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WELFARE TO WORK

AN OVERVIEW OF WELFARE-TO-WORK EFFORTS

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Over the past decade, there has been substantial interest throughout Europe in the US policy changes designed to move welfare recipients into employment. This paper summarizes some of the main research and policy lessons from US welfare-to-work programs, with particularly emphasis on those issues of interest in a European context.

"Welfare" in the United States has primarily meant cash payments to single mothers. Only about 10 percent of the welfare caseload is married couples with children, who face more stringent eligibility conditions. This is in contrast to many European countries where social assistance programs are typically available to singles and married couples, with and without children. Hence, the US welfare-to-work policies focused on moving low-skilled single mothers into work and may not apply to persons in other living situations. Single mothers form a significant (and growing) population among welfare recipients in almost all countries, however.

Welfare to work efforts in the United States

Because of the federalist structure of US government, welfare programs have been the shared responsibility of federal and state (and often county or city) governments. State and local governments have always had administrative responsibility for operating these programs. Starting in the 1980s, the federal government began to encourage states to design programs that explicitly helped welfare recipients enter the workforce. This culminated in the 1996 national welfare reform bill, which gave states much greater discretion over designing welfare programs, but (somewhat contradictorily) increased the requirements on states to run mandatory welfare-to-work programs. Hence, US experience with welfare-to-work comes not from centralized program efforts, but from multiple state programs, each with its own particular design.

States have encouraged work through both positive work incentives and more punitive work mandates. Few states made major cuts in benefit levels for non-workers (although steady inflation erosion of welfare benefits has lowered overall benefit levels in most states over time). US benefit levels have always been relatively low, however. In 2000, monthly benefits in the median state for a non-working mother with two children were at the level of what one would earn working 17 hours/week at the minimum wage.

The measures that states have taken to encourage work include the following:

- Mandatory welfare-to-work programs. As a condition of benefit receipt, recipients who are labeled "work-ready" are required to participate in programs that focus on moving them into employment. These are typically not education and training programs, but are instead "work-first" programs, aimed at getting women into jobs as quickly as possible. The programs may include training in job search and job retention, but are often quite short-term (at the most 1–2 months) and typically end with mandatory job search.
- Funding for child care assistance and other work supports. As work requirements have grown, so have the funds available to subsidize paid child care for welfare recipients and welfare leavers. States often provide assistance for other work-related expenses, particularly transportation. In addition, expansions in public health insurance programs (available only to welfare recipients in the past) have allowed a growing number of low-income children and adults access to health insurance even after their families leave welfare. The adequacy of these child care and health expansions is the subject of ongoing debate.
- Increased earnings disregards. Many states have lowered the rate at which benefits decline as earn-

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ings increase, allowing women to keep some benefits at low levels of earnings. This acts as a subsidy to low-wage work and increases the incentives to enter work; in the past, earnings gains were often offset almost dollar-for-dollar with benefit reductions for women trying to leave welfare.

- Time limits on welfare receipt. Since 1996, welfare recipients are eligible for only 60 months of federally funded benefits throughout their adult lifetime (states can excuse some recipients from this time limit). Some states have enforced time limits quite strictly, while others have provided state-funded benefits for many women after they hit the federal time-line. The threat of time limits has given case managers a strong tool that they use to urge recipients to avoid long-term reliance on welfare.
- Sanctions for recipients who do not comply with welfare-to-work requirements. More women appear to have lost eligibility for welfare benefits because of sanctions rather than time limits. Women who do not participate fully in the welfare-to-work programs to which they are assigned can lose their benefit eligibility. In some states such losses can be permanent; in other states, sanctions will result in only temporary benefit loss.

All of these policies increase the incentives for welfare recipients to move into work. At the same time as these changes were being implemented, the US also expanded work incentives for low-wage workers in two other ways. First, minimum wages rose 11 percent in real (inflation-adjusted) terms between 1989 and 2000. Second, the federal government greatly expanded wage subsidies to working families with children in the federal tax system. The Earned Income Tax Credit (EITC) offsets tax liabilities and (for those with no tax liabilities) provides a subsidy to low-wage earners with children in low-income families.

Because the EITC is run through the tax system, it is conditioned on both individual wages and household earnings, making it a very effective targeted program that avoids subsidizing low-wage earners in higher income households. Because individuals file their own tax returns, employers are not necessarily aware which of their low-wage workers have eligibility for the EITC. This means that the EITC may avoid some of the problems experienced with wage subsidies, where employers capture part of the subsidy by reducing their wage offers. The US EITC has received a great deal of research and policy attention. Details on its operation and design are provided by Hoffman and Seidman (2003). European interest in the EITC has been particularly strong, and the British Working Families Tax Credit, adopted in 1998 was modeled on the EITC.

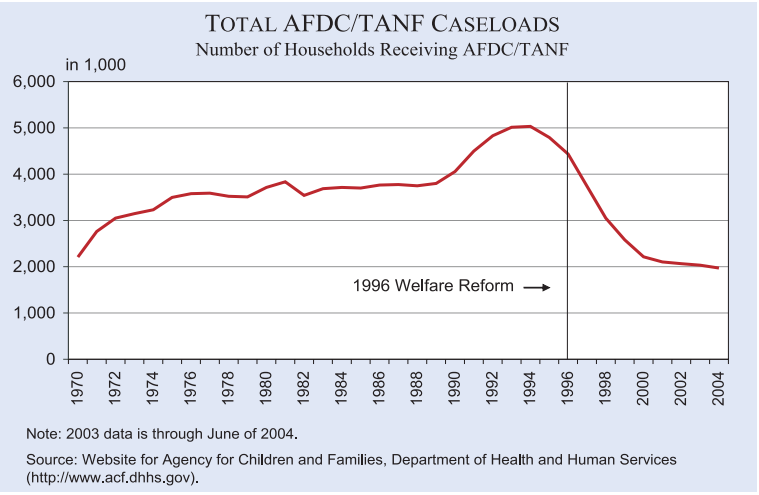
Did behavior change?

The net effect of these welfare and wage policies has been to increase exits from welfare programs and reduce entry. Caseloads have fallen significantly, while employment among less-skilled single mothers has risen. Figure 1 shows the changes in the number of welfare recipients in the US over the last 30 years. By 2001, caseloads were at 40 percent of their level in 1994. Furthermore, the mild recession and higher unemployment rates in the early 2000s had almost no effect on caseloads. Families did not return to welfare, even when jobs became less scarce.

Figure 2 shows changes in labor force participation among single mothers by skill level. The solid line shows the increase in labor force participation among the least skilled single mothers was greater over the 1990s than among any other group. While labor force participation fell slightly for less skilled single mothers with the economic slowdown of the early 2000s, it still remains well above where it was a decade ago.

The Table shows the effects of these changes on the income composition of single mother households. The share of income from public assistance fell from 23 to

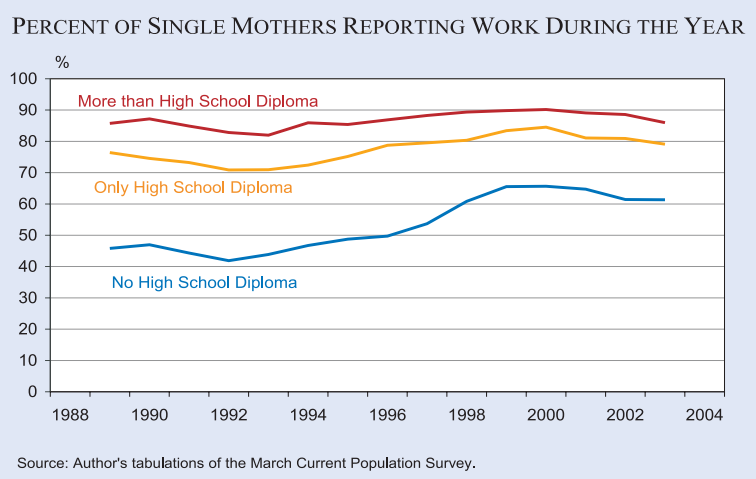
Figure 1



Note: 2003 data is through June of 2004.

Source: Website for Agency for Children and Families, Department of Health and Human Services (http://www.acf.dhhs.gov).

Figure 2



Source: Author's tabulations of the March Current Population Survey.

4 percent between 1985 and 2002, while the share of income from own earnings rose from 49 to 67 percent. Overall, real incomes rose by more than $3,000.

A substantial body of research has investigated how much of the change in welfare participation, in work behavior, and in income is due to the changing welfare and tax policies in the US that promoted work for low income families, and particularly for welfare recipients. This work is summarized in Blank (2002) and Grogger and Karoly (2005). It suggests that the policy changes of the 1990s were a significant factor in the increases in labor market involvement, reductions in poverty, and reductions in caseloads. The strong US economy of the 1990s was highly important for these changes as well, allowing these policy changes to be implemented at a time when unemployment was low and jobs were readily available in most areas of the country. But even when unemployment went up and economic growth slowed, caseloads remained low, labor force participation remained higher, and poverty rates of single mothers remained well below where they had been in the early 1990s.

Single mothers' income composition

	Total income	Public assistance	Own earnings	Other earnings	Other income
	(in 2000 dollars)	in percent of total income			
1985	20,417	23.82	49.03	5.49	21.66
1990	18,412	22.63	53.32	4.15	19.90
1995	20,026	16.46	56.52	3.63	23.39
2000	23,654	5.27	68.77	4.19	21.77
2002	23,805	4.45	67.18	3.98	24.40

Note: Total income is the mean dollar value (in 2000 dollars) before taxes. Public assistance is composed primarily of AFDC and TANF benefits. These calculations are pre-tax and do not include the inputed value of any in-kind benefits.

Source: Author's tabulations of the March Current Population Survey.

This does not imply that the US welfare-to-work efforts have been an unqualified success. A variety of troubling issues remains unsolved. A growing number of single mothers report neither receiving welfare nor working, and the well-being of these families is a particular concern. Women who have hit time limits or sanctions seem particularly likely to be in this group and by most reports are worse off following these changes. Furthermore, although a large number of women have left welfare for work, far fewer have actually escaped poverty. More than a quarter of all single mothers remain poor.

Lessons from the US experience

Drawing lessons from the US experience with welfare-to-work efforts for those in other countries is a difficult task given large cross-country differences in economic and institutional structure, and in social norms around income redistribution. Hence, the following comments must be read with skepticism. That said, let me focus on five key policy lessons that I draw from observing US efforts to move more welfare recipients into work.

First, the dual emphasis in the US policy on both positive work incentives and on more punitive work mandates seems to have been important. Work mandates (mandatory welfare-to-work programs, backed by sanctions and time limits) seem to have forced more people into work faster than would have naturally left welfare in a strong economic environment. On the other hand, with low wages and (often) part-time hours, many of these welfare leavers would gain little in income without subsidies to low-wage work. Reduced earnings disregards, the expanded EITC, and subsidies to assist with child care or other work-related expenses, all helped "make work pay", to use the phrase popularized by President Clinton in the mid-1990s.

This conclusion is buttressed by several research studies that have looked at various "financial incentive" programs aimed at increasing employment (summarized in Blank 2002 or Michalopolous and

Berlin 2001). These suggest that work mandates alone generate increased work but have limited effect on poverty as increased earnings are offset by lost benefits; wage subsidies increased income among workers but did little to move a lot of additional people into work; only programs that combined both subsidies and mandates had the desired effect of *both* increasing work and reducing poverty.

My impression is that European welfare to work efforts have generally focused more on positive work incentives (wage subsidies), without the more punitive aspects of mandatory work programs with time-limited benefits. These programs might reduce economic need among low-wage workers, but this emphasis on positive work incentives alone may not be enough to create substantial movement into work.

Second, simply getting women into jobs was not enough; other work supports were very important for the success of US welfare-to-work programs. The abundant job environment of the mid-1990s in the US made it relatively easy for many women to find work. But the women who were most successful did more than just find a job; these women were also able to arrange stable child care, had access to transportation that got them to where jobs were located, and did not experience depression or other physical or mental health problems.

In short, there are many barriers to work, and finding a job solves only one of those barriers. Programs that are serious about moving as many women as possible into employment will help with the other barriers as well, working with women on child care, management of housing or transportation problems, and assuring access to good medical care. Put another way, countries with widespread public child care (such as France) will find welfare-to-work efforts far easier than countries without such support (such as Germany), even in equivalent economic environments.

Third, the availability of low-skilled jobs is necessary for an effective welfare-to-work effort. The US economy, with relatively low unemployment rates and larger numbers of lower-wage jobs, provides a better environment for welfare-to-work efforts than many European countries. Hence, welfare reforms and labor market reforms to create greater job growth and job flexibility (particularly access to part-time jobs) must go hand-in-hand.

A key question in the US is why caseloads did not rise, even when unemployment rose and jobs became less available. It is possible that the message to "get off welfare" and the warnings about time limits and sanctions were so strong that even women who might have been able to return to welfare were reluctant to do so when they lost their job in the early 2000s. But the recession of 2001 in the US was concentrated in manufacturing and traded goods (sectors of the economy that employ a disproportionately large number of male workers) and in the high-tech collapse (largely affecting more skilled workers). Less-skilled women were concentrated in the retail and service sector, and these sectors were less affected. As a result, many welfare leavers were probably able to hold onto their jobs. A deeper recession, or an economic slowdown with greater effects on the retail and service sector, might have driven many more single mothers back to the welfare office.

Fourth, the flexibility and variability of the US federalist system was important in making this welfare reform both politically palatable and administratively do-able. While states were under mandate to increase employment levels among welfare recipients, they had no centralized directions for how to do this. Furthermore, they had adequate funding to implement changes. (The block grant funding levels from the federal government were fixed. Since caseloads fell rapidly in all states, this gave states money to use for work programs.) The result was that most states embraced the opportunity to create their own welfare programs. Many state governors and legislators (and often county and city officials as well) became quite invested in designing new systems. The resulting sense of ownership over these newly-reformed welfare programs was almost surely important in their effective implementation. In contrast, a more centralized one-size-fits-all mandate to run particular types of work reforms could have hit significant administrative resistance at the state and local level, and would have been implemented much less quickly and effectively.

With 50 different state welfare programs, the level and type of support received by single mothers on welfare or leaving welfare varies enormously across the country. For the US, where historical suspicion of centralized social programs is long-standing and where national commitment to equity is weaker, this devolution of program responsibility to the state level worked well. In other nations, greater central-

ization might be more effective although I suspect that any effective job placement and assistance program must have some local ownership and flexibility embedded in it.

Finally, I want to underscore the importance of being clear about the goals of welfare-related policy changes. In the US, reforms focused on getting welfare recipients into work, with little attention to poverty reduction. The public debate revolved around the value of work in the lives of adults and the value of working adults as role models for children. In contrast, the recent British reforms have focused on a goal of reducing child poverty. It is perhaps not surprising that the US reforms had more mandatory work policies (often with punitive aspects), while the British reforms have more incentive programs that provide income subsidies to low-income families.

Low-wage and less-skilled workers, particularly single parents, often face inherent difficulties in stabilizing their economic lives. Jobs may turn over; earnings may not be enough to cover family needs; family demands may lead to more frequent job leaving. In this environment, welfare to work programs make sense only if one believes that engagement in the mainstream economy has value, even beyond its immediate economic returns, helping provide women with a sense of contribution, and even of identity. And one needs to believe that for at least some of these women, initial low-wage jobs will lead to growing income over time that provides more economic stability.

Within the US there is a strong belief in the value of work in peoples' lives. There is also evidence suggesting that the average less-skilled worker who is able to keep and hold a job does experience wage and income growth. But some subset of low-wage workers – and particularly single mothers with small children – have difficulty holding a stable job and are not able to escape poverty through work alone. Hence, on-going attention to subsidies for low-wage work is important to these families.

Over the past 15 years, US welfare policies have become much more focused on supporting low-wage work than on providing financial support outside of work. Furthermore, the US experience suggests that a relatively high share of less-skilled single mothers are able to find and hold jobs, when such jobs are available and when they have the incentives to do so. While some women were able to leave welfare and escape poverty, the share of those who are both working and poor has risen in the US. This is probably exactly what a work-based welfare system should expect to accomplish. Other countries may be less committed to the value of work, however. And the economic structure of other countries may make wage growth and job advancement in the low-wage labor market more difficult. In these situations, the value of welfare-to-work programs may be lower.

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