this effort, we may do little more than has been achieved in other efforts. We may reduce dependency to some degree but at the price of increasing economic insecurity for our children.

**THE MAKE WORK PAY DOCUMENT SERIES****PART IV****THE WORK SUPPORT FUNCTION****SECTION I: BACKGROUND, RATIONALE, AND LIMITATIONS****INTRODUCTION**

The typical welfare recipient is viewed as a person that functions within a static, binary world. They use welfare or they do not. They leave welfare or they remain. They become self sufficient or they do not. It is a world of simple choices and opportunities, a world of simple images.

Two common images present us with quite different pictures. In one, recipients are seen as chronically dependent, their initiative sapped by cultural isolation, enervated confidence, and/or crippling and counterproductive economic choices. In the other, they are seen primarily as short-term users of an essential safety net designed to help them weather unavoidable personal and/or economic crises. Discussion of the welfare population too often mimics the description of an elephant by two blind men, one who basis his image on the feel of the slim trunk and the other on the basis of the massive body.

The emerging research literature, as well as anecdotal insight and pure common sense, describes a more complex picture. For some recipients, it is a way of life. For others, it is a form of short-term assistance. And for still others, it is a periodic form of support as they negotiate the uncertain and tenuous world of the secondary labor market.

The discussion of welfare reform, however, often assumes a rather linear and simple notion of life as experienced by recipients. The JOBS program, for example, implicitly assumes this linear experience; recipients enter the system, get some help, and move off to self-sufficiency. Somehow the discussion of lifetime learning, the continuing readjustments and retooling for an ever changing economy that dominates discussions about labor market preparation for the rest of society is not applied to the least fortunate.

There are serious limitations regarding what kind of continuing labor market help can be developed within the welfare reform framework. This paper at least begins the discussion of some options.

## A REVIEW OF WELFARE/WORK DYNAMICS

The longitudinal data sets that became available during the 1980s permitted a richer examination of patterns of welfare use. The earlier research on the topic found that there was substantial movement on and off welfare, casting considerable doubt on the static view of the welfare world.

More recent research on welfare dynamics finds that there is even greater movement than previously suggested. By exploiting the availability of monthly longitudinal data on welfare receipt, the most recent analyses captures short-term exits and re-entries missed by work that relies on annual data. The research finds that it is extremely common for women to leave the welfare roles and to do so quite soon after the onset of a welfare spell. However, this movement off welfare tends to be quite brief for many women, a dynamic that has been documented in several state-level studies.

Estimates from the National Longitudinal Survey of Youth (NLSY) indicate that 70 percent of all women who begin a welfare spell exit the rolls within two years; and 90 percent will have exited at least once within seven years. However, within a year, 45 percent of those women who exit return to the rolls. And by the end of seven years, more than three-quarters (77 percent) have returned. Undoubtedly, some of these exits can be attributed to administrative churning (e.g., failing to report required information resulting in a temporary suspension of benefits) rather than a real exit. The data suggest that almost half of all exits might be attributable to the onset of employment (or increased employment).

We know less about the dynamics of work for women in the secondary labor market. The welfare dynamics literature does tell us something about the volatility and turbulence in that labor market. It is now estimated that some quarter of all welfare recipients will exit AFDC for work within a year of the onset of their first welfare spell. Work related exits, in fact, account for almost half of all exits. However, fully forty percent of all recipients who leave the welfare rolls for employment return to the welfare rolls within the first year. If they stay off a year, the return rate is halved but remains substantial.

The evidence that we have suggests that the jobs available to welfare recipients do not pay well (perhaps in the neighborhood of \$5.00 to \$5.50 per hour on average), are not always secure, and do not always lead to upwardly mobile careers. Some estimate that nearly one-fourth of Americans work at the margin--in part time, contract, or temporary jobs--most of which are low paying, have less than adequate benefits, and provide little security.

It has been argued that even the more employable AFDC recipients face periods of unemployment and underemployment. A sample of women who use welfare over a two year period was examined using SIPP data. The 43 percent of the sample (representing approximately 1.2 million women) whose income package included both AFDC and paid employment exhibited the following work patterns. They worked for an average of more than 1,800 over the two year period, approximately the same number of hours as all working mothers.

During the two year period, they held an average of 1.7 jobs, for a total of 54 weeks of employment (their longest job lasted an average of 46 weeks). Almost half the sample (44 percent) had had two or more jobs. Of the group with multiple jobs, 60 percent had two jobs, 25 percent had three jobs, and the remainder had four or more jobs during the 24 month period. On average, these women spent almost 4 months (out of 24 months) on layoff or looking for work. Finally, for the 45 percent of all work/welfare packagers who had more than one job, there does not appear to be any evidence that job change resulted in upward mobility in terms of increased wages, length of employment, or likelihood of working full-time.

Take together, the worlds of work and welfare appear turbulent and uncertain. [project match graphics]

#### THE CURRENT MODEL

Existing JOBS models vary in a number of ways: the degree of target group saturation; the extent to which participation is required; human capital vs. labor market attachment approaches; the locus of program responsibility<sup>1</sup>, which outcomes are stressed<sup>2</sup>, and so forth.

They typically have one attribute in common; they are front-end, linear models that make certain assumptions about clients and the labor market. They assume that clients represent raw material to be processed and then launched into the labor market. The processing can vary in intensity, sophistication, and length (though it is always tied to welfare receipt which creates

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1. One aspect of this is whether the welfare office, the local PIC, or some other agency assumes real management control. Institutional philosophies play a big role in what clients experience.

2. Objectives are often loosely stated but arguably it makes a difference if lower welfare use (by deterring frivolous use of welfare) is considered more important than achieving client self sufficiency.

obvious adverse incentives)<sup>3</sup>, these models bear a certain conceptual consistency. You enter the system, you are fixed, you exit the system, you graduate to middle class.

All savvy observers know the world is more complicated. Still, the focus has been on entered employment with only marginal interest in measuring post employment experiences or offering post-exit assistance.<sup>4</sup> This is not surprising. The task of reorienting the welfare system from a check issuing operation to a people changing operation will be slow and costly. Most JOBS programs are still struggling with the basics. Let's review just a few of the challenges they face:

- \* Generating sufficient resources: Early in the JOBS experience, only one state in five committed enough resources to fully draw down the available federal match.
- \* Target group saturation: Few programs have saturated the intended target population. The federal standard appears low, though the participation definition is strict. Exemplary programs like Riverside Cal. still exempt 50 to 60 percent of incoming clients. SWIM hit about a 50 percent rate. Kenosha Wisconsin has a higher saturation rate than SWIM but the cost of running the program is high.
- \* The Leakage issue: A key issue is not only getting people involved but keeping them involved. A typical client flow in the GAIN program had 71 percent reaching orientation, 34 percent reaching an initial program component, and less than 5 percent being involved in assessment or post-assessment components.
- \* Basic design and management issues: The other design and management issues are likewise problematic; what to offer to whom, when, and where? There is a great deal of trial and error as the task of preparing individuals for the work place is treated more seriously.
- \* Outcomes: It is rare to find employment impacts of greater than 10 percent, earnings impacts of more than \$1,000 annually, or welfare reductions that would catch the attention of the voters. It will be some time before resources, technology, and management expertise match the challenge.

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3. Namely, to go on welfare to access services, if they are worthwhile, and to delay exit from welfare for the same reason.

4. There are exceptions. Presumably, the America Works model builds its incentive structure around maintaining a client in a job for six to nine months.

In other words, the people-changing business is a difficult undertaking, particularly for a welfare system that eschewed this role some twenty years ago.

## SECTION II: FUNCTIONS, MODELS AND ISSUES

### GENERIC SUPPORT FUNCTIONS

Providing the kinds of supports necessary to really make work pay goes beyond merely improving the economic payoffs to low-income persons. There are personal issues, interpersonal issues, information deficits, transaction costs, world of work concerns (e.g., dealing with co-workers and supervisors for new labor market entrants), and many other challenges that enter into the personal calculus about the worth of work.

The basic goal or task of a work support agency is to keep the head of a family in the labor force and, to the extent resources permit, assist individuals toward achieving upward occupational and wage mobility. Other outcome measures would include:

- \* increase the duration of first employment after the exit from welfare.
- \* to reduce the frequency of labor market attachment disruptions.
- \* to minimize the recidivism (or returns) to AFDC.
- \* To reduce the amount of time between jobs for those who suffer a labor market disruption.
- \* To reduce the prevalence of problems in the labor market including absenteeism, interpersonal conflict, job related stress, and so forth.
- \* To enhance the individuals ability and motivation to achieve positive wage growth and professional satisfaction.

Below, we try to lay out the basic issues affecting the ability to achieve these ends and likely means for achieving those ends:

- \* labor market information/job search skills--
- \* skill upgrading information--
- \* child care/transportation information--

- \* Help with medical and health access issues--
- \* workplace stress and adjustment assistance--
- \* job-induced home and social adjustment assistance--
- \* money management and financial planning--
- \* tax assistance/EITC and other assistance programs--
- \* continuing education etc.
- \* work support groups and mentoring programs--
- \* work subsidy assistance (wage bill subsidies and training subsidies)--
- \* assistance with career planning and progression.
- \* legal assistance for job related issues.
- \* assistance with substance abuse, mental health, and other problem areas (EAP type services)

#### GENERIC WORK SUPPORT MODELS

There are many key tradeoffs in deciding how to structure likely policy and programmatic responses to this wider set of issues: how broad or narrow should the target group be; how many functions ought to be performed; how inclusive should this service system be with other service systems; how long should a participant be assisted; and so forth.

For discussion purposes, three generic options are offered:

1. Work Support Agency (WSA). This concept would serve to support the world of work, possibly for those who had exited from welfare through employment. It would serve only employed individuals and would be directed toward helping participants retain their current jobs or to assist them in obtaining new ones. The kinds of help would arrange from assisting new entrants to the vagaries of the tax system, helping them deal with stress and job related difficulties, and dealing with certain transaction costs (child care, medical care, transportation, etc.).

Illustrative functions:

- \* counseling (e.g., stress, family support).
- \* tax assistance--e.g., advanced EITC payments,

- \* financial planning
- \* information on child care, medical, and transportation issues.
- \* information on mental health/addiction and other EAP services.
- \* Peer support, mentoring help, and other group support
- \* career advancement assistance.
- \* awards and recognition functions.

2. Neighborhood Employment Centers (NEC). The purpose of the NEC would be to provide labor force participants (those with jobs and those looking for work) with general problems with issues related to the world of work. (Comparisons with WSA are discussed below.) Initially, the NEC is envisioned as containing two or three main components:

- a. Worker Support. Assistance with work-related issues including searching for a new job. Job search clubs, job listings, access to automated job banks, tax assistance (EITC, completing tax forms), assistance with education/tuition application forms, sponsoring workshops (financial planning, balancing work and families responsibilities).
- b. Service Brokering. Assistance with problems that may interfere with work. Counselors help individuals access services through other agencies such as child support enforcement, and referral to agencies for services (e.g., crisis intervention, substance abuse treatment, emergency services, legal services, family counseling).
- c. Community Service Employment. Local coordination of federal community service programs, including a modest CWEP program for welfare recipients, youth apprenticeship programs, summer youth employment, national service programs, and possible community service jobs program for former welfare recipients or other low-income unemployed.

3. Comprehensive Support Systems (CSS). It may be argued that creating a separate agency for successful employed exiters of welfare (or other welfare graduates and low-income families) would have adverse effects. It would not eliminate welfare stigma (may, in fact heighten it), would create some perverse incentives, and would

result in disjointed and uncoordinated service delivery systems.

Individuals from the Make Work Pay, Transitional, and Post-Transitional groups have been episodically thinking about this. Perhaps the way to conceptualize what is needed is to start from a prior that there is no welfare system per se; no entitlement to income support. Except for the disabled, all support would be temporary and conditional on enhancing individual and family functioning. That would be the prime institutional mission and the prime locus of agency attention and effort.

In some ways, this might be thought of as a NEC that also includes a community service center concept. Several stages in the hypothetical life-cycle of a client would be dealt with in an integrated system:

- a. Gatekeeping/diversion. The first focus is to determine how to get individuals and families functioning. A plan is developed that may include temporary income support that in all cases, except for failure of the agency to live up to its part of the contract, will be conditioned on recipient behavior. Wherever possible, entrants should be diverted from income support assistance and helped to maximize other systems (child support, education, employment service, etc.).
- b. Transitional. Those getting income assistance would be involved in a set of activities during that period where they are preparing themselves for self-sufficiency. The length of that period may vary according to their personal attributes and the socio/economic environment that exists upon point of entry.
- c. Post-transitional. The help and services and work opportunities that would be provided after termination of income assistance. This might include special response teams or response capacities for the FUBARs (those Fouled Up Beyond All Recognition but who are not eligible for permanent disability support). Particular attention must be paid to assuring that children do not suffer from neglect or abuse.
- d. Continuing labor-market support. Help like that provided in the WSA described above to minimize the need for recycling. We might also consider

how the Unemployment Insurance (UI) system might be strengthened. Currently, only about a third of workers are covered, meaning welfare becomes a likely source of support for the disadvantaged who experience disruptions in the labor market.

In addition to many of the functions described in the NEC concept, this might be a one-stop shopping center that had many services on-site and was collocated with employment service and so forth. The Labor Department is preparing a new (expanded?) initiative in the one-stop shopping arena. HHS and Labor might well work together to see how this initiative and welfare reform might support and complement one another.

Some of the distinctions among the three concepts presented above are subtle and, frankly, arbitrary. The WSA would provide a reasonable set of services to those who found jobs and had been on welfare (however defined). The NEC would broaden the target population to serve those actively looking for work and would provide a broad array of services. The CSS could be interpreted as saying that there is no welfare program to exit from. If you need help, you go to this agency. You might get temporary income assistance but that is not what would define the institutional mission or philosophy. The prime mission would be to restore individual and family functioning and move clients into societal mainstream (or keep them there).

This is an area where a great deal of developmental work is appropriate. Local environments (population density and mix, labor markets, service and education infrastructures, the management capacities in key institutions, etc.) are likely to vary substantially. For example, in what Jaworsky calls ghetto neighborhoods the percentage of poor children can range up to three in four and the percentage on AFDC can be one-third. Any center located in those areas might well target the poor without having to explicitly make it an eligibility factor.

#### GENERIC DESIGN AND MANAGEMENT ISSUES

The bottom line is that we know little about how to construct a work support agency. Below we list out the areas of major management uncertainty:

- \* Target Population:
- \* Sponsoring Agency:
- \* Location of Services:

- \* Administrative/Management Strategies:
- \* Duration of Services:
- \* Definition of Success:
- \* Cost:

### SECTION III: RECOMMENDATIONS

Because there are so many technical, management, and political questions associated with the Work Support concept and because, over the long run, it is envisioned that the key policy challenge will shift from getting people into the labor force to keeping them there, we propose the following:

1. That a set of demonstrations be undertaken, testing out various alternatives and strategies for developing effective work support functions.
2. That the Department of Labor and HHS jointly prepare the general guidelines for establishing the demonstration programs by \_\_\_\_\_, 1994.
3. That a host of possible organizations and agencies including local, state, for profit and not for profit, foundations, and other entities be encouraged to submit proposals.
4. That an amount of money be set aside to launch no less than 10 pilot programs in urban and rural sites, good and bad labor markets, and with varying administrative approaches and service strategies.
5. That work immediately begin on conducting an evaluability assessment and on developing an evaluation capacity.
6. That the development of the demonstration programs try to encompass the generic models described above.

THE MAKE WORK PAY DOCUMENT SERIESATTACHMENT A**A GENERAL MENU OF POLICY OPTIONS**

The objective of the MAKE WORK PAY (MWP) welfare reform theme is quite straightforward. Work should be a rational economic option for low-income family heads, particularly relative to welfare. That is, the labor market environment in which low-income family heads find themselves should present work as a reasonable, and available, choice. Specifically, those families who "play by the rules" that society sets agrees is a reasonable work effort should not experience economic destitution and, ideally, should be able to guarantee some reasonable level of economic well-being for their family.

Consistent with the discussion presented in earlier sections, it is assumed that there exists no single preferred approach to achieving the MWP objective. Several strategies can be mixed and matched to achieve the MWP objective. Feasibility issues, theoretical and management uncertainties, cost considerations, and political realities may quickly inform the outlines of what necessarily may be a modest short-run reform package in this reform area. This discussion assumes reform is a long-term undertaking--a marathon and not a sprint-- and consequently presents a broad set of options and possibilities. The discussion in part III casts a broad net and covers possibilities that simply will not receive serious attention, either in the short or long run. It is assumed, however, that it is better to exclude ideas from the reform table by acts of explicit management commission rather than neglect them through inadvertent omission.

There are two basic dimensions to the MWP theme. The first is "economic" and the second is what we have called "administrative." The economic dimension deals with those policies and programs that affect the rationality of labor market participation choices available to potential, actual, and former welfare recipients. The administrative dimension acknowledges that simply making the world rational in a strictly economic sense may not be sufficient. Personal problems and limitations, information deficits, environmental constraints and barriers, and transaction costs may prevent some individuals from advantaging themselves of newly available (or modified) economic options.

Below is a rather lengthy menu of ideas, concerns, and policy/program options. From this menu, it should be possible to organize a plan of action. The fact that a tentative plan is being prepared in no way suggests that final decisions have been

made, except for the short run decisions made as part of the budget bill.

### The Economic Dimension.

The economic dimension essentially encompasses those policies and programs that increase the economic rewards of work and/or reduce the economic cost of work relative to other available options. There are at least three categories of options (ways of organizing options) that might be listed within this dimension; (1) those that operate within the current welfare system, (2) those that operate outside the welfare concept, and (3) some policies that may indirectly affect the rationality of work.

#### (1) WITHIN WELFARE:

Below we review briefly some of the attempts to modify welfare in ways that make it less incompatible with work or, in some cases, where it might be used to complement work. The virtue of these strategies is that they involve less radical departures from current practice and involve less management and fiscal uncertainty. The problem is that they fail to aggressively deal with the "fatal flaw" of welfare described in part I. They make welfare a little less like welfare but do not offer an alternative to what is generally thought of as an outdated, administratively burdensome, stigma-laden, initiative-depressing program designed to remedy adverse economic outcomes rather than enhance personal opportunities.

Lower Marginal Tax Rates: A number of strategies have been suggested for enhancing vertical equity in the current system. Vertical equity can be thought of as a program attribute that specifically rewards work relative to reliance upon welfare alone by structuring welfare in such a way that those who work have access to more income than those who do not. Extending that principle somewhat, the more you work, the more disposable income you should enjoy. Within welfare, achieving this principle typically involves lowering the benefit reduction rate (BRR) or the rate at which the welfare grant declines in the face of earnings (or other income) and by eliminating notches--the sudden loss of health insurance (medicaid) or child care when an additional dollar of earnings moves one over an eligibility threshold. There are many approaches to modifying the BRR, only two of which we cite here:

1. Fill The Gap concept. A number of states have adopted initiatives designed to allow AFDC recipients to keep earnings equal to the need standard (the minimal amount prescribed by the state as being necessary for a family of that size) minus the welfare guarantee (the actual

welfare benefit for a given family who has no income) before initiating the BRR provided by statute or regulation. For example, take the case where the need standard is \$500 and the guarantee is \$400. The family could earn \$100 before any of the other BRR rules are initiated. This approach may create severe "kinks." Income is not taxed (e.g., benefits are not reduced) up to a point after which the recipient experiences severe marginal tax rates.

2. \$200 and one-half concept. Fill-the-gap provisions do not alter BRR rules over a range of earnings. Rather, this approach alters the earnings threshold at which an extortionary tax rate kicks in. Other proposals intend to change BRR rules over a broader earnings range. For example, the Wisconsin Parental and Family Responsibility Initiative allows participants to keep the first \$200 of earned income without reducing AFDC benefits. After that, the benefit reduction rate is 50 cents on the dollar. Some balk at this general approach because it erodes the target efficiency of the system. That is, the break even point (the income level where the family would no longer receive welfare benefits) increases to a point that some would argue is too high for a welfare program. In point of fact, the program pushes the break even point for a family of two up to a little less than \$15,000.

Extend Eligibility for Transitional Supports: Access to certain benefits such as Medicaid and Child Care have been conditioned, in part at least, on welfare status. That is, some persons have been penalized for moving from welfare to work by losing certain benefits (critical to the family or important to continued labor force participation) or by having to pay more for those benefits. This is considered a severe work dis-incentive particularly when the good or service is considered critical to family well-being and for which substitutes are not readily available. For example, most parents would consider access to reasonable health care for their children to be an essential good, which they are reluctant to give up for only a slight increase in net income. Some support services for which eligibility might be extended are:

1. Medicaid eligibility--The duration of eligibility for Medicaid has been extended after a person has exited welfare because of higher earnings. Within-welfare reform proposals might further extend the duration of medicaid eligibility for persons leaving welfare because of earnings or extend this benefit to all those who exit welfare. One unintended consequence of this

approach might be to institute an adverse incentive feature. That is, some persons might make themselves eligible for welfare and apply for welfare only to obtain access to the medical benefits.

2. Child care services--Likewise, eligibility for subsidized child care has been extended for cases where a welfare recipient exits welfare for work. The same adverse incentive characteristic might well apply in this instance.
3. Transportation--given spatial mismatches between the residential location of recipients and the geographic location of jobs, the availability and affordability of transportation can be an issue. Among other things, special transport schemes from inner cities to where the jobs are have been tried in some communities.

Miscellaneous Reforms: Other barriers to full labor market participation resulting from the current rules either have been addressed in some state reform proposals or have been discussed at considerable length in prior reform debates. Below are a half dozen examples that do not pretend to be exhaustive.

1. General Asset Liberalization-- Very stringent asset limits are seen as punishing those playing by the rules. As families start to earn and save, they find themselves ineligible for further assistance. States are exploiting ways to allow persons to retain higher asset amounts. This concept is generally consistent with the empowerment notion that gained currency in the 1980s--people should be encouraged and not punished for trying to save money and improve their lot.
2. Dedicated Asset Liberalization--A variant on the above theme is to permit the accumulation of assets if they are subsequently expended on approved purposes such as human capital or entrepreneurial investments. The "extra" resources might be kept in a special escrow account and paid out in the form of approved vendor payments (e.g., tuition payments).

A similar concept is to liberalize the value of an automobile a recipient is able to own if it is instrumental to their work, skill training, or education.

3. Rationalize Income Streams--Unpredictable income streams are seen as a deterrent to moving into the labor force or staying there. Current rules are so complicated that low-income family heads sometimes

prefer welfare because the amount of income available to them is predictable. One important example is how the EITC is treated. If taken as a lump-sum payment, it is treated as a resource (asset), and can render a family briefly ineligible until they spend down the excess. This eventuality can surprise even relatively savvy welfare recipients and make work a less attractive proposition because of the economic uncertainty it introduces.

4. The Unemployed Parent Program--The Family Support Act increased the importance of the UP program. Some of the program's rules remain anachronistic--evidencing both anti-work and anti-marriage incentives. For example, if one of the parents participating in the Unemployed Parent (AFDC-UP) program works more than 100 in a month (the 100 hour rule), they are ineligible for all benefits even if they are still income eligible. This is seen as penalizing more than half time work. There are proposals to treat the UP and the regular AFDC families in the same way. UP also has a rather complex work test that younger couples may have trouble passing, a rule that might discourage teen marriages. The Wisconsin Parental and Family Responsibility proposal (e.g., Bridefare) attempts to address that problem, among other things.
  
5. Program Integration--Coordinating program rules and combining programs remain a "philosopher's stone" in public administration--something that all policy planners strive for but seldom achieve. It is assumed that fewer programs or a simplified and integrated set of program rules will deal with some technical problems such as cumulative (cross program marginal tax rates) and will make the array of client choices more rational. There are numerous possibilities, many of which will be considered under Vice President Gore's Reinventing Government Initiative. We only mention two here:
  - a.) Electronic Benefit or Funds Transfer: A paperless system has great appeal. The Foods Stamps program has had reasonable success experimenting with electronic transfer of Food Stamps benefits (EBT) to recipients. The Social Security Administration is interested in electronic transfer of checks to recipients' banks. There is a great deal of issues to be resolved and tested, however. On the other hand, tying low income families into the banking system also provides other advantages to the families and society.

b.) Combining EITC and Food Stamps: Although there is strong political support for Food Stamps and assuring that some benefits support nutritional objectives of eliminating hunger, many argue that in-kind benefits are inefficient and demeaning. For a number of reasons--including asset restrictions, stigma, costs to the potential recipient exceeding their perceived value of small benefits--less than half of working families potentially eligible for Food Stamps take advantage of them. We might try demonstrations which combine Food Stamps and EITC payments; i.e., "cashing out" Food Stamps. Such demonstrations could include other benefits, such as AFDC-UP for working families, and also experiment with the EBT approach mentioned above.

6. Improving the JOBS Program--It is arguable that strengthening the JOBS program and other human capital can be construed as "make work pay" strategies. At a minimum, individuals with higher productivity (or merely a higher motivation to work) may command somewhat better compensation in the labor market or at least be better able to deal with the challenges of that market. Even if more resources were not invested in the program, a more rational allocation of existing resources would help. Namely, those federal match resources allocated to a specific state and not used by that state should be available to other states who have exhausted their federal match potential.
7. Making Work Pay for Non-custodial Parents--There is a certain asymmetry to current policy that neglects non-custodial parents. (For purposes of this discussion we will assume they are males; although, that is not a necessary condition.) We want to provide support services and conditions on custodial welfare parents and ask them to cooperate with child support enforcement activities. We want non-custodial parents to acknowledge paternity and pay child support when they have income. MWP strategies also should consider making the mutual compact between society and the non-custodial parents more symmetrical to that we espouse for welfare mothers. If a non-custodial parent is playing by the rules he also should be eligible for education, training, and employment opportunities. These principles will be discussed in more detail in the Child Support Enforcement and Insurance paper.

Most prior welfare reform efforts over the past quarter-century have focused on making welfare work better. These reform efforts have inevitably failed to simultaneously satisfy the conflicted goals of achieving adequacy (poverty reduction), target efficiency (directing benefits to the poor),

and vertical equity (improved labor supply by increasing the rewards for working). More recently, reformers have looked for solutions outside of the welfare concept.

(2.) OUTSIDE WELFARE:

There are many ways to make work pay outside of the welfare system--whether defined programmatically (e.g., AFDC, Food Stamps, Housing) or functionally (see Part I). However welfare is defined, it remains a flawed vehicle for removing families from poverty. Notwithstanding some of the reform options discussed above, welfare benefits generally replace earnings and do not supplement earnings. Many analysts now look outside of welfare for ways to assist the economically disadvantaged. By definition welfare is means tested and the inevitable tendency is to stress the safety net character of this approach to helping the less well off, thereby emphasizing target efficiency--in this context defined as the attempt to direct program benefits on the poorest of the poor. The inevitable consequence is that benefits replace rather than complement earnings, thereby minimizing the antipoverty effectiveness of this strategy and aggravating what are considered counterproductive incentives such as reducing labor supply.

Below we introduce a number of these policy and programmatic options generally placed in the "outside welfare" category.

Direct Market Interventions: Direct interventions are defined as those that primarily operate through the private market place. Government might further intervene in the market place by raising the minimum wage and/or by indexing the minimum so that it's value does not erode over time. Even with recent adjustments, the federal minimum wage represents about 70 percent of it's 1968 value. There are concerns about this approach. Economic theory suggests that some job loss will occur though the empirical evidence is ambiguous. In addition, it is not an efficient approach. Only about one-quarter of those earning the minimum wage are heads of families with children. Still, minimum wage legislation must at least be attended to when the package of initiatives designed to Make Work Pay are considered even if it is not considered an explicit part of the welfare reform package. [Moreover, if the EITC continues to grow, there may be a wage-depressing effect whereby some sectors of the labor market begin shifting wage costs onto the government. Minimum wage legislation may play a role in assuring a reasonable allocation of responsibility between public and private sectors.]

1. Some have argued that the minimum wage ought to be restored to some traditional level of support (Levitan,

et.al., 1993, p.56). If it were increased to 50 percent of the average private nonsupervisory hourly wage, it would have to be raised to a level somewhere in the \$5.50 range. This would essentially enable full-time minimum-wage earners to reach the poverty line for a family of three irrespective of whether they obtained EITC payments or Food Stamp benefits. This plan has two other provisions:

- a. It would be phased in over time to avoid economic dislocation.
  - b. Steps would be taken to broaden the population covered by the minimum wage.
2. Others argue that, at a minimum, the minimum wage should be increased to \$4.50 per hour by 1994 and then subsequently indexed. The \$4.50 figure approximates the 1992 level indexed for two years. This is a minimum prerequisite to lifting a family of four with a full-time, minimum wage worker out of poverty. To accomplish this, the family would have to claim their full EITC credit and the Food Stamp benefits to which they are entitled. The minimum wage would more consciously depend on the EITC and Food Stamps to raise larger families out of poverty.

Work-Based Assistance. There are several existing or potential programs that provide assistance to low-income persons that are conditioned on being in the labor market. That is, since you cannot get this type of help unless you are working, these may be considered a work-based strategies. They may also be considered public sector efforts to accommodate shortcomings and structural problems in the private market place.

1. Earned Income Tax Credit (EITC). The EITC is a refundable tax credit for low-income heads of households with children. Under the new law, a family head with more than one child receives a 40 cent credit for each additional dollar earned up to \$8,425 in 1996. Thus, a full-time, full-year worker with two children at the minimum wage would receive a credit of \$3,370. The credit is reduced by about 21 cents for each dollar earned above \$11,000, ending when earnings reach \$27,000 annually. A credit for childless workers between the ages of 25 and 65 has also been created. Depending on assumptions made about the minimum wage and Food Stamps, single parent with two children working full-time at the minimum wage will be able to escape poverty. The value of the credits will be

indexed so that their value will not erode over time. This is existing law and does not require further welfare reform action other than to claim credit as a reform victory. Some related issues will require attention. Some of those remaining issues are how to assure that large families can escape poverty at minimum wage jobs, how to get the credit into the hands of all beneficiaries and more frequently, and how to pro-actively deal with potential concerns about error and abuse (see discussion below). Items 2 through 5 below are possible strategies that might be considered in "make work pay" reform strategies.

2. Reduce the Social Security Withholding Tax. Another approach to helping low-income working poor would involve making adjustments to the FICA wage base. Currently, we start levying a 7.65% tax on dollar one of earnings, with the tax ending at about \$56,000 of earnings, though the retirement portion of that tax is only 5.3 percent. We might either exempt, or tax at a lower rate, the first X amount of earnings. To ensure revenue neutrality, the taxable wage base at the upper end would have to be raised. Yin and Forman (May 17, 1993) argue that some form of this approach, if accompanied by refundable child credits to address family size issues, would be preferable to the current EITC.
3. Earnings supplements. Earnings might also be supplemented directly--not through the tax system--to ensure that the family reaches an economic goal (e.g., the poverty threshold). These schemes often take monthly (or estimates of yearly income) and calculate, after netting out realized or anticipated EITC payments, what the supplement ought to be. The New Hope project in Milwaukee is an example of this kind of approach. A variant of this is to have a minimum work requirement (e.g., 30 hours per week or so many weeks per year) attached to the work supplement. Both New Hope and a Canadian earnings supplementation demonstration have this provision.
4. Wage-rate supplements. Other direct (i.e., not through the tax system) earnings supplements have been proposed. One popular variant is to pay the participant 50 percent of the difference between the minimum wage and some target figure, say \$7.25 per hour. All other things being equal, the supplement would be \$1.50 at a minimum wage job and \$1.00 per hour at a job paying \$5.25 per hour. [note: Significant administrative and data infrastructure enhancements are needed to

introduce some of these subsidies, since current IRS and SSA reporting systems do not record hourly wages.)

5. Hours-based subsidies. A slight but important variation on this theme is to pay a more or less flat subsidy per hour--e.g., \$1.00. [The Wisconsin CSAS proposal had this feature.] Some prefer this approach because it theoretically encourages workers to increase their hours of work--a feature absent some earnings-based supplement schemes. Others stress that it sacrifices target efficiency in that it is somewhat more likely that benefits could go to workers who were not economically disadvantaged.

Work-Friendly Assistance. There are several types of transfers that are not conditioned upon work but are still designed to supplement earnings. Typically the benefits provided make no pretense to meeting the economic needs of recipient families. Such families must combine these transfers with earnings if they are to achieve a minimum level of economic well-being. A defining characteristic of these initiatives is that they are subject to no benefit reduction rate on earnings or to a tax rate that is substantially lower than that imposed by a welfare program. In numerous cases the transfer is subject to tax rates imposed on society in general. These transfers can be combined with earnings to help a family escape poverty and so are consistent with greater work effort. Next are listed a few examples.

1. Assured Child Support Benefit (AB). A classic transfer of this type is an AB transfer. It is a work-friendly transfer in the sense that most versions of the AB allow the beneficiary to use this transfer as an income floor upon which earnings can be added. That is, the transfer complements and does not replace earnings. Although, economists are quick to point out that the AB has conflicting income and substitution effects which make it difficult to predict whether it encourages labor or leisure. An AB generally works as follows. An eligible family (usually a child support eligible family with a court order for support) can receive a publicly guaranteed minimal amount of child support if the amount collected from the obligor falls below that amount. The minimum typically is conditioned on the number of children. As suggested above, the public portion is subject no or a very modest "claw back" or tax rate.
2. Children's Allowance (CA). Family or children's allowances in some form are provided in most industrial countries as a mechanism to ease the child raising

expenses of families. They have a long history and in some cases have been seen as an alternative to the family wage where salaries were adjusted for the number of children. They have also been rationalized as a pro-natality policy. Besides avoiding BRR/tax problems they often mitigate the "marriage penalty" associated with welfare and other targeted programs; e.g., a man and woman are economically better off living together outside of marriage. Certainly, one version would be a direct payment based on the number of children, taxed as ordinary income, if at all. The Canadians have just introduced a new children's allowance, tied to a work requirement, to their income tax system.

3. Refundable Tax Credits: A number of strategies for approximating a "children's allowance" can be developed through the tax system. Instituting refundable credits to assist low-income families with children. It is well established that credits provide greater assistance to those at the lower end of the income distribution. Example: a \$1,000 exemption would be worth \$280 to someone in the 28% tax bracket but only \$150 to someone with lower taxable income in the 15% tax bracket. A credit is a dollar for dollar reduction in tax liability. If refundable, it can provide direct income support and be subject to the same tax rates imposed on society in general. As an extreme example, a \$10,000 child tax exemption would be of little use to a low-income caretaker who had no positive tax liability after taking the standard deduction. A \$100 refundable credit would put a additional \$100 into that household. There are a number of variations on this theme:

a. The National Commission on Children (e.g., the Rockefeller Commission) proposed a refundable tax credit of \$1,000 for all children. The cost would start at about \$40 billion.

b. Others (Dan Meyer et. al.) have proposed transforming personal exemptions into a refundable tax credit that would be budget neutral. For example, under the current tax rules and a per child exemption of \$2,200, a refundable credit of about \$400 would have the same costs as the current exemptions. However, this has the advantage of providing more help to lower income families at the cost of helping higher income families.

c. Some conservatives, like Phyllis Schaffley, note that the value of the personal exemption (including those for children) have declined over time. In real terms, the personal exemption was worth almost 4 times

today's value in 1948. They suggest raising the personal exemption substantially. Such an increase would have to be off-set by some revenue savings somewhere. [REMOVE: Some suggest cashing out Food Stamps and adding that amount to boost the size of the credit and yet remain somewhat revenue neutral.?] ]

d. One could make the child care tax refundable thereby helping those at the lower end of the income distribution. Currently, only a small percentage of poor working families whose children need child care make use of the nonrefundable credit, which currently provides tax relief of some \$X billion.

Work Supportive Strategies. As discussed above in the within-welfare section, certain work related services and opportunities must be broadly available if work is truly to be a rational choice. If these goods are not available independent of one's welfare status, they potentially create a cost to being in the labor market. These are work-supportive measure in that they remove some impediments to work or at least mitigate the degree of disincentive that exists. In the above discussion, the approaches focused on delaying or muting the notch that exists in current welfare policy. [A severe notch is exemplified by the loss of a full set of benefits, eg., Medicaid, when an additional dollar of earnings causes the recipient to hit an eligibility threshold.] Outside of welfare these services and benefits would be available irrespective of the individual's welfare status. Again, the critical concerns are:

1. Medical coverage. Any national health reform proposal (single payer, managed competition, play or pay with government backup) that truly provides universal coverage, a basic array of quality services, and portability would be an essential, if not necessary, step toward making work pay. It is simply not rational for caretakers of children to stay in the labor market if access to quality health care is threatened or the cost of that care becomes prohibitive. Furthermore, if a basic package of health benefits travels with employees, regardless of their employer, low income workers will be encouraged to seek better paying jobs rather than sticking with their current employers for fear of losing health benefits.
2. Child care. It is argued that access to affordable, quality child care is a precondition for some parents to enter the labor market or remain in the labor market. There are supply and demand issues here. Some say that the supply is deficient in the aggregate or in targeted areas. Arguments are made that start-up costs

have to be defrayed, liability issues dealt with, and help with salaries forthcoming if operating costs are to be restrained and the care made affordable. Others argue for more consumer subsidies that are delivered in a far more rational (fewer separate pots) manner. And others say that welfare recipients themselves would constitute a good source of potential child care workers--an occupation plagued with high turnover.

3. Transportation and residential mobility. Many argue that trends since the 1960s have moved lower skill jobs away from inner city and rural areas, resulting in a geographic mismatch. Some argue that people must have access to accessible and affordable transportation that will take them to where the jobs are (the Hugh's reverse metro proposal). Others advocate policies that encourage a broader residential distribution of the poor (the Chicago Gatreaux program).
4. The Unemployment Insurance (UI) System. We might also consider how the UI system might be strengthened. Currently, only about a third of workers are covered, meaning welfare becomes a likely source of support for the disadvantaged who experience disruptions in the labor market. We have been told by a number of advocates that states have financial incentives to restrict coverage in a number of ways to maintain the financial integrity of their UI Trust Funds. These advocates also believe that because of UI coverage many low income-low skilled women, those most likely to only find temporary or part-time employment, have only welfare as their unemployment back-up safety net. This is a very complicated issue on its own merit, which while intimately related to welfare reform, may better treated independently--like Health Reform.
5. Public Housing. Public housing is another very complex issue that intersects welfare reform. We have heard numerous stories that people in public housing are reluctant to work because they will lose their housing. If their job has a risky tenure, they fear that they could be thrown back at the end of the waiting list for public housing, which in many communities is four or five years or more. Others are not prepared for the increase in their rental payments associated with their increased earnings. Ways need to be found to assure that public housing is supportive of the MWP strategy--for example, assuring that people who have left because of work are not penalized if they involuntarily lose their employment, treat public housing like welfare by putting a time limit on it benefits (temporary support not entitlement), consider taxing the rental value of

housing so that many of the notches caused by housing programs are eliminated, etc.

(3.) INDIRECT POLICIES:

As suggested earlier in the "within-welfare" section, there are other less directly relevant policies might also be considered. These are designed to raise the productivity of disadvantaged job-seekers or reduce the cost to the employer of hiring what are presumed to be workers whose productivity is suspect.

1. Human Capital Programs. There is a ton of theoretical support for the proposition that improving the human capital of disadvantaged workers and welfare recipients through education, training, and job search assistance is, over the long run, the preferred way to make work pay. Real compensation levels are tied to increased productivity. And there is some evidence that both the level of labor force attachment and earnings of welfare recipients can be improved modestly. This issue is too complex to cover here and is covered elsewhere.

One newer thought (Haveman, 1988) is to create a universal capital account for youth; a fund set up in the name of each child who turns 18 and who graduates from high school from which withdrawals could be made for the purchase of approved education, training, and health investments. This is designed to promote those human capital investments that youths would voluntarily choose if they had the resources.

School to Work initiatives, apprenticeship programs, national service concepts might also play important roles in a broad "make work pay" agenda.

2. Wage bill subsidies. Generally speaking, these are subsidies to employers conditioned on hiring certain disadvantaged job-seekers. The Targeted Jobs Tax Credit (TJTC), Work Supplementation schemes, Training cost subsidies and so forth are some variants of this approach. Theoretically, they offset what is assumed to be a lower marginal level of productivity that disadvantaged job seekers may bring initially to the labor market. They may also enable some employers to liberalize their compensation packages, particularly in certain labor markets. On the other hand, some labor representatives worry that such subsidies constitute a windfall to employers. There are also a number of doubts about the effectiveness of such subsidies in increasing the demand for disenfranchised job-seekers; that, among other things, employers cannot make fine judgements about an individuals marginal productivity

at the point of hiring and that the subsidy might actually signal the wrong message. The evaluation literature has shown generally that these subsidies, which follow the worker, are not terribly cost efficient. However, subsidies which go with jobs guaranteed by employers to be given to low income employees, like the WIN-OJT, have been shown to be more cost effective.

3. Empowerment Zones and so forth. Any set of public policies that reduce the cost of doing business (particularly those targeted on firms that might hire low-income persons) may effect positively compensation packages. As above, many question the efficacy of this approach, arguing, among other things that the incentive features are not likely to be high enough to offset larger social and economic forces (see Jargowsky's work). If true, strategies that focus on the individual might be a better allocation of fixed resources even if the success stories flee disadvantaged areas and leave them less well off.
4. Public Service Employment expansion. Any "effective" strategy for tightening labor markets at the lower end may result in some bidding up of wages. [If we could create over 4 million jobs during the depression, we should be able to create a few now.]

Solutions outside of welfare can be expensive, because they are not targeted like welfare. And we have little experience with some of them. These solutions do get us off the treadmill of trying to make welfare look a little less like welfare.

#### **The Administrative Dimension.**

There is ample evidence that simply issuing policies (or starting programs) designed to alter labor market behaviors and choices may not be sufficient to effect desired ends. For example, regulations permit the receipt of the EITC throughout the year but less than one-half of one percent take advantage of that option. Wage bill subsidies (reductions in the labor cost to employers) have been tried since the 1970s with very mixed results. Take-up rates for the New York Child Assistance Program (CAP), a variant of the assured benefit concept, appear to vary with the quality of the administration of the program and how well it is presented to potential participants. In short, considerable thought is required about how to assist low-income persons and new labor-market entrants navigate complex financial, world-of-work, and social service systems.

We have three basic categories under this dimension--general policy changes, neighborhood employment centers (e.g., work support agencies), and comprehensive family support systems.

(1.) LIMITED POLICY INITIATIVES.

There are some changes which might be made within existing policy frameworks that might enhance intended effects. Some examples are:

1. IRS calculation of eligibility for EITC. The IRS might reinstate the practice of routinely calculating eligibility for the EITC even when interest is not indicated by the tax filer. In 1992, the IRS changed policies so that now, rather than calculating and paying the credit to tax filers that appear eligible, the IRS merely notifies taxpayers by letter that they might be eligible. Taxpayers must then file an amended return. A preferred policy change would be to simplify the rules so that the EITC eligibility can be determined by information the taxpayer provides on the primary tax schedule.
2. IRS might proceed with some form of a system to automatically distribute advanced EIC payments to those who appear likely to be eligible based upon the prior years evidence. Some variations on this theme are:
  - a. Based on last years EIC payment, calculate this years payment and send check out on a periodic basis (monthly, quarterly, etc.).
  - b. Send some proportion of the anticipated EIC credit out automatically (e.g, one-quarter), and then request further information if they want to continue receiving payments.
  - c. Experiment with key parameters: how AEIC-eligible individuals are identified (e.g., demographic profile); the frequency with which payments are made; the manner (directly or through employer); safeguards against error including reconciliation methods; and so forth.
3. IRS might expand efforts to publicize the EITC and the advanced payment option. Some ways that have been suggested include:

- a. Revise instructions for employees wishing to complete Form W-5 to make it easier to claim the EITC.
- b. Require electronic return processors to furnish AEIC information to electronic filers.
- c. Highlight AEIC eligibility information on the January mail out (1994) of the 1993 federal income tax package going to some 115 million potential tax filers.
- d. Provide education, return preparation help, and other assistance to AEIC-eligible tax filers through expanded partnerships other government agencies and service organizations.
- e. Encourage the major payroll processing companies to include AEIC information on 1993 W-2 Forms.
- f. Aggressively promote AEIC through IRS public service advertising.

The above are planned activities. The welfare reform role might be limited to encouragement, support, and some monitoring to see that they occur or how they might be improved.

- 4. IRS could further improve the W-5 form (used to initiate advanced EITC payments) and to work with employers to increase their acceptance of this provision of the tax code. And some have argued that the W-5 could be eliminated all together and critical data elements incorporated into the W-4 Form (Holt, CWA, 1993).
- 5. Shifting administrative responsibility for the AEIC away from employers. Responsibility for certification, verification, and advanced payments might be shifted to another agency or organization. The agency would do outreach, verify eligibility, make actual payments, and perform reconciliations as needed. At the end of the year, the certifying agency would send a form 1099 to both the worker and IRS showing payments made. The employer would be out of the loop. There are several candidates, each of which has strengths and weaknesses.
  - a. At federal level, Social Security or Employment Service offices are good candidates.
  - b. At the local level, welfare offices, local PICs, or community action agencies might be used.

- c. Contracts might be let with non-profits or for-profit agencies.
  - d. The decision about which vehicle to use might be made at the local level with the feds merely developing performance expectations.
6. The Electronic Benefit Transfer (EBT) offers an intriguing opportunity for the IRS to get EITC refunds to low income workers in a timely and efficient manner, as we discussed above. This appears to be an administrative option which might be demonstrated on a limited basis.
  7. Establish special AEIC sites. It may be argued that a new public or quasi-public agency should be created for performing the duties described above, though the personnel may be housed in one of the locations noted above. The compelling reason for even suggesting this is the suspicion that these tasks will be lost in existing agencies already overloaded and underfunded and/or that the organizational culture of these institutional systems might be incompatible with these functions (e.g., would employment service agencies want to do a bunch of new program eligibility and benefit verification tasks).

Designed correctly under concept 6 or 7, a third party payor might be able to make more accurate payments. The payor could track the wages from all on-the-books jobs held by both spouses on a quarterly basis, and could readjust the payment level each time based on the new wage information. Employers could probably send copies of their UC statement to the third-party payor administering the payments though this might require a new computerized data base--a potentially costly and time-consuming undertaking.

8. A third-party payor system (perhaps as a demonstration), would create an opportunity to experiment with a future payment (as opposed to an advanced payment) EIC. While advanced EIC payments are essentially a pre-payment on a forthcoming tax refund, parsed out over the course of a year, a future payment would be based on the previous years tax refund. A worker who was entitled to an EIC of \$2,000 in 1994, for example, might choose to receive his or her benefits throughout 1995--perhaps in 12 monthly payments of \$167 each.

This would simplify administration and reduce the extent to which error occurs. It does require some delayed gratification and therefore may not be

attractive to beneficiaries. We might explore possibilities of integrating this with the transitional and post-transitional stages of a time-limited welfare system where that system could handle the first year.

9. The new 60 percent rule says that a worker will be able to receive in advanced payments no more than 60 percent of the maximum basic benefit for families with one child and is intended to protect families against the possibility of receiving more in advanced payments than they are entitled to. The problem is that the rule was applied to all families, resulting in a situation where larger families will receive a relatively small proportion of their refund as an advanced payment--in some cases, only 36 percent of their EIC.

Some (CBPP) have proposed that we should:

- \* limit families with one child to 60 percent of the maximum credit for one child; and
- \* Limit families with two or more children to 100 percent of the maximum for families with one child (or 60 percent of the maximum benefit for families with two or more children).

10. The biggest challenges to the EIC in general and the current advanced payment approach--those involving benefit calculation errors--are not easily remediable in the absence of further study and possibly far reaching changes. The EITC is a self-assessment system, much like welfare was a self-declaration system a couple of decades ago. We should be proactive about ensuring the integrity of the system. Although the IRS has taken steps to reduce EITC error rates, data from earlier periods indicate that the error rate was quite high--as high as 40 percent. As Steurle argues, the IRS cannot enforce the EITC as it is currently designed, much less as it has been expanded by current Congressional action. Unless this enforcement problem is corrected, the attempt to subsidize work could be set back years as one abuse story after another hits the press." (Steurle, 1993, p.1839) Representatives of the Canadian government who have experimented with refundable employment and children's allowance credits have advised us that maintaining the integrity of the system is extremely important in order to keep general public support for these tax supports to low income families.

(2.) COMPREHENSIVE SERVICE CONCEPTS.

Providing the kinds of supports necessary to really make work pay goes beyond merely improving the economic payoffs to low-income persons. There are personal issues, interpersonal issues, information deficits, transaction costs, world of work concerns (e.g., dealing with co-workers and supervisors for new labor market entrants), and many other challenges that enter into the personal calculus about the worth of work.

There are many key tradeoffs in deciding how to structure likely policy and programmatic responses to this wider set of issues: how broad or narrow should the target group be; how many functions ought to be performed; how inclusive should this service system be with other service systems; how long should a participant be assisted; and so forth.

For discussion purposes, three generic options are offered:

1. Neighborhood Employment Centers (NEC). The purpose of the NEC would be to provide labor force participants (those with jobs and those looking for work) with general problems with issues related to the world of work. The NEC would be tailored to provide the labor force supportive services more traditionally associated with Labor Department programs rather than social work. Initially, the NEC is envisioned as containing two or three main components:
  - a. Worker Support. Assistance with work-related issues including searching for a new job. Job search clubs, job listings, access to automated job banks, tax assistance (EITC, completing tax forms), assistance with education/tuition application forms, sponsoring workshops (financial planning, balancing work and families responsibilities).
  - b. Service Brokering. Assistance with problems that may interfere with work. Counselors help individuals access services through other agencies such as child support enforcement, and referral to agencies for services (e.g., crisis intervention, substance abuse treatment, emergency services, legal services, family counseling).
  - c. Community Service Employment. Local coordination of federal community service programs, including a modest CWEP program for welfare recipients, youth apprenticeship programs, summer youth employment, national service programs, and possible community service jobs program for former welfare recipients or other low-income unemployed.

- d. Colocation with other services to provide "one-stop-shopping" or placing such projects in public housing sites also might be considered, especially on a demonstration basis.
2. Work Support Agency (WSA). This concept would serve to support the world of work, possibly for those who had exited from welfare through employment. It would serve only employed individuals and would be directed toward helping participants retain their current jobs or to assist them in obtaining new ones. The kinds of help would range from assisting new entrants to the vagaries of the tax system, helping them deal with stress and job related difficulties, and dealing with certain transaction costs (child care, medical care, transportation, etc.). The services provided would be more likely those associated with social work; although, traditional employment services could be part of the package.

Illustrative functions are:

- \* counseling (e.g., stress, family support),
  - \* tax assistance--e.g., advanced EITC payments,
  - \* financial planning,
  - \* information on child care, medical, and transportation issues,
  - \* information on mental health/addiction and other EAP services,
  - \* peer support, mentoring help, and other group support
  - \* career advancement assistance,
  - \* awards and recognition functions, and
  - \* substance abuse counseling or referral.
3. Comprehensive Support Systems (CSS). It may be argued that creating a separate agency for successful employed exiters of welfare (or other welfare graduates and low-income families) would have adverse effects. It would not eliminate welfare stigma (may, in fact heighten it), would create some perverse incentives, and would result in disjointed and uncoordinated service delivery systems.

Whether to have one set of services for welfare recipient and another for non-recipients or have a seamless system without regard to welfare status is a perplexing dilemma. There are advantages to both approaches. Perhaps the way to conceptualize what is needed is to start from a completely different perspective: that there is no welfare system per se; no entitlement to income support. Except for the disabled, all support would be temporary and conditional on enhancing individual and family functioning. That would be

the prime institutional mission and the prime locus of agency attention and effort.

In some ways, this might be thought of as a NEC that also includes a community service center concept. Several stages in the hypothetical life-cycle of a client would be dealt with in an integrated system:

- a. Gatekeeping/diversion. The first focus is to determine how to get individuals and families functioning. A plan is developed that may include temporary income support that in all cases, except for failure of the agency to live up to its part of the contract, will be conditioned on recipient behavior. Wherever possible, entrants should be diverted from income support assistance and helped to maximize other systems (child support, education, employment service, etc.).
- b. Transitional. Those getting income assistance would be involved in a set of activities during that period where they are preparing themselves for self-sufficiency. The length of that period may vary according to their personal attributes and the socio/economic environment that exists upon point of entry.
- c. Post-transitional. The help and services and work opportunities that would be provided after termination of income assistance. This might include special response teams or response capacities for those who are not yet in condition to be employable, trainable, nor educable because of substance abuse problems or other limitations, but who are not eligible for permanent disability support). Particular attention must be paid to assuring that children do not suffer from neglect or abuse.
- d. Continuing labor-market support. This would be both employment and social service help to minimize the need for former or potential welfare recipients to recycle to obtain services.  
In addition to many of the functions described in the NEC concept, this might be a one-stop shopping center that had many services on-site and was collocated with employment service and so forth. The Labor Department is preparing a new (expanded?) initiative in the one-stop shopping arena. HHS and Labor might well work together to see how this initiative and welfare reform might support and complement one another.

Some of the distinctions among the three concepts presented above are subtle and, frankly, arbitrary. The WSA would provide a reasonable set of services to those who found jobs and had been on welfare (however defined). The NEC would broaden the target population to serve those actively looking for work and would provide a broad array of services. The CSS could be interpreted as saying that there is no welfare program to exit from. If you need help, you go to this agency. You might get temporary income assistance but that is not what would define the institutional mission or philosophy. The prime mission would be to restore individual and family functioning and move clients into societal mainstream (or keep them there). This is an area where a great deal of developmental work is appropriate. Local environments (population density and mix, labor markets, service and education infrastructures, the management capacities in key institutions, etc.) are likely to vary substantially. For example, in what Jaworsky calls ghetto neighborhoods the fraction of poor children can range up to three-in-four and the percentage on AFDC can be one-third. Any center located in those areas might well target the poor without having to explicitly make it an eligibility factor. This could be the resurrection of the "settlement house" form of service.

### Summary

The above represents a menu of possible initiatives that potentially fall within the MWP umbrella. It is consistent with the stated assumption that everything is still on-the-table. The actual process of mixing and matching options, of thinking about phase-in processes and schedules, and of determining what might be require demonstration prior to further action has just begun. Shortly, we expect to arrive at several packages ranging from a KISS option (Keep It Simple, Stupid) to BOLD (Beyond Our Largest Dreams).

One big caveat is attached to all this. MWP strategies assume that individuals can respond to different incentives and opportunities. We know that the population we are interested in is heterogeneous and know something about current welfare dynamics and behavioral response patterns within to small changes within the current program and policy environment. Reaction to the FOCUS article (Corbett, 1993) that lays out the Onion metaphor suggests there is strong belief in the basic notion that there is no silver bullet, that one size doesn't fit all, that reforms must be synchronized in a way that one can "peel back" the layers of the target population, and that the task gets increasingly complex as one gets to the core or where the least able and most difficult cases reside. Most disturbingly, our

simulations wont tell us much about a world with a totally different set of policy and program parameters.

THE MAKE WORK PAY DOCUMENT SERIESATTACHMENT B<sup>1</sup>THE EARNED INCOME TAX CREDIT AND WELFARE REFORM

The Earned Income Tax Credit (EITC) is seen as a vital component to any Make Work Pay (MWP) strategy--one of the four central theme of the welfare reform effort. For those low-income workers for whom welfare (AFDC) is an option, it is assumed that work is more likely to "pay" if EITC-eligibles participate in the program and if the advanced payment provision (AEIC) truly becomes an accessible option. If we can saturate the target population and if credit can be distributed in a fashion that simulates typical earnings streams, the EITC can enhance liquidity of low-income workers and ease the burden of meeting their ongoing and regular expenses. Providing the credit in a timely fashion may be of particular importance for persons making the difficult and uncertain transition from welfare to work.

Below we list a number of options for changing the current system. Excessive detail has been omitted, as well as any formal discussion of pros and cons. The options should be examined in terms of the following:

- \* whether it will effectively increase use of the EITC and/or the AEIC.
- \* whether it will address the objective of making work more attractive to those for whom welfare is an option.
- \* whether it maintains and enhances confidence in the integrity of the program.
- \* whether it is administratively and fiscally feasible.

Basic approaches to changing the process for administering the AEIC can be organized into the following: (1) improving the current system; (2) shifting basic EITC/AEIC administrative tasks to another existing agency; (3) creating a new agency (third party fiscal intermediary?) to administer the EITC/AEIC; (4) incorporating these administrative into a broader institutional framework.

(1) CHANGES WITHIN THE EXISTING FRAMEWORK.

- a. Take all steps to publicize the AEIC as it operates

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<sup>1</sup>. The language in bold print contained in double brackets represents very tentative ideas being considered by Treasury staff.

within the existing system. Examples of initiatives already part of the Administration's agenda are:

- i. Aggressively promote AEIC through IRS public service advertising.
  - ii. Encourage (require?) electronic return processors to furnish AEIC information to electronic filers.
  - iii. Highlight AEIC eligibility information on the next mail out of federal income tax package that goes to well over 100 million income tax filers.
  - iv. Provide education, return preparation help, and other assistance to AEIC-eligible tax filers through expanded partnerships with other government agencies and service organizations.
  - v. Encourage the major payroll processing companies to include AEIC information on 1993 W-2 forms.
- b. IRS to work more closely with employers and/or provide additional incentives to employers to enhance their willingness to "sell" AEIC.
- i. Revise instructions for employees wishing to complete Form W-5 (used to initiate advanced EITC payments (see attachment A) to make it easier to claim the AEIC.

[[ I.A.2. Make instructions for advance payment easier and more visible in Circular E. (an IRS publication for employers which discusses withholding and related matters)]

- ii. IRS could go a step further and try to further improve the W-5 form and to work with employers to increase their willingness to "push" the advanced payment option. It has been suggested that the W-5 could be eliminated and essential data elements incorporated into the W-4 Form. [Note: Consider Focus Groups with employers.]

[[ II.A.1. (Certification Process change) Further simplify (if possible) the instructions for Form W-5.]]

[[ I.B.1 Require employers to provide each new employee with a W-5 which is effective until rescinded by employee or alternatively, consolidate the Forms W 4 and W 5. (The former provision was part of the original House-passed child care bill in 1989.)]]

[[ I.B.4. Require employers to remind file a tax return; reminder could accompany Form W-2.]]

iii. We might consider providing some kind of financial incentive to employers for administering the AEIC-- allow them to deduct a nominal amount for each eligible employee who the EITC or AEIC as a way to partially compensate for their time and effort.

[[ I.B.2. Impose "due diligence" requirement on employers to verify that employees are eligible for the advance payment EITC. Subject employers to penalties for failure to meet due diligence requirements.]]

[[ I.B.3. Increase penalties for employers who do not provide advance payments to workers who request it]]

iv. Finally, some thought might be given to working through industry associations (examples?).

[[ I.A.1. Aggressively promote advance payment feature of EITC through trade associations and labor unions.]]

[[ II.A.2. (Certification Process change) Require employers to file Form W-5 with the IRS.]]

[[ II.A.3. Require semi-annual recertification of Advanced payments to individual workers.]]

[[ II.B. Explore ways to improve reporting of advance payments on the form W-2.]]

c. IRS might proceed with some form of a system to automatically distribute "advanced" EIC payments to those who appear likely to be eligible based upon data from the prior years tax return.

i. Send some proportion of the anticipated EIC credit for the coming year for the first quarter and request further information if they want to continue receiving payments.

[[ II.C.3. Allow recipients to file a "quarterly" statement with the IRS indicating estimated EITC amount to which entitled (i.e., a reversed estimated tax payment system.]]

ii. Otherwise modify how AEIC-eligible individuals are identified (e.g., demographic profile), the frequency through which the payment are made, the manner in which they are made, what safeguards against overpayment are made, and how the reconciliation is done.

[[ II.C.2. Require the IRS to make advance payments based on receipt of EITC in prior year to those taxpayers

2-15

who indicate on tax return that they wish to participate (Alternatively, the advance payments could be limited to only those EITC recipients who have certain measurable characteristics correlated with repeat usage of the EITC.)]

- d. We might consider experimentation with a future payment (as opposed to an advanced payment) EITC approach for smoothing out the income stream of low-income workers. While advanced payments are essentially a prepayment on a forthcoming tax refund, distributed on a periodic basis, a future payment approach would be periodic (e.g., monthly) payments based on the previous years tax refund. For example, a worker who was entitled to an EIC of \$2,000 in 1994 might choose to receive his or her benefits throughout 1995--perhaps in 12 monthly payments of \$167 or 10 (March to December) payments of \$200. Since they are incremental payments of refunds already earned, perhaps they should be called staggered or temporally distributed payments. [Note: There has been considerable prior work done within welfare on topics like accounting periods, retrospective & prospective budgeting, and other related issues that might be of use in this discussion.]

[[ II.C.1. Workers would be able to claim the EITC at the end of the year as either a lump-sum amount or as smaller regular payments during the course of the year (either monthly or quarterly); replaces or supplements "advance payment" system with "staggered payment" system.]]

- e. We might consider making technical changes in the new 60 percent rule where a worker will be able to receive no more than 60 percent of the maximum benefit for families with one child as an advanced payment. The problem is that the rule is applied to all families, resulting in a situation where families can only receive a very small proportion (36% in some cases) of their EITC refund in the form of an advanced payment. Since this makes the advanced payment less attractive, the following might be considered:

- i. Limit families with one child to 60 percent of the maximum credit for one child; but limit families with two or more children to 100 percent of the maximum for families with one child (or 60 percent of the maximum benefit for families with two or more children).
- ii. Return to the old system whereby the EITC-eligible individual faced no restriction on the amount (up to the maximum credit) that could be claimed.

[Note: There is some concern that limits under the

allowable maximum credit may be interpreted by claimants as the maximum they are allowed to receive. This whole area invites ideas for demonstration projects.]

- f. Finally, IRS might consider reinstating the practice of routinely calculating eligibility for the EITC for apparently eligible tax filers who do not request a refund and automatically send them a refund. In 1992, the IRS changed policies so that now, rather than calculating and paying the credit to tax filers that appear eligible, the IRS merely notifies taxpayers by letter that they might be eligible. Taxpayers then file an amended return.

(2). SHIFTING RESPONSIBILITY FROM EMPLOYERS TO ANOTHER EXISTING PUBLIC OR PRIVATE AGENCY.

[[ III.A. Increase role of other (government) agencies in disseminating information about the advance payment system.]]

- a. Responsibility for certification, verification, and advanced payments (and other EITC outreach functions) could be shifted to another federal agency. This agency would do outreach, verify eligibility, make actual payments, and perform reconciliations as needed. At the end of the year the certifying agency would send a form 1099 to both the worker and IRS showing payments made. The employer would be out of the loop. Examples of public agencies that might carry out these functions are:

[[ III. B. Increasing role of other existing government agencies in certification, verification, and actual payments.]]

- i. federal agencies like Social Security offices, the Employment Service or UI offices, etc.

[[ III.B.2. Social Security Administration (SSA).]]

[[ III.B.3. Employment Service Offices.]]

- ii. state and local agencies such as welfare offices, Food Stamp or food pantries, local PICs, etc.

[[ III.B.1. State and local welfare offices.]]

- iii. Same as (2) a. ii. but through public agencies selected at the local level as being in the best position to perform these tasks. [demo different options.]
- iv. Same as (2) a. i. & ii. but use multiple approaches with different subgroups of eligibles. That is,

there would be several agencies in a given geographical area carrying out this task if each served different subgroups.

- b. The basic administrative functions cited in 2 a. might be contracted out to non-governmental agencies. This option would be appealing if there were some suspicion that a larger public sector would be politically unacceptable or there was some basis for non public agencies would do a better job. Two options (demonstrations only) here are:
  - i. Contract out to non-profits who have a lot of ongoing contact with the working poor (e.g., community action agencies).
  - ii. Contract out to for-profit organizations on some form of performance-based agreement (e.g., America Works model).

[[ IV.A. Allow tax preparers and local volunteer social service organizations to help enroll persons in the advance payment system. Forma could go to employers, state offices, or the IRS for further processing.]]

- c. Transferring some EITC related administrative functions to an existing agency or, as discussed below, a new entity, would permit the integration of the EITC with other welfare-based ideas for helping recipients become self sufficient. For example, a welfare agency could "front" some money in the form of an earnings or wage subsidy to smooth out the welfare to work move. It could be viewed as a "bonus" or a "loan" where part of the future EITC is captured by the agency to offset costs.

[[ III.C. Give new government agency (i.e., Work Support Agency) role in cerification, verification, and actual payments.]]

(3) CREATE A THIRD PARTY FISCAL INTERMEDIARY.

It may be argued that a new public agency or institutional capacity might be created to perform the basic administrative and outreach functions described above, though the personnel may be housed in one or more of the locations noted above. The compelling reason for even suggesting this is the suspicion that these tasks will be lost in existing agencies already overloaded and underfunded and/or that the organizational culture of these institutional systems might be incompatible with these functions (i.e., would Job Service agencies want to take on new program eligibility or benefit verification tasks?).

Such a public agency might also serve as a fiscal intermediary between IRS and beneficiaries. Designed correctly, a third

party payor might be able to make more accurate payments. The payor could track the wages from all on-the-book jobs held by both spouses on a quarterly basis, and could readjust the payment level each time based on the new wage information. Employers could probably send copies of their UC (UI?) statements to the third-party payor administering the payments.

Third party intermediaries generally might permit an expanded use of future payment strategies. This payment of EITC refunds "already earned" requires some delayed gratification and therefore may not be attractive to many eligibles. If some 3rd party could "loan" low-income workers the money in advance and assume responsibility for doing reconciliations, it might be possible to have the advantages of an advanced payment system with less of the fiscal risk. This might be very important for those transitioning off welfare where a smooth income stream might appear very important.

Third party intermediaries might also be integrated with Electronic Benefit or Funds Transfer (EBT or EFT) technologies in ways that integrate the EITC with other transfer programs. The following (as best as I can recollect it) has been suggested by David Riemer. Most employers report employee-level wage data on a quarterly basis. Theoretically, this information could be used to set up an EITC account with two components; a current amount that can be drawn down immediately though the use of an EBT card and a reserve amount that remains credited (but not accessible) to the individual until such time as the individuals actual EITC credit can be calculated. The proportion of the quarterly credit assigned to the current account might well be raised as one proceeds though the tax year and less uncertainty about the final figure exists. Or, in line with comments by Steve Holt, the proportion allocated across the two "account" lines might be made primarily by the program participant. In either case, EITC funds would be disbursed electronically along with other transfers included on the system.

[[ Not included here but she promised to add a section on EBT. ]]

- (4) INCORPORATE EITC & AEIC FUNCTIONS INTO BROAD WORK SUPPORT SYSTEM.

[[ III.C. might also fit in here, depending on details. ]]

Providing the kinds of supports necessary to really make work pay for the traditional longer-term welfare population goes beyond merely improving take-up rates for the EITC and the AEIC. Often interpersonal and intra-family problems, information deficits, transaction costs, world-of-work concerns, and other challenges enter into the calculus about the worth of work.

Here we are talking about incorporating EITC & AEIC administrative functions within systems dealing with a broader array of work issues. Some of the functions are:

- \* TAX ASSISTANCE. This includes help with the EITC and AEIC but also with other tax matters that might affect low-income workers.
- \* FINANCIAL COUNSELING.
- \* LOGISTICAL ASSISTANCE. Help with making arrangements for child care, transportation, and medical care.
- \* PERSONAL COUNSELING & PEER SUPPORT.
- \* SERVICE BROKERING.
- \* AND SO FORTH.

There are three generic models at this point:

- i. The Work Support Agency which would be rather limited in scope and focus largely on welfare exiters for a period of time after their exit.
- ii. The Neighborhood Employment Center (NEC) which would focus on a broader group of the working poor and near poor as well as job-seekers and include a broader array of services.
- iii. The Comprehensive Service Center (CSS) concept would fold work support functions into a broader array of labor market, human capital, social service, and income support activities.

All of the above models would undoubtedly be introduced on a pilot or demonstration basis.

THE MAKE WORK PAY DOCUMENT SERIES

ATTACHMENT C

OUTLINE OF CURRENT EITC ADVANCED PAYMENT SYSTEM.

- a. EITC-eligible individual becomes aware of credit.  
[May have up to 85% target group penetration?]
- b. EITC-eligible individual becomes aware of AEIC. [GAO study indicates problem here. Also see proposed publicity campaign.]
- c. AEIC-eligible and knowledgeable individual chooses to participate in program. [GAO report suggests preference for lump-sum payments though the strength of this apparent preference not clear.]
- d. Employee (AEIC-eligible or otherwise) initiates AEIC process by filing Form W-5 with employer.
- e. Employer is not required to verify claim, nor does employer incur any liability except when he/she fails to comply with employee's request. [penalty equal to AEIC amount not made.]
- f. Employer calculates periodic amount of credit by using IRS provided look-up tables and adds to employee's paycheck.
- g. Employer reduces his/her quarterly payments of employment and income taxes by the aggregate amount of AEIC payments made. [Amount noted on Form 941(E), 942, or 943.]
- h. Employer notifies IRS & employee of AEIC amount though W-2.
- i. Employees report AEIC amount actually received on end-of-year (EOY) tax return forms.
- j. IRS is required to report any tax refund, including any refundable EIC credit not advanced, within 45 days of receipt of tax return.
- k. W-2 forms initially sent to SSA and are available to reconcile discrepancies on individual claims of both the AEIC and EOY lump-sum payments a year after error occurs.
- l. Measures presumably are then taken to collect overpayment.

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DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of the Secretary

Washington, D.C. 20201

September 29, 1993

TO: Working Paper Reviewers

FROM: Wendell Primus *WPP*

SUBJECT: Welfare Reform Working Paper 1  
"The Dynamics of Welfare Use: Implications for  
Implementing a Time-Limited Welfare System"

Attached for your review and comment is a draft of a working paper on welfare dynamics. This paper is particularly sensitive because of the information this draft currently includes about the number of people who might be affected by a two-year time limit.

As you read the paper I would appreciate your consideration and comments about whether the final version should be a "straight" paper on dynamics, or whether it should provide some estimate of the number of people who would be affected by a time-limited welfare system.

You will note several places on pages 11 and 12 where the notation "tk" is used in place of actual numbers. These data are not currently available, and, depending on the decision we ultimately make concerning the nature of the paper, may or may not be filled in at a later date.

Please provide your comments to Ann McCormick by close of business on Monday, October 4. You can reach her by phone at 690-5880, or fax at 690-6562.

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Table IV

# THE DYNAMICS OF WELFARE USE: IMPLICATIONS FOR IMPLEMENTING A TIME-LIMITED WELFARE SYSTEM

## INTRODUCTION

Over the last decade there has been a significant amount of research on the dynamics of welfare. This research examines how long families stay on welfare, identifies the circumstances that are associated with entry to and exit from the welfare rolls and identifies the individual-level characteristics that are associated with long-term welfare use. This background paper examines the implications of the findings from this body of research for transforming the welfare system into a time-limited income support program.

This paper is organized in the following manner. The first section provides a detailed analysis of movement on and off the welfare rolls and examines the reasons for this movement. In the second section, estimates of total time on welfare are presented. These data are the only estimates of time on welfare that take into account multiple spells of welfare receipt, thus they provide the best available estimate of the percentage of AFDC recipients who currently spend more than two years on the welfare rolls. This section also examines the behavioral responses that are likely to result from the implementation of several policy changes and presents preliminary estimates of the percentage of recipients who are likely to be affected by a two-year time limit once these responses are taken into account. In an effort to provide some insight into the types of services that are likely to be needed to move recipients off the welfare rolls within a two-year time period, the final section examines the characteristics of recipients who currently spend more than two years on the welfare rolls.

## I. THE DYNAMICS OF WELFARE

The first research to examine movement on and off the welfare rolls in any detail was conducted nearly a decade ago. In this research, Bane and Ellwood (1983) found that there is considerable movement on and off the welfare rolls. This movement is characterized both by a large proportion of welfare recipients who leave the welfare rolls quickly and a large proportion who return. This research also shows that even though most of the women who go on to the welfare rolls leave quickly, the bulk of person-years of AFDC receipt and more than half of all AFDC expenditures are accounted for by women who spend long periods of time on the welfare rolls. This occurs because even though long-term recipients account for only a small fraction of recipients beginning a spell of welfare receipt, over time, these longer-term recipients accumulate on the welfare rolls. Consequently, if one examines the caseload at any point in time, one finds that the majority of families on welfare are in the midst of a spell of welfare that will last eight years or longer.

The more recent research on the dynamics of welfare finds that there is even greater movement on and off the welfare rolls than these early findings suggest. By exploiting the recent availability of monthly longitudinal data on the receipt of welfare, these more recent studies are able to capture short-term movement on and off the welfare rolls that was missed in the earlier research that relied on annual data on welfare receipt. These studies find that it is extremely common for women to leave the welfare rolls and to do so very soon after they begin a spell of welfare receipt. However, for many women, this movement off the welfare rolls is extremely short-lived.

Estimates from the National Longitudinal Survey of Youth (NLSY)<sup>1</sup> indicate that 70 percent of all young women who begin a spell of welfare receipt leave the welfare rolls within two years; 90 percent leave by the end of seven years.<sup>2</sup> However, within a year, 45 percent of those women who leave return to the welfare rolls; by the end of seven years, more than three-quarters (77 percent) have returned. While some of this rapid movement on and off the welfare rolls undoubtedly represents administrative churning and/or sample members' failing to report AFDC income in a given month, not all of it does. Estimates from the NLSY that use a hierarchy to assign a reason for leaving the welfare system<sup>3</sup> indicate that almost half of all exits from welfare occur when a woman begins working. This data suggests that some persons may push their income above the AFDC benefit levels by such small margins that even minor setbacks push them back onto the welfare rolls. For younger women, it is also possible that the high rates of return reflect the difficulties young mothers have in finding long-term employment as well as stable living arrangements and relationships.

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<sup>1</sup>All of the data presented here from the NLSY is taken from Pavetti, LaDonna Ann, *The Dynamics of Welfare and Work: Exploring the Process by Which Young Women Work Their Way Off Welfare*, Cambridge, MA: Harvard University, the Kennedy School of Government, 1993, unpublished doctoral dissertation.

<sup>2</sup>Currently, the NLSY can only provide information on the experiences of women who first received welfare when they were under the age of 30. Estimates based on data from the Panel Study of Income Dynamics (PSID) indicate that this group of women account for about 80 percent of all recipients beginning a spell of welfare receipt and 85 percent of recipients at a point in time. Therefore, even though the data presented here does represent the entire AFDC caseload, it does represent the vast majority of it.

<sup>3</sup>The exit reasons included in this hierarchy are: 1) Marriage, remarriage or reconciliation; 2) No eligible child in the household; 3) Work; 4) Disability; 5) Moved in with family; 6) Moved in with non-relatives; 7) Non-work-related income increase; 8) Moved between states and 9) Unidentified. These reasons are assigned in the order presented.

## RATES OF LEAVING AND RETURNING TO THE WELFARE SYSTEM

Exit rates or hazard rates as they are commonly known are the key building blocks for understanding these welfare dynamics. Exit rates by type of exit based on data from the NLSY are presented in Table 1. These estimates indicate that during her first year of receipt, a welfare recipient has a greater than fifty percent chance of leaving the welfare rolls. During this first year, there is a 25 percent chance that a recipient will leave for work and a 30 percent chance that she will leave the welfare rolls for a reason other than work. However, if a recipient stays on welfare into a second year, her chances of leaving drop substantially, although they still remain relatively high at 32 percent. For recipients who stay on the welfare rolls for longer than five years, the likelihood they will leave the welfare rolls for work or for other reasons drops to just 17 percent; the likelihood they will leave welfare for work if they have remained on the welfare rolls for this long is just seven percent.

TABLE 1

EXIT PROBABILITIES BY DURATION OF RECEIPT AND TYPE OF EXIT			
Duration (Months)	Work Exits	Other Exits	All Exits
1-12	25.4	30.4	55.8
13-24	14.4	17.7	32.1
25-36	13.9	13.5	27.4
37-48	14.5	14.5	29.0
49-60	11.8	9.1	20.9
61-72	6.9	9.6	16.5

Note: Exit rates are based on 2,145 completed and uncompleted (right-censored) spells of welfare. Left-censored spells are excluded.

Exit rates from AFDC tell an important story, for they are indicators of whether people become more or less likely to leave AFDC as spell durations rise. In general, exit rates are almost always higher in the earlier years of welfare receipt, falling off in later years. The decline in the exit rate could occur for two different reasons. It could be that the AFDC population is very heterogeneous from the start. Some have skills, ability or the motivation to leave quickly. Others find it harder to exit. In the early years when a larger fraction of fast exiters are in the mix, the exit rates look high. In later years, the slow exiters are left behind. Thus, the average exit rate falls. No one changes while on welfare, it is just that a different mix of people are on for one year than are on for say five years, so the average exit rate falls.

Conversely, welfare may, indeed, alter behavior. People who might have gotten off more readily at first could become conditioned by welfare and have a harder time leaving it after being on a few years. In that case, people change while on the rolls. The decline in average exit probabilities would then reflect declines in individual exit probabilities as people stay on welfare.

The available empirical evidence provides support for both of these explanations for the declining exit rates from welfare. Women with more education, recent work experience and a better command of basic skills leave the welfare rolls more rapidly than women with less education, no recent work experience and a poorer command of basic skills. However, even when these factors are taken into account, the likelihood that a woman will leave the welfare rolls declines as she spends more time on the program.

Even though the exit rates presented here decline over time, they are actually quite high. These data indicate that 70 percent of all women who begin a spell of welfare will

leave the welfare rolls before they have spent two consecutive years on the welfare rolls. However, these exit rates capture only one part of welfare dynamics. If women simply left the welfare rolls at these high rates and did not return, the AFDC caseload would be considerably smaller than it is. However, it is uncommon for a recipient to leave the welfare rolls and never return. As noted previously, more than 75 percent of women who leave the welfare rolls return to the welfare system within seven years after leaving.

In a pattern that is similar to the rates of leaving the welfare system, the rates of return to the welfare system decline with time off the program, regardless of the reason why women left the welfare system (See Table 2). The rates of returning to the welfare system are especially high in the first years off the program. *Fully forty percent of all recipients who leave the welfare rolls for employment return to the welfare rolls within the first year off the program.* For those recipients who leave welfare for work and stay off the program into the second year, the probability of returning to welfare drops by almost half, to 22 percent. The probability of returning to welfare continues to decline as women spend more time off the program. For women who leave welfare for work and manage to stay off the program for at least four years, the probability of returning to the welfare system is just seven percent. This pattern of declining rates of return for women who leave welfare for work suggests that keeping someone off the welfare rolls for longer than a year may be the key to preventing a recurrence.

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TABLE 2

PROBABILITY OF RETURNING TO WELFARE BY DURATION OF TIME OFF WELFARE AND TYPE OF EXIT			
Duration of exit (Months)	Work Exits	Other Exits	All Exits
1-12	39.4	49.5	44.9
13-24	21.7	24.3	23.0
25-36	11.3	19.6	15.6
37-48	11.1	16.2	13.8
49-60	7.0	9.0	7.8

Note: Rates of return are based on 1,835 completed and uncompleted (right-censored) spells of welfare. Rates for work exits are based on 810 spells; rates for non-work exits are based on 1,025 spells.

However, the rates of return are not just high for women who leave welfare for work. They are also high for women who leave for reasons other than work. In general, the probability of returning to welfare after leaving for a non-work exit is somewhat higher than the probability of leaving for a work exit. Consequently, the percentage of the women who leave welfare for reasons other than work who eventually return to the welfare rolls is higher than the percentage of women who return after leaving welfare for work. By the end of five years, three-quarters of all women who leave welfare for reasons other than work return to the welfare rolls compared to two-thirds of women who leave for work.

There is surprisingly little research that examines the factors that are associated with the return to welfare. The research that has been done shows the presence of younger children, lower wages and lower levels of education are all associated with higher rates of return to the welfare system. Women who live in public or subsidized housing also have higher rates of return as do never-married mothers.

Research conducted by Topel and Ward (1992) on the employment careers of young men suggests that the rapid rate of job loss found among welfare recipients may not be unique to this population, but may reflect, at least in part, the usual process young people go through to find stable employment. In an analysis of the employment patterns of young men over a fifteen year period, the researchers found that two-thirds of all new jobs among young workers ended in the first year. Nearly three-quarters of these first-year job endings resulted in a transition to non-employment. They also found that during the first ten years in the labor market, the typical young worker held *seven* full-time jobs. During this period, only sixteen percent of their sample were continuously employed. However, this process eventually led to stable employment and accounted for a significant portion of all wage growth that occurred during this time period.

Research which compares the experiences of men and women over a four-year period finds that the patterns of changing jobs look very similar for men and women. However, this process does not lead to wage growth for women in the same way that it does for men. This research shows that when women change jobs they are much more likely than men to move into jobs which pay them the same as the job they left (LoPrest, 1992). Research that examines whether low-wage jobs lead to better jobs comes up with very similar findings. This research shows that men are much more likely than women to leave spells of low-wage employment for higher wage jobs (Pearce, 1991).

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## II. TOTAL TIME ON WELFARE

The majority of the research that examines the time women spend on the welfare rolls looks only at single spells of welfare receipt. However, because it is extremely common for

women to return to the welfare rolls, these analyses provide only a partial representation of the total time women spend on the welfare rolls. For the purposes of examining the percentage of recipients who may be affected by a two-year time limit, it is important to take into account all of the time women spend on the welfare rolls over an extended period of time. Currently, there is only one study that provides such information (Bane and Ellwood, forthcoming [Note for David: How should this be cited? -- maybe cite Ellwood 1986 with a footnote for the forthcoming update?? I am using the 1993 numbers.]). The total time distributions for women beginning a first spell of AFDC receipt and women receiving AFDC at any point in time from this analysis are presented in Table 3. Because these estimates are based on annual data which does not capture exits and returns that occur within a calendar year, the actual percentage of women who spend more than two years on the AFDC rolls is probably somewhat lower than these estimates suggest.<sup>4</sup>

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<sup>4</sup>The distributions presented in this table provide two different ways of thinking about time on welfare. The distribution of total time on welfare for women beginning a first spell of AFDC receipt answers the question, "What percentage of women who ever use welfare use it for more than two years?" The distribution for women on welfare at a point in time answers the question, "If I look at the entire welfare caseload at a point in time and estimate how many years a recipient will eventually spend on AFDC, what percentage of the caseload will spend more than two years on the welfare rolls?" Because women who spend longer periods of time accumulate on the welfare rolls over time, the distribution for women on the AFDC rolls at a point in time shows a much higher percentage of long-term welfare recipients than the distribution for women who begin a spell of welfare receipt.

TABLE 3

PERCENTAGE DISTRIBUTION OF THE EXPECTED TOTAL TIME ON AFDC FOR FIRST-TIME AFDC FEMALE AFDC RECIPIENTS AND FOR ALL WOMEN RECEIVING AFDC AT A POINT IN TIME		
Expected Total Time on AFDC	Women Beginning a First Spell of AFDC	Women Receiving AFDC at any Point in Time
1 Year	20.9	3.4
2 Years	15.6	5.1
3 Years	10.0	4.8
4 Years	8.6	5.6
5 Years	6.2	5.0
6 Years	5.5	5.3
7 Years	4.3	4.8
8 Years	3.7	4.8
9 Years	3.2	4.6
10 or more Years	22.1	56.6
Total	100.0	100.0
Average Years of Receipt	6.2	12.0

Regardless of whether one examines the experiences of all women who ever use welfare or the experiences of the caseload at a point in time, one finds that *under the current structure of the AFDC program* a substantial fraction of welfare recipients spend more than two years on the welfare rolls. Almost two-thirds of all women who ever use welfare use it for longer than two years. Because longer-term recipients accumulate on the welfare rolls, when one examines the welfare experiences of the caseload at a point in time, one finds that 90 percent of the caseload will eventually spend more than two years on the welfare rolls;

Confusing

more than half will eventually spend ten years or more on the welfare rolls. These distributions indicate that even though women who spend very long periods of time on the AFDC rolls account for only a small proportion of women who ever use AFDC, these recipients account for the vast majority of the total person years spent on AFDC and consequently consume the majority of program resources.

The data presented in Table 3 provides the best available estimate of the percentage of women who *currently* spend more than two years (out of a 25-year period) on the welfare rolls. However, for several reasons, it is incorrect to interpret this estimate as an estimate of the percentage of welfare recipients who would be affected by the imposition of a two-year time limit. First, the proposal to impose a time-limit on welfare benefits has never been proposed within a vacuum. Instead, it has been proposed within the context of a set of reforms which would make it much more feasible for single mothers with children to support their families through work and/or with financial support from an absent parent.

The research that is available in these areas indicates that these reforms will increase the rate at which women leave the welfare system and/or decrease the rate at which they return. Consequently, the percentage of women who will spend two years on the welfare rolls with these reforms in place will be substantially lower than it is under the current structure of the AFDC program. For example, tk and tk (1993) show that if health insurance was provided to all families with children under the age of tk, the percentage of healthy AFDC mothers who would enter the labor force would increase from tk to tk percent; even the percentage of AFDC mothers with health limitations who would enter the labor force would also increase from tk to tk percent. If one simply assumes that this labor supply response increases the rate at which women leave welfare for work and return to the welfare

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system by tk percent, the percentage of recipients who would spend two years on the welfare rolls would decline by tk percent.

Research also shows that the receipt of child support would increase the percentage of mothers in the labor force by tk. Increasing the average amount of child support received by AFDC families from tk to tk will reduce the rate of return by tk percent. The expansion of the earned income tax credit will also increase the percentage of women who leave the welfare rolls for work by tk percent and reduce the percent who return by tk percent. Employment and training programs also increase the rate at which women leave the welfare rolls. For example, data from California's SWIM program show that the rates at which SWIM participants left welfare were consistently higher than the rates for the control group. The rates of return tk. If these increases in the rate of leaving welfare and decreases in the rate of returning to the welfare system for SWIM participants were applied to the AFDC caseload nationally, the percentage of women who will spend longer than two years on the welfare rolls would be reduced from tk to tk.

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Taken together these estimates suggest that at a minimum, the implementation of all of these policies simultaneously would reduce the percentage of AFDC recipients who would spend more than two years on the welfare rolls would decline by tk percent. If there was not any overlap in the effects of these policies, the percentage of recipients who would hit a two-year time limit could be as high as tk percent. It seems unlikely that there would not be any overlap in these program impacts. However, these data do provide a lower and upper bound for how the total percentage of AFDC recipients who spend two years or longer on the welfare rolls if these reforms were enacted.

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The estimates provided above take into account how women may respond to several

policy changes. However, they do not take into account the fact that a two-year time limit may itself induce women to change their behavior. It is possible that the imposition of a two-year time limit will deter some <sup>people</sup> women from applying for AFDC. It is also possible that some women who would have chosen to stay onto welfare because they preferred to stay home with their children or for some other reason will now choose to leave welfare and go to work. Because there is no experience with limiting the time recipients can participate in public benefit programs, it is almost impossible to estimate how large this impact may be. However, it does seem reasonable to assume that the only recipients who will still be on the welfare rolls at the end of two years are those recipients who cannot find jobs in the private sector and those whose employment alternatives in the <sup>private</sup> ~~public~~ sector are less attractive than those provided through a community work experience program or public sector employment program. Therefore, if one wants to ensure that only a limited number of recipients will require placement in public sector jobs, one needs to identify the education, training and supportive services that will be needed to help <sup>women</sup> make the transition into private sector employment within a relatively short period of time. One way to gain some insight into what services may be necessary to help <sup>women</sup> make this transition is to examine the characteristics of women who currently spend more than two years on the welfare rolls.



### III. CHARACTERISTICS OF LONGER-TERM RECIPIENTS

The data on the dynamics of welfare use presented here suggests that welfare has at least three sides: transitional support, episodic support and long-term continuous support. Women who use welfare for transitional support use welfare for very short periods of time, leave and never return. Women who use welfare for episodic support move off the welfare

rolls quickly and then return. Long-term continuous users rely on welfare as their primary means of support for very long periods of time. If these women leave the welfare rolls, it is only for very brief periods of time. These latter two groups of women would both be affected by the imposition of a time-limit. Data presented in Table 4 show that if one examines the welfare experiences of women who first enter the welfare system when they are under the age of 24 over a five year period beginning with their initial welfare receipt, almost 60 percent of young women who ever use welfare fall into one of these two groups. Continuous users account for 44 percent of all of the welfare use of this group of women over this five-year period; episodic users account for about 40 percent of the use while transitional users account for just 15 percent of the use.

Table 4 presents characteristics for young women who fall into these three groups. These characteristics provide information on how these groups of women differ along several important dimensions and begin to provide some insight into the types of investments that may be needed to help these women obtain private sector jobs within a two-year time period.

On average, young women who spend fewer than twenty-four months on the welfare rolls over a five-year period are more advantaged than women who move on an off the welfare rolls or women who use welfare continuously. Women who just used welfare for short periods of time were the most likely to have graduated from high school or completed a GED. Almost half had an average or above average command of basic skills as measured by the Armed Forces Qualifying Test (AFQT), a test of basic skills that is used by the military to determine whether an individual is qualified to serve in the armed forces. Women who use welfare episodically show only slightly lower rates of high school completion than transitional users, but substantially fewer enter the welfare system with recent work

experience. In addition, fewer episodic users have an average or above average command of basic skills.

Continuous users are by far the most disadvantaged group of women. They have the lowest rates of high school completion. Only a third of this group of women entered the welfare system with a high school diploma or a GED. In addition, almost 60 percent enter the welfare system with no recent work experience. These women are also distinguished by their extremely low command of basic skills. Fully two-thirds of this group of women have a command of basic skills that is below the average for their age group. Since research shows that there is an extremely close link between, educational credentials, work experience and performance on the AFQT and earnings, this data indicates that without intense educational remediation and/or skill development the earning prospects for many of these women are likely to be quite grim.

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Because earnings are so strongly linked to one's educational credentials and previous work experience, these characteristics are important indicators of how well women are likely to do in the labor market. However, a woman's family status is also likely to have a substantial impact on her ability to earn her way off welfare. Women with very young children need to earn more than women with older children to cover their child care costs or if they can only qualify for very low wage jobs, they often need child care assistance to make it possible to provide for their family's basic needs. Even though continuous users were the most likely to enter the welfare system with a child who was just a year or younger, the majority of all of these young women entered the welfare system with a very young child. This suggests that at least some women do manage to leave the welfare system and stay off even when their children are very young.

Transitional and episodic users were also far more likely than continuous users to have been married before they entered the welfare system. More than 80 percent of continuous users entered the welfare system as never-married mothers compared to just about one-half of transitional users and almost two-thirds of episodic users. Research suggests that at least part of the difference in the marital status of these groups may be due to the impact of the receipt of child support. Women who have been married previously are much more likely to receive child support payments from an absent father than never-married mothers. Since child support payments make it possible for a single-parent family to survive with less earned income, the women in these families are significantly more likely to enter the labor market than mothers who do not receive any financial support from an absent father. It is also possible that women who enter the labor market as never-married mothers are a more disadvantaged group of women than previously married mothers. If this is true, then previously married mothers would leave the welfare system faster than never-married mothers even if they did not receive any assistance from the absent father.

These data suggest that a large proportion of the young women who enter the welfare system enter with a high school diploma or a GED, previous work experience and/or a average or better than average command of basic skills. These women are likely to be able to leave the welfare system with limited assistance from the government. Some of these women may need assistance with child care or may need to upgrade their skills so they can qualify for better-paying jobs. Others may simply need assistance in locating suitable employment within the private sector. The episodic users may need more assistance to help them with crises that arise once they leave the welfare system. Alternatively, they may need assistance to help them move back into the labor force quickly if they lose their jobs or their

child care arrangements break down. Women who currently rely on welfare as their primary means of support over the long term, are likely to need much more assistance over a much longer period of time. Because many of these women have such a poor command of basic skills, they are likely to need some remedial education and/or skills development before they can find private sector employment. Even with these services, it is likely that many of these women will only be qualified for entry-level positions. Therefore, they are more likely to need additional supportive services (such as child care, housing assistance and food stamps) over the longer-term to be able to provide adequately for their families.

Table 4

## Selected Characteristics by Type of Welfare Use for Women Who First Receive Welfare Before Age 24

Characteristic	(Percent of Total in Group)			
	Short-term Transitional Use (≤ 24 months)	Episodic Use (25-54 months)	Continuous Use (55-60 months)	All New Recipients
High School Diploma	41.0	36.4	29.8	36.8
GED	4.0	5.2	4.2	4.5
No Recent Work Experience	36.6	45.6	57.0	44.5
Basic Skills (AFQT Score; measured in standard deviations from the mean)				
-3.00 to -1.50	8.2	17.6	23.7	15.1
-1.49 to -0.50	30.0	39.2	42.2	36.0
-0.49 to +0.50	36.6	36.4	26.0	34.0
+0.51 to +1.50	22.0	6.8	7.2	13.3
+1.51 to +2.00	3.2	0.0	1.0	1.6
Youngest Child Age One or Younger	77.8	76.4	85.6	79.2
Never Married	52.3	63.4	81.9	63.2
Age at First Welfare Receipt				
15-17	11.3	10.9	20.5	13.4
18-20	55.4	52.6	56.1	54.7
21-23	33.3	36.4	23.4	31.9
Race/Ethnicity				
African-American	29.4	41.7	57.5	40.3
Hispanic	6.5	8.8	6.9	7.4
White	64.1	49.5	35.6	52.3
Lives in Public or Subsidized Housing	9.1	16.6	21.9	14.7
Percent of All New Recipients	42.5	33.3	24.3	100.0
Average Months on Welfare Within Five Years	11.8	39.6	59.1	32.5
Percent of Welfare Use	15.4	40.5	44.1	100.0

All characteristics are measured at the beginning of the first spell of welfare receipt.

The AFQT score is standardized by age group based on the scores of all women in the NLSY who took the AFQT test in 1980.

6/14/93  
Revised 7/13/93

### Working Paper Series

The purpose of the working paper series is to disseminate information about the current welfare system and to outline key issues that will arise as the welfare reform initiative develops. The goal is to be proactive and to provide educational material to the public and to communicate that we have thoughtfully considered a wide range of issues. The primary audience should be the press, Members of Congress, and the advocacy groups. The individual papers will be written for a knowledgeable audience. They will then be condensed and produced as a much shorter layperson-type report. There may be additional products as well, such as simplified executive summaries of papers, a monograph, an integrated overview piece, and so forth.

The papers will be assigned to individuals within the various issue groups. Wendell Primus, Tom Corbett, Rebecca Maynard and ACF individuals will be responsible for overseeing, editing and coordinating the work. Upon completion of an initial draft, papers will be circulated to the Steering Committee for comments. The papers should be written to stand alone, but they may be combined at the end for distribution as a complete document.

The list of paper topics includes the following:

1. A short expansion of the "vision speech" which the chairpersons have given on multiple occasions. The paper will include the themes, values and principles which welfare reform should embrace. (5 pages) This will be the 'rhetoric' piece which makes a compelling argument for values such as:
  - Work
  - Family
  - Opportunity
  - Parental responsibility
  - Appropriate role of government
  - Gender equality (same expectations/opportunities for mother and father)

August 1 - Public Affairs

2. Why should welfare be reformed or replaced? This paper is a condensation of the arguments made in the topical papers outlined below. The arguments should be grouped under the four themes of:
  - a) Making work pay
  - b) Child support enforcement and assurance

- c) Improved support services
- d) Implementation of the time limit

August 1 - ASPE

- 3. Characteristics and background information on existing programs, including reciprocity numbers and budget figures. Like the material in the Green Book, this piece should present a brief history and factual overview of each of the programs.
  - AFDC                    - Housing
  - JOBS                    - EITC
  - Food stamps       - Others
  - CSE

August 15 - ASPE/DOL/FNS/HUD

- 4. Characteristics of recipients, the working poor and multiple program receipt.
  - Who comprises this heterogenous group that we call welfare recipients?
  - What are the common characteristics among diverse individuals and families?
  - Do the working poor differ from the welfare poor? If so, how?

Due date and author to be determined

- 5. Dynamics of AFDC and other transfer programs, and their implications for policy.
  - Why do people move on and off the rolls?
  - How much movement is there?
  - What is the average length of stay on benefits? How long is the initial spell and the total length of time?
  - What causes long-term or inter-generational dependency?

August 1 - Pavetti

- 6. Impact of current welfare system (including child support) on:
  - Poverty
  - Family formation, teenage pregnancy and out-of-wedlock childbearing
  - Child outcomes
  - Welfare dependency
  - Inter-generational welfare receipt
  - Marriage penalties
  - Noncustodial fathers

To some extent, this is our response to the Heritage Foundation article and the Atlantic Monthly piece.

Due date and author to be determined.

- 7. Policies in the current system that detract from making work pay.
  - Disincentives to work
  - Opportunity structure
  - Lack of health care
  - Lack of child care

- Marriage penalty
- Individual/personal characteristics

August 1 - Corbett/Shapiro

8. Child support statistics and problems. This paper will be further explanation of the charts and Ellwood's testimony to the Subcommittee on Human Resources.
- Inadequate and inequitable awards
  - Inability of current system to enforce
  - Child support assurance. What are the implications of an assurance system?

August 1 - Legler

9. What can fathers realistically pay?
- Impediments to paying
  - Employment patterns
  - Disputes

September 1 - Mincy

10. Complexity of programs and program delivery.
- Complex formulas for determining benefit eligibility and level
  - Variation in rules among programs
  - What is the interaction among programs? What proportion of recipients receive benefits from several programs?
  - Application processes under various programs. What is expected of recipients, what documents are required, etc.

October 1 - Way

11. Education, training and other services.
- Fuller description of JOBS and how it is actually implemented in the different States
  - What have we learned from the MDRC and Urban Institute evaluations of GAIN, ET, FIP?
  - Teen parent demonstration and implications for welfare reform
  - How do the needs for education and training assistance differ between custodial and non-custodial parents?

August 15 - Pian/Uhalde

12. Description of past public service employment programs and their implications for welfare reform.
- Brief description of WPA and lessons from it
  - Brief description of CETA and lessons from it
  - Supported work and its implications

September 1 - DOL

13. Child care (based on outline from M. Ragan)
- Why child care is important to welfare reform

- Current status of child care system
- Related programs and types of care used by low-income families
- Issues

August 15 - ACF

14. Description of illustrative programs that welfare reform might emulate. The examples listed below are not intended to be exclusive or exhaustive:

- a) Paternity establishment
  - Washington
  - Virginia
  - Kent County, Michigan
- b) Child support enforcement/assurance
  - Wisconsin
  - New York
  - San Francisco (automation)
- c) Making work pay
  - New Hope
  - Canadian project
- d) Education and training
  - E.T.
  - Project Match
  - GAIN
  - Riverside
  - Kenosha, Wisconsin
- e) Other
  - Massachusetts (Dept. of Revenue)
  - Allegheny (overall)

August 1 - ASPE

6/14/93

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The list of paper topics includes the following:

1. Themes, values and principles which welfare reform should embrace. (5 pages) This will be the 'rhetoric' piece which makes a compelling argument for values such as:
  - Work
  - Family
  - Parental responsibility
  - Appropriate role of government
  - Gender equality (same expectations/opportunities for mother and father)
2. Why should welfare be reformed or replaced? This paper is a condensation of the arguments made in the papers under #3.
3. Description of current welfare system, its clientele and impact. Each of the letters listed below will be a separate paper.

Add: ① Need for Low Wage Workers/  
Turnover/Job Demand  
② Children's Tax Credit  
over time

- a) Characteristics and background information on existing programs. Like the material in the *Green Book*, this piece should present a brief history and factual overview of each of the programs.
  - AFDC
  - JOBS
  - Food stamps
  - CSE
  - Head Start
  - Housing
  - EITC
  - Child care
  - Others
- b) Characteristics of recipients and the working poor.
  - Who comprises this heterogenous group that we call welfare recipients?
  - What are the common characteristics among diverse individuals and families?
  - Do the working poor differ from the welfare poor? If so, how?
- c) Impediments to leaving welfare.
  - Disincentives to work
  - Opportunity structure
  - Lack of health care
  - Lack of child care
  - Marriage penalty
  - Individual/personal characteristics
- d) Dynamics of AFDC and other transfer programs.
  - Why do people move on and off the rolls?
  - How much movement is there?
  - What is the average length of stay on benefits? How long is the initial spell and the total length of time?
  - What causes long-term or inter-generational dependency?
- e) Child support statistics and problems. This paper will be further explanation of the charts and Ellwood's testimony to the Subcommittee on Human Resources.
  - Inadequate and inequitable awards
  - Inability of current system to enforce
  - Child support assurance. What are the implications of an assurance system?
- f) What can fathers realistically pay?
  - Impediments to paying
  - Employment patterns
  - Disputes
- g) Complexity of programs and program delivery.
  - Complex formulas for determining benefit eligibility and level

- Variation in rules among programs
  - What is the interaction among programs? What proportion of recipients receive benefits from several programs?
  - Application processes under various programs. What is expected of recipients, what documents are required, etc.
- h) Education, training and other services.
- Fuller description of JOBS and how it is actually implemented in the different States
  - What have we learned from the MDRC and Urban Institute evaluations of GAIN, ET, FIP?
  - Teen parent demonstration and implications for welfare reform
  - How do the needs for education and training, assistance differ between custodial and non-custodial parents?
- i) Impact of current welfare system (including child support) on:
- Poverty
  - Family formation, teenage pregnancy and out-of-wedlock childbearing
  - Child outcomes
  - Welfare dependency
  - Inter-generational welfare receipt
  - Marriage penalties
  - Noncustodial fathers

To some extent, this is our response to the Heritage Foundation article and the Atlantic Monthly piece.

4. Description of model programs that welfare reform might emulate. The examples listed below are not intended to be exhaustive or the only ones to be included:
- a) Paternity establishment
    - Washington
    - Virginia
    - Kent County, Michigan
  - b) Child support enforcement/assurance
    - Wisconsin
    - New York
    - San Francisco (automation)
  - c) Making work pay
    - New Hope

- d) Education and training
    - E.T.
    - Project Match
    - GAIN
    - Riverside
  - e) Other
    - Massachusetts (Dept. of Revenue)
    - Allegheny (overall)
5. Issues in four major areas of welfare reform. These should be brief. They should raise and discuss the issues, but they must not characterize the difficulty implied by a given issue.
- a) Making work pay
  - b) Child support enforcement and assurance
  - c) Improved support services
  - d) Implementation of the time limit
6. Description of past public service employment programs and their implications for welfare reform.
- Brief description of WPA and lessons from it
  - Brief description of CETA and lessons from it
  - Supported work and its implications