

**IMPROVING WORK-WELFARE PROGRAMS:
ISSUES AND OPTIONS**

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Drawing on past research and programs in the work-welfare area, this memorandum discusses several alternatives for improving work-welfare programs. Enough evidence is available now to analyze ways to increase the labor force attachment and earnings of employable welfare recipients as well as reduce net expenditures for benefits over the long term. Because the fraction of the caseload that is employable is roughly 10 to 15 percent and current spending on them is low, the net reduction in the current federal deficit would be small, but not insignificant. These reductions would continue in future years, however, because reduced transfer spending and increased tax revenues would continue over the former recipient's work life, while the program would incur only a one-time expense for each recipient.

As used here, welfare means both the Aid to Families with Dependent Children (AFDC) and the food stamp programs, but does not include other means-tested programs. About 3.5 million families receive AFDC benefits each month, while about 7.8 million households receive food stamps each month. Since most AFDC families also receive food stamps, the total number of households assisted by one or the other of these programs is roughly 8 million.

Work-welfare programs encompass a wide range of programs and services designed to improve the employability of welfare recipients, increase their economic self-sufficiency, reduce welfare dependency, or simply to derive some work from the recipient in exchange for benefits. In



the past, these efforts have included job search, referral, and placement services; basic education; specific skills or on-the-job training; work experience; support services, such as child care, career counseling, and reimbursement for work-related expenses; and workfare (work in exchange for benefits). Several past programs have combined more than one of these approaches.

After presenting major findings from past research and trends in implementing recent law changes, this memorandum discusses several options for improving current work-welfare programs:

- o Change the targeting of current programs to groups of participants for whom they are more likely to be cost-effective;
- o Shift the emphasis of these programs to more effective approaches and matching them with participant characteristics;
- o Have welfare agencies operate work-welfare programs alone, instead of joint operation with other agencies;
- o Increase the incentives for states to implement existing work-welfare approaches; and
- o Provide assistance to recipients during the transition period to regular employment.

IMPLICATIONS OF MAJOR FINDINGS FROM PAST RESEARCH

Out of the considerable body of research and experience with past and current programs a number of major conclusions can be drawn that have clear policy implications. The conclusions are based on studies of the dynamics of welfare caseloads and evaluations of past and current programs.

Basically, the findings pertain to which participants benefit most, which approaches are most effective, and what limits the reductions in federal spending and impact on welfare dependency. 1/

Targeting More vs. Less Employable Recipients

Programs targeting less employable recipients generally found greater net budget savings in the long run than programs targeting the more employable. Although the less employable recipients still had lower earnings and employment rates after the program than the more employable recipients, the long-term welfare costs of these recipients were so much higher than those of more employable recipients that it was more cost effective to focus on the less employable recipients.

Past programs identified recipients as less employable if they had little or no prior work experience, limited job skills, and limited education. Characteristics of more employable recipients generally were those with some prior work experience, some specific job skill, and often a high school diploma.

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1. For good literature reviews see Berkeley Planning Associates, **Evaluation Design Assessment of Work-Welfare Projects** (September 30, 1980), prepared for Office of Research and Statistics, Social Security Administration, October 1981, Mary Fish, **Income Inequality and Employment**, prepared for the Employment and Training Administration, U.S. Department of Labor, 1978, and P. G. Brown, C. Johnson, and P. Vernier, eds., **Income Support: Conceptual and Policy Issues** (Rowan and Littlefield, 1981).



Before discussing the effects of prior work experience and education, the impact of work-welfare programs on women will be discussed. Such a discussion is important because women head most welfare families, about three-quarters of WIN registrants are women, and women are more likely to be less job-ready than men.

A variety of studies have confirmed that women gain substantially more from employment and training programs than do men. These program gains were usually measured during a follow-up period after the intervention as increased earnings or hours worked when compared to a similar group of individuals who did not participate in the particular program. For example, a recent CBO paper on programs funded under the Comprehensive Employment and Training Act (CETA) shows that CETA training increased a female participant's average post-program earnings by between \$800 and \$1,300 annually, with similar gains for the three major types of training (classroom, on-the-job, and work experience). Because only a small portion of this gain reflects increased wage rates, CETA training may not have upgraded job skills substantially, however. Instead, improved job access, greater labor force participation, and more hours of employment account for most of the increase. 2/

2. Congressional Budget Office, CETA Training Programs--Do They Work for Adults? (July 1982).

Although women seem to benefit more from training than men, they still earned less after training--primarily from receiving lower wage rates, rather than from working fewer hours. Male participants experienced negligible increases in future earnings as a result of training--probably because men had previously been employed more than women, so there was little room for increased hours of work--and the programs had little effect on their wage rates.

Prior Educational Attainment and Work Experience

Prior educational attainment and work experience were both important factors in the gains achieved by participants in work-welfare programs. In all programs in which participants increased their earnings or hours worked, those who had completed high school experienced greater gains than those with less education. While this result seems inconsistent with the general findings on the less employable, most recipients considered employable do not have a high school diploma--roughly two-thirds of WIN registrants have not completed high school. In the present context, unless a major program were started to provide a high school education, more useful to the current discussion are the results on the effects of prior work experience.

In successful unpaid work experience programs (including workfare), participants with some prior work experience gained more; but in successful



programs that paid stipends or wages, participants with no prior work experience gained more. These results suggest that caseworkers could use such information to assign participants with a particular background to those program components with greater likelihood of success.

Combining Training and Paid Employment

Beyond the effects for single approaches, the combination of training and paid employment was generally found to have a greater impact than unpaid work, classroom training, or immediate job placement alone. For example, for women in the public service employment component of the Work Incentive (WIN) Program, which combines some on-the-job training with paid employment, post-program earnings increased about \$1,500 per year compared to their estimated pre-program earnings. Among those WIN participants in the on-the-job training component, the net change in earnings was also substantial. Although the program effects of most successful WIN components did decay slightly after the program, significant earnings gains remained after three years. For participants in the National Supported Work Demonstration Project (NSWD), the average post-program gain in earnings was roughly \$1,200 per year. 3/

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3. For WIN results see U.S. Department of Labor, The Long-Term Impact of WIN II: A Longitudinal Evaluation of the Employment Experience of Participants in the Work Incentive Program (1980); for NSWD results see P. Kemper, D. Long, and D. Thornton, The Supported Work Evaluation: Final Benefit-Cost Analysis (Mathematica Policy Research, 1981).

While these results are substantial, they may reflect the greater access to employment that these approaches typically provide participants. The jobs used in these cases are more closely tied into permanent, stable positions. Therefore, participants are more likely to obtain employment from the same or similar employers. In other words, the earnings gains may result from experiences associated with higher quality employment during the program that leads to a better job after the program, rather than to the effects of the program itself.

Workfare

Although workfare has been tried in various forms, careful studies of these programs have found that most did not produce net budget savings. A 1980 evaluation of the Massachusetts' Work Experience Program (WEP) found no significant impact on employment, earnings, or welfare payments--probably because only a small proportion of those who must be screened initially were successful program participants. Preliminary USDA reports from the Food Stamp Workfare Demonstration sites indicate no impact on wage rates and conflicting impacts on earnings. At the seven demonstration sites operating during the first year, women referred to the workfare program were more likely to get jobs after the program and thus increase their average earnings than women in the comparison group: the increase averaged \$62 per month. But men, who were two-thirds of all workfare participants, were less likely to get jobs after the program and consequently they earned less than their comparison group: the decrease in earnings

averaged \$51 per month. The result for men may be an example of the "discouragement" effect described by Goodwin in which repeated failure to find regular employment leads to increased acceptability of welfare. At these seven sites, costs and benefits to the federal government appear roughly equal: depending on how the results are interpreted, the estimates of the net effect range from a net gain of \$5 to a net cost of \$9 per person referred to workfare. 4/

State and local governments have delayed or limited implementation of workfare programs in the past--and may do so in the future--because of several issues associated with these past efforts. These issues have included: organized opposition by community groups and some public employee labor unions; concerns by local governments that the costs of administration and startup may exceed savings; concerns about the potential displacement of regular employees by workfare participants ; and lack of available job slots for all workfare participants. Because each of these concerns has some validity, states appear to be proceeding cautiously to deal with these issues as they arise, having learned from the California CWEP experience that these concerns are easier to resolve before they become political issues.

4. See Barry Friedman, and others, An Evaluation of the Massachusetts Work Experience Program (Waltham: Brandeis University, Heller Graduate School, 1980), U.S. Department of Agriculture, Third Interim Report to Congress, Food Stamp Workfare Demonstration Projects (Office of Analysis and Evaluation, Food and Nutrition Service, June 1982), and Leonard Goodwin, "Can Welfare Work," Public Welfare, Fall 1981.



Job Search

Most forms of intensive job search seem to shorten particular episodes of unemployment and welfare reciprocity, but rarely lead to jobs with higher levels of earnings or to job tenure longer than otherwise would occur. Job search by itself is not effective at increasing employment stability, so recipients who obtain employment through job search may return to welfare programs in the future. 5/

High Caseload Turnover

A substantial fraction of employable AFDC and food stamp recipients receive benefits for only short periods under existing work requirements. Data on turnover of recipients considered employable are not available, but turnover estimates for the entire caseload, which are available, probably are an underestimate. In AFDC precise data are lacking on turnover, but one review of the literature estimated that 50 percent of AFDC recipients receive welfare temporarily (one year or less). 6/ In food stamps, according to the Current Population Survey (CPS), about 25 percent of the households receive benefits for four or fewer months and over 40 percent for less than a year.

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5. See Elise Bruml and John Cheston, "Placement Assistance in the ES, WIN, and CETA" (paper funded in part from U.S. Department of Labor, March 1982), and Elise Bruml, "Self-Directed Group Job Search: The Results" (unpublished paper, U.S. Department of Labor, July 13, 1981).
 6. Mary Fish, Income Inequality and Employment, p.2.

Such a high turnover for a significant subgroup of recipients makes it difficult to achieve dramatic improvements in employment rates for the entire caseload. In fact, most of these recipients leave the program before receiving any work-related services. Because the group is currently on the programs for so short a time, additional work requirements or services are unlikely to appreciably affect the duration of receipt of benefits. Additional requirements, however, may increase their deterrent effect on potential applicants enough to reduce the caseload, although the deterrent effect of current policy has not been measured.

Locus of Service Provision: Welfare Agencies or the Employment Service

Past program evaluations found that the local welfare agency generally was better at dealing with employable welfare recipients than was the Employment Service (ES) of the Labor Department. Employment Service personnel tended to view welfare recipients as less employable, less motivated, and more likely to have employment problems than their regular clients. While this view is generally correct, it seems to result in their devoting less effort to placing welfare recipients in jobs. An evaluation of job search requirements in WIN and food stamps found that, in general, ES staff did not do much to assist welfare recipients in their job search: the only two services offered to them were the opportunity to review job listings and occasional referrals to jobs. In contrast, welfare departments have the movement of clients from welfare into paid employment as a major

goal and have more experience working with welfare recipients, so they have been more successful in the past at expanding their role to include training, counseling, and other services. Because coordination between agencies has been problematic in the past, relying on the Employment Service for certain well defined tasks it does well, for instance, job search clubs, has been more successful than coordinating multiple tasks with the welfare department. 7/

Impact on Welfare Dependency

Even in successful work-welfare programs, most participants obtained jobs with earnings too low to lift their families above the poverty line, limiting the impact on welfare dependency. A full-time job paying the minimum wage of \$3.35 per hour means an annual gross income of \$6,968. In 1983, with the poverty threshold at about \$9,300 for a family of four, such a single-earner family earns 83 percent of the poverty line. Some families earn less than the minimum wage or work less than full time. Although many of these low-income families qualify for small welfare grants, their total pre-tax incomes are still less than the poverty line. While the impact on welfare dependency may be limited, nevertheless, the lower benefits paid to working recipients does reduce welfare costs. For example,

7. See Robert Evans, Barry Friedman, and Leonard Hausman, The Impact of Work Tests on the Employment Behavior of Welfare Recipients (Waltham: Brandeis University, 1976) prepared for the Manpower Administration, U.S. Department of Labor and Berkeley Planning Associates, Evaluation Design Assessment of Work-Welfare Projects (1981).

the average monthly, post-program welfare benefits of former participants in the Supported Work Program was \$52 (23 percent) less per month after the program than the control group who never participated, with 28 percent of the participants having left welfare as compared to 15 percent of the controls. ^{8/}

RECENT LAW CHANGES AND TRENDS IN IMPLEMENTATION

In the past two years the Congress has strengthened work requirements for employable welfare recipients while eliminating or reducing benefits for working recipients.

Recent Law Changes

Recent legislation affecting employable recipients in the AFDC and food stamp programs:

- o Allows states to establish workfare and other work-welfare programs;
- o Tightens job search requirements and increases penalties for noncompliance with work rules;
- o Lowers income eligibility limits and alters benefit formulas, affecting many recipients with earned income;
- o Reduces the earnings disregard ^{9/} in food stamps and AFDC; and
- o Eliminates the earnings disregard in AFDC after the first four months.

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8. Welfare as used in the supported work study includes AFDC, general assistance, and Supplemental Security Income (SSI).
 9. The earnings disregard is the amount of earned income not counted as income in computing benefits. It is intended to provide an incentive for working.

In AFDC, the Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) allows states to establish workfare programs, called Community Work Experience Programs (CWEP), and Work Supplementation Programs, which use savings from reduced AFDC grants to provide jobs instead of welfare on a voluntary basis. In addition, states may establish three-year WIN demonstration projects of their own design as an alternative to the current WIN program. These demonstration projects may include a CWEP workfare component as part of an expanded WIN program.

Similarly, under the Food Stamp and Commodity Distribution Amendments of 1981 (Public Law 97-98) states and local governments are allowed to implement workfare as a permanent feature of the Food Stamp Program. Food stamp workfare demonstrations have been in operation in a few sites since 1979.

In addition to workfare, tightened work requirements and increased penalties for noncompliance with work rules are designed to offset, in part, the increased disincentives to work created by reductions in benefits for working recipients. The intent is that welfare recipients should no longer face the choice of whether to work, but instead should face the choice of for whom to work—performing public service work for the county or working in the private sector. Employable recipients in both the AFDC and food stamp programs are required to seek jobs actively starting at the time of

initial application to the program and to accept employment when found. In the past, however, little administrative effort was applied to assisting or effectively monitoring compliance with these requirements. ^{10/} Recipients who voluntarily quit their jobs without due cause (including strikers) may receive a reduction or termination of benefits.

At the same time in both AFDC and food stamps, income eligibility limits were lowered and benefit formulas were altered--changes that primarily affect working recipients. Because most recipients near the old income eligibility limits have earnings, these changes effectively reduce the amount of money they can earn before benefits are terminated. Modifications in the benefit formulas, such as limits on deductions, reduce the total income (benefits plus earnings) of working recipients.

In both AFDC and food stamps, the earnings disregards were reduced. The amount of earnings not counted as income in figuring benefits in food stamps was reduced from 20 percent to 18 percent, while in AFDC, the earnings disregard is now applied to net income (gross income minus deductions) instead of to gross income.

10. See Charles S. Rodgers, "Work Tests for Welfare Recipients: The Gap Between the Goal and the Reality", Journal of Policy Analysis and Management, Vol. 1, No. 1 (1981): 5-17 and U.S. General Accounting Office, Food Stamp Work Requirements--Ineffective Paperwork or Effective Tool, 1978.

Finally, in AFDC, the earnings disregard is now eliminated after the first four months of employment. This change is intended to encourage working recipients to leave AFDC after obtaining employment.

Trends in Implementation

About three-quarters of the states have or have started workfare in state general assistance, AFDC, or food stamp programs, as of September 1982 (see Table 1). Almost all states with AFDC workfare programs have just begun implementing them within the past few months, although Oklahoma has operated a voluntary CWEP program since 1975, and Utah has operated its WEAT program since 1974. Of the 14 food stamp workfare demonstration projects scheduled to be completed by the fall of 1982, seven are continuing pending final approval of new workfare regulations. Most AFDC and all food stamp workfare programs are operating in a limited number of counties (often just one or two) and few have been developed in major urban areas or counties with large caseloads. Generally, it is the same states that mandate workfare for state general assistance grantees that have taken action to apply workfare to AFDC recipients.

The following sections discuss in more detail the workfare efforts in AFDC and food stamps that are currently being implemented. Then the newly established, work supplementation option, along with some state-initiated subsidized employment programs (which may be converted to work supplementation) are discussed.

TABLE 1. STATES THAT HAVE ADOPTED WORKFARE REQUIREMENTS AS OF SEPTEMBER 1982

| State | General Assistance Workfare | AFDC Workfare | Food Stamp Workfare Demo | Current Developments | Coverage |
|--------|-----------------------------|---------------|--------------------------|---|--|
| Ala. | | X | | 1 county now; 17 counties in planning. | Optional to counties; mandatory to employables. |
| Alaska | | X | | | Optional to counties. |
| Ariz. | | | X | WIN Demo plan approved. | |
| Ark. | | | X | WIN Demo plan approved; Start held up for funding. | Most counties covered. |
| Calif. | X | X | X | | Most counties covered. |
| Colo. | | X | | Legislation passed but not implemented. | Optional to counties. |
| Conn. | X | | | | Most townships covered. |
| Del. | X | | | WIN Demo plan approved | Most state covered. Optional to recipients. |
| D.C. | | | | No plans for workfare. | |
| Fla. | | | X | Food stamp demo approved. WIN Demo plan. | Optional to counties. |
| Ga. | | X | | 10 counties now; more expected. | Pilot program optional to counties; mandatory for recipients. |
| Hawaii | X | X | | | Most state covered; mandatory for recipients. |
| Idaho | | X | | | Optional to recipients; statewide. |
| Ill. | X | | | WIN Demo plan. | Optional to counties. |
| Ind. | X | | X | | Optional to townships. |
| Iowa | X | X | | | Two counties; implementation postponed. |
| Kan. | X | | | | Statewide |
| Ky. | | | | No workfare currently. | |
| La. | | | | Legislation being considered for AFDC but approval unlikely | |
| Maine | X | | | Legislation pending. WIN Demo plan. | |
| Md. | X | X | X | WIN Demo plan approved; Start held up for funding. | Optional to counties; 2 have adopted plans. |
| Mass. | | X | | WIN Demo plan approved. | Several towns covered; combines workfare with training option. |
| Mich. | X | X | X | WIN Demo plan approved. | Optional to counties; mandatory to recipients. |
| Minn. | | | | Legislation being drafted. | One draft bill is statewide, other optional to counties. |
| Miss. | | | | Legislation killed in committee. | |
| Mo. | | | X | | Optional to jurisdictions; half covered. |
| Mont. | X | X | | AFDC demo planned for Sept. | Optional to counties; mandatory for GA. |
| Neb. | | | | WIN Demo plan approved; Start held up for funding. | |

TABLE 1. (Continued)

| State | General Assistance Workfare | AFDC Workfare | Food Stamp Workfare Demo | Current Developments | Coverage |
|-------|-----------------------------|---------------|--------------------------|--|--|
| Nev. | | | | No plans for workfare. | |
| N.H. | X | | X | | GA workfare optional to counties. |
| N.J. | X | | | WIN Demo plan approved; Start help up for funding. | Most or all municipalities covered; mandatory for recipients. |
| N.M. | | | | Legislation being processed. | |
| N.Y. | X | X | | | GA statewide 10 years old; AFDC demo. |
| N.C. | | | X | | Demonstration for 6 counties; mandatory for AFDC. |
| N.D. | | X | | | Pilots in 2 counties; mandatory for recipients. |
| OH | X | X | | | Workfare or work supplementation options after 45 day job club; GA mandatory, AFDC optional to counties. |
| Okla. | | X | | WIN Demo plan approved. | Statewide. |
| Ore. | | | | WIN Demo plan approved. | |
| Pa. | X | X | | | Optional to counties; mandatory for recipients. |
| R.I. | X | | | | Statewide; mandatory for recipients. |
| S.C. | | X | X | | Pilot in 3 counties; mandatory for recipients. |
| S.D. | X | X | | WIN Demo plan approved. | Optional to counties. |
| Tenn. | | | X | | |
| Texas | | | | Legislation to be introduced. WIN Demo plan approved. | |
| Utah | X | | X | | Statewide; GA workfare since 1976. |
| Vt. | | | | No workfare currently. | |
| Va. | | X | X | AFDC workfare to begin Jan. '83. | |
| Wash. | | | | Legislation introduced. | |
| Wyo. | | | | No plans for workfare. | |
| W.Va. | | X | | WIN Demo plan approved; Start held up for funding. | Statewide; mandatory for recipients. |
| Wis. | X | | | Legislation defeated. | |

SOURCE: Center for National Policy Review, Jobs Watch (September 1982).

Workfare - AFDC. AFDC workfare programs as actually implemented have tended to use a less punitive approach than that indicated in the CWEP regulations by making extensive use of optional features. In most states, workfare is provided as one of a number of training or employment options available to participants in a more comprehensive program (usually WIN). In Massachusetts, for example, participants have a choice among participating in active job search (usually in jobs clubs), training, or a voluntary workfare program. In Oklahoma, only those recipients whose employability plans indicate a need for work experience are assigned to CWEP. Participation is usually limited to three months (in no case more than six months) unless participants are fulfilling training or experience requirements for employment eligibility. Oklahoma's workfare program provides training and experience, especially to allow women to enter more skilled jobs such as plumbing and carpentry, rather than "make work" assignments. In most states, AFDC workfare programs have developed jobs that include some skill training and have avoided "make-work" jobs that have characterized general assistance and food stamp workfare.

These programs have made only limited use of sanctions for non-compliance, relative to food stamp workfare programs, placing greater emphasis on counseling participants and reassigning them when problems are encountered. Most programs are fairly flexible in granting exemptions to recipients for whom participation may present a hardship. Because of such

exemptions, a smaller portion of the employable recipient group than indicated in the CWEP regulations actively participate in most state programs.

Major obstacles to program implementation, especially in areas with large welfare caseloads, have been limits on funds for support services--particularly the \$25 per month limit on reimbursement for work-related expenses. Program administrators complain that the \$25 limit on reimbursement for transportation, child care, and other work-related expenses is highly unrealistic. States that provide higher levels of reimbursement do so from state funds. As a result, most states simply exclude mothers of preschool children and persons with high transportation expenses from active participation. To deal with this issue, some states are considering establishing CWEP-operated daycare centers, staffed by and providing child care for workfare participants.

Workfare - Food Stamps. In the Food Stamp Program, as compared to the AFDC-CWEP programs, workfare has been applied with more emphasis on requiring participation by all employable recipients, and greater use of the punitive aspects of this approach. Food stamp workfare programs are continuing under demonstration authority pending the approval of final workfare regulations. Since no new workfare programs have yet been established, it is too early to predict whether states will use greater flexibility in developing permanent programs.

Food stamp workfare places less emphasis on moving people into regular employment than does AFDC workfare, possibly because turnover is so high in food stamps. There are no mandated limits for maximum participation in food stamp workfare (in contrast to AFDC) and less effort is devoted to training, job placement, and other services used in AFDC to help participants find and keep jobs.

In addition, sanction rates in existing food stamp workfare programs tend to be much higher, and jobs assigned are more likely to be unskilled ones such as shoveling snow, raking leaves, mopping floors, and collecting garbage. In some sites, sanction rates have been as high as one person for every two or three who complete assignments and consequently at these sites the reduced benefits have had significant budget effects.

Subsidized Employment. The work supplementation option for AFDC provided under new regulations has not been implemented by any state at this time. In this program, states would make jobs available to recipients on a voluntary basis, as an alternative to welfare. Jobs would be funded by savings from reduced benefits for some categories of recipients. A major weakness of this option is that savings from benefit reductions may be insufficient to create enough jobs for all recipients who volunteer to work and have their benefits cut.

A few states are experimenting with state-initiated subsidized employment programs. In New York's Temporary Employment Assistance Program (TEAP), general assistance benefits are converted to a wage subsidy to private employers who provide on-the-job training. Participants receive wages and benefits as regular employees and employers are eligible for the Targeted Jobs Tax Credit, in addition to the wage subsidy, during the training period. Program administrative costs are small (\$300,000 for 1,300 anticipated participants in the first year), but implementation has been slower than projected because of high unemployment.

Massachusetts has continued and recently expanded a state-funded supported work program for AFDC recipients as an outgrowth of the National Supported Work Demonstration that ended in 1979. The program emphasizes private sector employment and would provide employment for 700 selected recipients. Because of its small size, the impact on welfare caseloads and costs will be small.

ALTERNATIVES TO CURRENT PROGRAMS

Drawing on the discussions in the previous sections on what is known about work-welfare programs, this section uses that information to examine several alternatives to current efforts. The options discussed in this section include:

- o Changing targeting of work-welfare programs;
- o Matching participant characteristics with more effective approaches;



- o Shifting almost all work-welfare program activities to welfare agencies;
- o Increasing the implementing incentives for work-welfare programs; and
- o Providing limited assistance to recipients during the transition period to regular employment.

The major criterion used in the analysis of these options is their net budget impact. From the perspective of the federal government, costs include program operating costs, reimbursed work-related expenses, and in-program wages and fringe benefits. Benefits include reduced transfer payments and other allowances; reduced costs for welfare administration; and increased tax payments. In general, the above costs and benefits have been estimated for the alternatives discussed, including future benefits, since many of the benefits continue to accrue after the participant completes the program. Unfortunately, other intangible benefits and costs have not been included, such as, increased preference for work over welfare, improved health status, and forgone nonmarket activities.

On the other hand, net impact on the budget is not the only criterion for analyzing options in work-welfare programs--the Congress might value more highly options that lead to gains by those who need help most. Because a significant proportion of AFDC mothers face severe barriers to employment, they often are not be able to lift themselves and their families

out of poverty without outside help. Thus, the Congress might consider options that concentrate resources on those with virtually no possibility of leaving the rolls without additional help, at some sacrifice to cost effectiveness.

Change Targeting of Work-Welfare Programs

Although the more job-ready recipients are currently the primary focus of work-welfare programs, in general, targeting work-welfare programs on less job-ready recipients and concentrating on more effective approaches would produce greater net benefits in the long run to the federal government. In AFDC, retargeting is especially important because the less job-ready would have substantial difficulty obtaining employment on their own that would significantly raise their income. In contrast, retargeting in food stamps is less important because most work-welfare participants in the food stamp program who do not also participate in AFDC remain on the program for such short periods.

Opponents of changing targeting in either AFDC or food stamps note that some recipients who would have benefited from the work-welfare program would be ineligible because of their pre-program characteristics. Beyond the problem of defining who is less employable, the screening would be based on a set of average characteristics applied to individuals so some individuals who do not fit the average would not be considered even if they would have derived substantial gains from the program.

AFDC. Focusing on less job-ready AFDC participants instead of more job-ready participants is likely to be more cost-effective over the long term. Current, and many past, AFDC work-welfare programs have tended to concentrate their resources on those recipients with the fewest barriers to employment--often called "skimming the most employable". This produces the highest placement rates, but many of these recipients would have found jobs on their own. Research suggests they would not have been on the rolls for long periods in any case, so expected welfare outlays for them would be low. In contrast, less job-ready participants are much less likely to find and keep a job on their own and are on the rolls for considerably longer periods--with correspondingly larger outlays for them. With their greater welfare payments, these recipients might justify relatively expensive interventions, such as skills training, because the long run reduction in AFDC benefits and the increase in tax revenues might be sufficient to offset the short-term program costs.

Because many of the less job-ready participants are women, this proposal would lead to increased emphasis on women who benefit more from work-welfare programs. Currently, employable men in the AFDC-Unemployed Parent (AFDC-UP) program receive a highly disproportionate share of work-welfare resources. While their participation may improve the public image of work-welfare programs, men have not benefited significantly from past work-welfare programs. Women have greater

employment barriers than men and consequently are much less likely to achieve substantial improvements on their own without program participation. Because work-welfare programs benefit women more than men, changing the targeting would improve the income prospectives of female welfare recipients.

Preliminary estimates of the impact on the budget suggest that costs would exceed savings for the first few years after implementation, after that benefits would exceed costs. Costs to run the proposed program would be relatively constant after the initial start-up. In contrast, benefits mainly in the form of reduced transfers and increased tax payments would increase slowly as participants completed the program. After sufficient time, enough participants would have finished the program that total benefits would more than offset the costs.

Although targeting less employable participants might be more effective than current policy, it could be difficult to design unambiguous guidelines for defining who is less employable. Some have argued, for example, that virtually all AFDC women are less employable, so no retargeting is necessary in that program. A more reasonable approach might start with those women who are WIN registrants, then turn to those with limited work experience and no more than a high school education. Such a definition would be consistent with available research on who benefits most.

Food Stamps. Because food stamp benefits are relatively low--about \$119 per month per household--and participants leave the program at a much faster rate than AFDC participants, targeting the more employable recipients to speed their exit from the program or deter potential applicants might have greater budget impact than the current policy of no special targeting. Employable food stamp recipients, not also receiving AFDC (and thus subject to those work requirements), are primarily single, male, young, and participants for a very short time (over half for less than three months). Because these recipients tend to be relatively more homogeneous than AFDC participants, retargeting is less important in food stamps.

Like AFDC, preliminary cost estimates associated with this proposal indicate that at first costs exceed benefits, but in later years benefits increase enough to exceed costs. Unlike AFDC, however, the costs and benefits, as well as the net impact on the budget, are much lower.

Match Characteristics and Approaches

Past program experience shows that assigning participants to different work-welfare approaches, depending on the characteristics of the participants, would improve the overall effectiveness of the program. Characteristics found useful for assigning participants include amount of prior work experience and level of education attained. Proposed changes in AFDC, would include expanding (relative to current policy) the use of the

combination of training and paid employment while using other approaches, such as unpaid employment and job search, more selectively. In food stamps, the high caseload turnover implies that approaches like intensive job search and workfare that tend to move people off the program quickly would have a greater net budget impact.

AFDC. The approaches that tend to be most effective for the less job-ready participant combine training and paid employment, such as on-the-job training in public service employment or subsidized private sector jobs. In past programs, the most successful approaches used fairly short-term training--a few months--and focused primarily on work habits, attitudes, and skills necessary for low-wage, entry-level jobs.

Depending on the characteristics of the participants, on-the-job training or public service employment would be made the primary focus with unpaid work experience and job placement used selectively. This would return the WIN program to a mix of components and emphases more similar to those present before the changes in the middle 1970's that concentrated on placements and the most employable.

In the past, both on-the-job training and public service employment were generally successful components of the WIN program. As indicated earlier, gains in earnings after completing these components of the program were substantial and the gains generally declined little. Opponents argue,

however, that while returning to this approach might be effective for those who complete the program, it could be difficult to create enough public service jobs or find enough private sector employers for all eligible participants, given the continued high levels of unemployment expected for the next several years.

Unpaid work experience, as used in the WIN program, could be changed to a temporary training option to allow public service employers and participants to explore assignments on a trial basis or as a transition to more intensive program participation. Currently, participants can remain in this component for extended periods. Strict adherence to mandated time limits on unpaid work experience would reduce the tendency for participants to remain in positions with little opportunity for eventual employment. These time limits could be varied for participants who need a set amount of experience to meet job entrance requirements.

Since less job-ready participants are unlikely to obtain stable employment without program services, it would be more effective to provide job search assistance after completion of training rather than at the start of program participation. An intensive job search and placement effort for those who recently completed the program would more likely place them in jobs with higher wage rates and greater job stability than current job search programs that often precede any other employment or training.

Reasonable time limits on total program participation, combined with job search after program completion, would assure that services would be provided to the maximum number of recipients. At the same time, individuals who are unable to benefit from the program could be removed without incurring the unnecessary administrative costs and hardships of prolonged participation. Periodic review of such cases could identify those whose situation has changed sufficiently to warrant further efforts.

At this time, only rough budgetary estimates can be developed. If the budgetary effect of this proposal were similar to the experience of the National Supported Work Demonstration Project, then the federal government would expect about \$15,000 in benefits (in 1976 dollars) and \$10,600 in costs, or \$4,400 in net benefits, for each AFDC participant who went through the program. As indicated earlier, the benefits include the discounted value of future tax payments and reduced transfer payments. The estimate for the NSWDC is quite sensitive to changes in assumptions about discount rates, future earnings, taxes, and other technical adjustments, however. Differences between WIN and NSWDC in participants and programs would also affect this estimate. 11/ Preliminary estimates of

11. See P. Kemper, D. Long, and C. Thornton, The Supported Work Evaluation: Final Benefit-Cost Analysis (Manpower Demonstration Research Corporation, 1981) for these figures. The estimates assume a 28-year work life for participants, a 3 percent real decay rate in earnings gains, a 5 percent real discount rate, and all figures in fourth quarter 1976 dollars.

the budget impact for WIN itself indicate that costs exceed benefits for the first few years, but later as more recipients complete the program, benefits exceed costs.

Food Stamps. Because of the high turnover of non-AFDC food stamp recipients, approaches that can be provided quickly, with immediate impact and low costs, would be more likely to result in net budget savings. More costly and intensive services, such as skills training or subsidized employment, would be less cost effective because recipients leave the food stamp program rapidly and reduced benefits would not justify large expenditures for such efforts.

Stronger initial job search requirements with highly structured group job search programs and then a workfare program for participants who are not placed would probably be the most effective approach for these recipients. Intensive job search is an effective way to place employable recipients. When combined with a workfare program for participants unable to find employment, it would provide public service benefits to local communities as well as deter participation. A strategy that would recycle recipients for repeated participation in job search or workfare would have the effect of discouraging prolonged dependence on food stamps by those who are able to work. Because most participants would be expected to leave the Food Stamp Program on their own eventually, savings would come

primarily from speeding their exit or making it more difficult to avoid work program participation during the first few weeks.

Estimates of the budgetary effects of the combination of job search and workfare are unavailable at the present time, but the costs and savings are likely to be roughly equal. Each of these approaches when tried separately in the past has had an approximately neutral impact on the budget.

Some would argue that intensive job search along with a workfare program for those unable to find employment could lead to an increased cycling of recipients on and off the program. If this cycling--often called "churning"--occurred, then the rate of turnover would increase without a significant reduction in spending over time. Under these conditions, the proposal could cost money, because of the expense to run the program.

Have Local Welfare Agencies Administer Work-Welfare Program

Based on past experience, it would be simpler and more effective for welfare agencies to operate their own work and placement programs and rely on the Employment Service only for specialized approaches, such as group job search. As indicated earlier, welfare agencies appear more able to expand their current role to the welfare population than Employment Service departments.

Having the welfare agencies handle their own work-welfare activities, except for a few specific tasks, would imply some shifts in funding--relatively small amounts--from the Labor Department to Health and Human Services and the Agriculture Department. The net budget impact, however, would be small.

Provide Incentives to Implement Work-Welfare Programs

If the Congress wishes work-welfare programs to be implemented on a large scale, local governments would have to be provided with greater incentives for program implementation--especially in large, urban areas. Workfare programs, in particular, have been implemented cautiously, with few programs in urban areas having large welfare caseloads. In general, administrators are reluctant to develop work-welfare programs that have high initial costs and limited savings to local governments.

Arrangements to decrease initial costs or increase the share of program savings retained by local governments would increase the willingness of places with larger caseloads to develop new approaches. For instance, the federal government could agree to match program expenses at a higher rate initially, with the matching rate decreasing to the current rate within a few years. Such funding incentives would be particularly important in the Food Stamp Program, in which all savings in program benefits are retained by the federal government, while local governments pay about half

of administrative costs. Making work-welfare programs less financially risky for local governments to initiate could mean higher short-run federal costs but greater long-run savings.

On the other hand, funding incentives of any kind cost money and the expected savings may not be realized or they may be lower than expected. For example, in the Food Stamp Program funding incentives have existed for several years that reward states for lowering their error rates. There is little evidence that the funding incentives caused states to take steps they otherwise would not have taken without the incentives.

Provide Transition to Regular Employment

A recurring comment by program evaluators is the need to fund and plan for a transition to regular employment after participants complete a work-welfare program. Past programs that did not do so made little progress in getting participants into regular jobs. Several subsidized employment programs, such as CETA, found that without planning for and funding a transition period when participants were helped to adjust to regular employment, participants remained on the program for long periods or were unable to make the transition successfully and were soon out of a job and back on welfare.

For women, especially, the transition to regular employment is difficult because they frequently have child care and health expenses for



their children. Work-welfare programs would need to provide for gradual phase out of those additional benefits, such as subsidized child care and Medicaid, that go along with cash assistance. Also, some recipients would need counseling and other similar support services to facilitate the transition from welfare to employment.

Opponents point out that while such help may be useful, those recipients who are ineligible for the work-welfare program do not receive any assistance when their welfare benefits end. They argue that such favored treatment is inequitable. Providing these benefits after program completion could encourage continued dependence on welfare rather than breaking the cycle of dependency. In addition, the services could become costly.

