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**Research Report**

## A new path from welfare to work: The new welfare and the potential for workforce development

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The Jerome Levy Economics Institute of Bard College

# Public Policy Brief

## A New Path from Welfare to Work

The New Welfare and the Potential for  
Workforce Development

*Oren M. Levin-Waldman*

LEVY INSTITUTE

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# Summary

When the federal government began the first public assistance programs in the 1930s, the goal of such programs was to help those least able to help themselves—the elderly, the disabled, and widows with children. As the list of those eligible for assistance and the programs available to them grew, the American public began to feel that for many welfare had become a way of life rather than a safety net to sustain them temporarily between jobs or when the family wage earner died. The Personal Responsibility and Work Opportunity Reconciliation Act, which became law in 1996, attempts to end welfare dependency. It ends AFDC as an entitlement program and replaces it with federal block grants to states. It allows states greater flexibility in determining benefit levels and eligibility and encourages them to move people from welfare to work.

Supporters of the new law argue it will not only be more successful than the old system in moving people from welfare to work, but it will also reduce the federal government's welfare costs. Resident Scholar Oren M. Levin-Waldman questions these arguments in this Public Policy Brief. He notes that states already had flexibility under the old welfare system, which allowed them to apply for waivers to run experimental welfare programs. Three states in particular—Massachusetts, Minnesota, and Wisconsin—developed relatively successful work-based programs. But these programs are not inexpensive. If states take seriously the goal of moving welfare recipients into the workforce, the costs of their welfare programs are likely to increase rather than decrease. Since one of the goals of the Personal Responsibility Act is to cut welfare spending, it is doubtful that the federal government or many states will opt to raise spending to the levels necessary to run successful welfare-to-work programs.

Not only does the new welfare law fall short in funding welfare-to-work programs, it also fails to end the distinction between welfare and workforce development. The stigma of being on welfare makes it difficult for recipients to find employment. Employers are reluctant to hire welfare recipients because they view them as lazy or untrustworthy employees. If states are to develop successful welfare-to-work programs, they must eliminate the stigma associated with welfare.

Levin-Waldman offers several suggestions for a more coherent and comprehensive employment policy.

- Welfare and unemployment agencies should be merged into one employment agency. Since welfare recipients and the regular unemployed need similar services to move them into the workforce, there is little justification for keeping the two groups separate.
- Employment programs should focus on job search assistance and training.
- Subsidies should be made available to employers to hire welfare recipients, but the subsidies should be tied to on-the-job training requirements.

Adopting these suggestions and others discussed in this brief will cost more than is currently spent on welfare, but they will provide greater benefits in the long run. Welfare recipients will be able to move into the workforce and support themselves and the American labor force as a whole will be better trained and more skilled.

# Contents



Summary ..... 3

Preface

*Dimitri B. Papadimitriou* ..... 7

The New Welfare and the Potential  
for Workforce Development

*Oren M. Levin-Waldman* ..... 9

About the Author ..... 33

# Preface

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Whether the welfare system outlined in the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 will be more successful than the old system in moving welfare recipients into the workforce is not yet known. States have just begun to implement the changes and it will be some time before their effects are seen. Supporters of the new system argue that it will push into the workforce those who have made welfare a way of life. In other words, these individuals will be required to take responsibility for their own lives. Opponents of the new system argue it is likely to push more people, especially children, into poverty because there are few jobs available for which welfare recipients qualify and those jobs for which they do qualify do not pay enough to lift workers out of poverty. Supporters of welfare reform counter that if lack of job skills is the employment barrier for welfare recipients, training will overcome that hurdle.

While research indicates that job training can be beneficial, Oren Levin-Waldman has reservations about whether states will provide needed training under the new welfare system. Supporters of decentralization argue that when states are responsible for running programs, there will be greater experimentation and therefore an increased likelihood that successful programs will be developed. But Levin-Waldman points out there is also an increased chance that many states may choose to do the least possible under the law for welfare recipients. Successful welfare-to-work programs are not inexpensive, which might discourage many states, especially poorer ones, from adopting meaningful work programs.

Lack of job skills is not the only problem welfare recipients face in finding employment. Levin-Waldman argues that employers have been reluctant to hire welfare recipients because of preconceived notions regarding the work habits and abilities of such individuals. The stigma attached to welfare makes it difficult for recipients to find employment even when they have received job training.

These two barriers to employment—lack of job skills and the welfare stigma—can both be addressed under the new welfare system. Although it does make it possible for states to decrease their support for welfare programs, it also offers them the opportunity to devise programs suited to their needs and to increase their commitment to workforce development. Because this opportunity for change exists, the ideas presented here by Levin-Waldman are an important contribution to the ongoing debate over welfare reform. He proposes policies that address the problems of job training and the welfare stigma that states might find useful as they begin the process of developing their own welfare systems.

Dimitri B. Papadimitriou  
*Executive Director*  
May 1997



# The New Welfare and the Potential for Workforce Development

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The Personal Responsibility and Work Opportunity Reconciliation Act, perhaps the most sweeping welfare reform since the initial adoption of public assistance programs in 1935, became law during the summer of 1996. The new welfare imposes cumulative time limits, requires recipients to participate in work programs, reduces funding for food stamps by \$28 billion over the next six years, and denies assistance to legal immigrants for at least five years.\* But the new law's most radical aspect is that it puts an end to welfare's entitlement status, puts an end to its guarantee of national funding, and subjects it to the annual appropriations process. It does so by eliminating the old Aid to Families with Dependent Children (AFDC) program, a federal entitlement, and offering the federal portion of AFDC spending to the states in the form of block grants. Although federal funding to the states for temporary assistance is to be increased in the short term, the state spending requirement is to be reduced by 20 percent.

The new law represents a major step in the direction of welfare reform, but it contains, nonetheless, any number of flaws. Therefore, it is my purpose in this brief to offer recommendations for improving on those reform measures already adopted. One path for improvement might be simply to appropriate more money in areas that are deficient. Another path might consist of incentives to businesses to hire people presently on welfare. It is highly unlikely that Congress will increase spending if it believes that doing so will allow people to sit on welfare as they have in the past, but there is room to improve the law within the confines of the

\*At the time of writing, Congress was considering restoring some benefits to legal immigrants.

new political consensus that those who are on welfare need to be put on a path that takes them into the labor market and keeps them there. Inevitably, this idea leads to a whole new way of thinking about welfare: replacing the present welfare system with one that merges existing welfare and employment bureaucracies in order to achieve a more coherent and comprehensive employment policy.

The principal reason welfare needed to be reformed, aside from economic considerations of efficiency, was that to most people it appeared to be at odds with core American values. Those values, to which the new law appeals, are work and self-sufficiency. However, the new system, if it is to be successful in helping welfare recipients become self-sufficient, would ultimately require more spending. The new law falls considerably short of appropriating what would likely be needed. If society wants to provide welfare at the lowest possible cost, it might be better to retain the old system. But, the old system runs contrary to fundamental tenets in the American political tradition. Americans, historically, have believed that individuals should provide for themselves and should seek public assistance only after they have exhausted all possible alternatives. At a minimum, they should exhaust all personal resources before requesting assistance from others. While Americans, in recent years, have been willing to offer a helping hand, they first want to see that those in need are at least willing to help themselves (Hecl 1986; Cook and Barrett 1992). The demand that the poor work stems not from a desire to punish them, but from a core conviction that participation in American society's common project is ultimately the essence of what it means to be a citizen of the American polity (Mead 1986; Shklar 1991). And it is through work that the individual participates in the common project (Levin-Waldman 1996b). Through its elimination of entitlement status and its emphasis on work requirements, the new law appeals, in a theoretical sense, to values underpinning American public philosophy. However, it does not do enough to realize them.

In this brief I argue that to realize the goals of work and self-sufficiency involves no less than breaking down bureaucratic distinctions between what have traditionally been referred to as welfare programs and what are often referred to as employment programs. The opportunity this legislation offers to the states to create employment programs is an opportunity they should seize to streamline and integrate programs

already in place for assisting the unemployed and for assisting the poor. Welfare needs to be replaced with a meaningful program of employment that would end the artificial distinction between welfare assistance and unemployment insurance. Without a doubt, there is much wrong with the new law, but its flaws should not obscure its potential to develop cooperative partnerships between the public and private sectors. Because the new law requires more recipients to enter the labor market, the public sector will find it necessary to find ways in which it, along with the private sector, can create the job opportunities to absorb them. More comprehensive employment programs might cost the nation more money in the short term, but they will be worth it in the long term if the result is a better set of institutional structures that add vitality to the labor market. There is no way around the fact that if we as a society want to reform welfare in a meaningful way, we will have to pay for it.

### **The New Welfare**

Under the new welfare the entitlement status enjoyed by the AFDC system no longer exists. Instead, Congress will allocate block grants to the states to establish welfare programs that best meet their needs, and appropriations will be subject to the annual appropriations process. No longer are individuals entitled to welfare simply because they meet certain eligibility criteria. Recipients are now required to become self-sufficient. After two years they must participate in work programs, and they may not collect benefits for more than five years in their lifetime. Although the new law does afford the states greater flexibility in developing programs that best meet their own needs, it does not completely do away with the restrictions characteristic of the AFDC system. In order to receive their block grants, states must still follow an array of federal regulations and must report annually on their progress in implementing programs. The basic regulations are:

- States are to require welfare parents to participate in community service employment. The minimum weekly hours and tasks can be defined by the states.
- States are required to operate programs to enforce paternal child support.

- States are required to devise programs for reducing out-of-wedlock births. States that devise successful programs will be eligible for bonuses of \$20 million to \$25 million.
- In order to receive their grants, states must impose mandatory work requirements and achieve minimum participation rates for single-parent families according to the following schedule: 25 percent in 1997, 30 percent in 1998, 35 percent in 1999, 40 percent in 2000, 45 percent in 2001, and 50 percent in 2002 and thereafter. For two-parent families, the minimum participation rate must be 75 percent in 1997 and 1998 and 90 percent in 1999 and thereafter.
- States must submit annual reports to Congress detailing their progress in increasing participation rates and in increasing employment and earnings for the needy. They must also explain how they intend to increase child support payments and to decrease out-of-wedlock pregnancies and child poverty.

States have flexibility in the following areas.

- States may reduce or terminate assistance to individuals and families who refuse to work. However, they may not terminate assistance if the recipient is a single custodial parent with children under 6 or if the recipient has demonstrated that needed child care cannot be found.
- States may reduce or deny assistance to those deemed to be uncooperative in efforts to establish paternity.

Other features of the law include a ban on federal means-tested public assistance to legal immigrants for a period of five years, with exceptions for refugees and asylees. Legal immigrants are also ineligible for Supplemental Security Income (SSI) and food stamps until they attain citizenship, although those who have worked for at least ten years may be exempted from benefits restrictions.

On the more positive side, the new law does offer increased Child Care and Development Block Grants (CCDBG). These grants fund child care services for low-income families and other activities intended to improve

the overall quality and supply of child care for families in general. Under an amendment to the Omnibus Budget Reconciliation Act of 1990, states are required to spend their CCDBG allotments for activities aimed at improving the quality of child care, increasing the availability of early childhood development programs, and providing before- and after-school child care (*Green Book* 1996, 649). The CCDBG program consists of a discretionary program and a mandatory program. In 1996 funding was \$935 million for the discretionary program and \$1.1 billion for the mandatory program. Under the new law, funding for the discretionary program will be \$1 billion each year between 1996 and 2002. Funding for the mandatory program will begin at \$2 billion in fiscal year 1997 and rise to a total of \$13.85 billion for the entire period from 1997 to 2002. As with the temporary family assistance programs, the goal is to allow states flexibility in developing child care programs and policies that best meet the needs of children and families in their states. Another goal is to promote parental choice so that parents will be able to make decisions that best meet their family's needs. In order to carry out these objectives an additional \$6 billion over six years will be appropriated. Moreover, each state will be entitled to payments for the purpose of providing child care assistance.

### **Effects of the New Welfare**

The key question regarding the new law is will it move recipients off welfare and into the labor market more successfully than the old welfare law. Under the 1988 Family Support Act, a Jobs Opportunities and Basic Skills (JOBS) program complemented AFDC. The aim of the JOBS program was to teach some basic job skills to those welfare mothers who were required to participate. The new law essentially replaces AFDC and its JOBS program with a hodgepodge of state programs. To assess the effects of the new law, two questions must be asked: What will be the immediate impact of this legislation on both the welfare population and the states that must now develop new programs for that population? Will it be more successful in reducing the number of people in poverty than the programs it has replaced?

Only time can give us accurate answers to both questions. Estimates vary according to the imperative one attaches to welfare reform. Critics argue

that the new law will push more people, especially children, into poverty. The Center on Budget and Policy Priorities cites an Urban Institute report that predicts that the new law will push 1.1 million children and 2.6 million people overall into poverty (Supor et al. 1996). Results of states' experiments with reform are bound to vary from state to state, and the ultimate result is an unknown. It is clear that by transferring the major responsibility for welfare back to the states and by setting the stage for subsequent reductions in welfare block grants, Congress has found a way to cut federal spending. The Congressional Budget Office (CBO) estimates that federal spending will be reduced by \$2.9 billion in FY 1997 and by \$54.2 billion during the 1997 to 2002 period (Congressional Budget Office 1996). What is not clear, however, is the impact on overall spending. On the one hand, the states are required to spend only 80 percent of what they were spending before. On the other hand, some states may opt to spend more of their own money to cover the costs of implementing this new welfare. In either case, supporters argue that it will enable state governments—who traditionally had responsibility for implementation—to develop grass roots programs that are better suited to their needs.

### **The Causes of Poverty and the Role of Work Programs**

Underlying the new welfare law is the assumption that many people are on welfare because they had children out of wedlock and as teenagers. This behavior pattern forces them to drop out of school and therefore they lack many of the skills necessary to obtain jobs paying above the minimum wage. But this is not necessarily the cause of poverty, as Congress seems to think. Indeed, there is no single cause (Blank 1997).

Research into the causes of poverty is divided into two partisan schools of thought: economic and behavioral. The economic school argues essentially that people on welfare are poor because they lack the skills necessary to obtain jobs that will lift them out of poverty and because there are an insufficient number of better-paying jobs. If we lived in a stronger economy, in which more better-paying jobs were available, there would be fewer people living in poverty. Jobs do exist at the bottom of the pay scale, but most people on welfare do not qualify for anything better (Burtless 1995). Once people realize that they will not

be any better off working, there is no rational reason to forsake welfare for work (Blank 1997; Bane and Ellwood 1994; Murray 1984). The argument of the economic school is buttressed by studies demonstrating the relationship between income and educational attainment (Murnane 1994; Card and Krueger 1992a, 1992b; Card and Sullivan 1988; Freeman and Holzer 1986). It is further reinforced by a literature illustrating a widening gap in income distribution (Danziger and Gottschalk 1995; Wolff 1994; Hungerford 1993; Levy 1988).

The behavioral school suggests that people are poor because of personal defects. Jobs do exist and the primary reason people do not work is that they have not been properly socialized into the work ethic. Furthermore, had public assistance programs made it clear what was required of the poor—such as work and other civic and communal responsibilities—many of the pathologies plaguing the inner city that are commonly associated with welfare might not exist (Banfield 1974; Mead 1986; Kaus 1992). The new law reflects a belief that those on welfare have different behavioral traits than people in the mainstream middle class. It is believed that the law will force people to be socialized by putting an end to the permissive policies of the past.

If it is true that poverty in the United States is a self-perpetuating culture reinforced by a set of permissive social policies, the new law may very well improve the situation by forcing people to look for new means of subsistence. But if poverty is a function of insufficient jobs, coupled with a lack of educational attainment, it is hard to see how this law will improve the situation. Even some strong proponents of the behavioral school maintain that the new law backs away from a true commitment to work (Mead 1996). The demographics of the 1994 AFDC population (see the appendix) would suggest that some aspects of both models have currency. At least 21 percent have less than a high school education, and another 24 percent have no more than a high school education (*Green Book* 1996, 473–474). In other words, a significant proportion of welfare mothers do not have a level of educational attainment that would qualify them for jobs paying much more than minimum wage. This statistic would imply the need for basic education programs. At the same time, almost 46 percent have children under the age of 5. This statistic would suggest that policy must seriously address the issue of child care.

Although the new law assumes child care to be critical in the ability of welfare mothers to move from welfare to work, it is not clear that it is being addressed correctly. The law assumes that the child care problem stems from the poverty of mothers, which stems from the failure of fathers to pay their child support. Certainly, tough enforcement may help some mothers to live above the poverty line, but it does not furnish the facilities to watch children while mothers go out to work and, more to the point, it may not produce any significant amount of money if many fathers are unemployed or in low-wage jobs themselves.

### **States' Experiments with Work Programs**

Whether the effects of the new welfare will be positive or negative for welfare recipients depends on the states. Some states, such as Wisconsin, Massachusetts, and Minnesota, had already begun reforming their welfare systems under federal waiver. What is critical to these programs is that these states no longer view them as welfare programs, but as something totally different. Both Wisconsin and Massachusetts changed the name of the Department of Welfare; it is now called the Department of Workforce Development (DWD) in Wisconsin and the Department of Transitional Assistance (DTA) in Massachusetts. Wisconsin has been operating a waiver called Wisconsin Works W-2 since 1993. This work-based program seeks to break the poverty culture of dependency by requiring welfare recipients to work as a means of achieving self-sufficiency, but it also offers the support services essential for making work a viable option.

The W-2 program, and others like it, consists of four basic components: unsubsidized employment, subsidized employment, community service employment, and general participation. Under unsubsidized employment, efforts are made to steer those for whom it is possible into private sector jobs. Job centers, in conjunction with private staffing agencies, attempt to match program participants with employer needs. It is assumed that most participants in the unsubsidized employment component will be successful, with some assistance, in finding private sector employment.



For individuals who are willing to work, but lack sufficient background, there is subsidized employment. Subsidies are given to employers to offset some of the initial costs of training and supervising new employees. In Wisconsin the average subsidy for each participant in the program is \$300 per month. In Massachusetts employers receive \$3.50 per hour for each program participant for the first nine months and \$2.50 per hour for the next three months. An employer in Massachusetts may not have more than 10 percent of his or her employees in subsidized employment. In both Wisconsin and Massachusetts subsidized employment for each participant may not exceed 24 weeks. In Wisconsin it is expected that subsidized employment will lead to permanent employment, but that expectation is not nearly as clear in Massachusetts.

For individuals who cannot be placed in either unsubsidized or subsidized employment, because they need further development of work habits and other skills to make them employable in the labor market, there is the option of community service employment. In Wisconsin a participant is placed in a work assignment lasting 6 to 9 months, but he or she can qualify for more than one assignment for up to a maximum of 24 months. In Massachusetts community service participants must work a minimum of 20 hours per week in exchange for benefits.

For people who legitimately are unable to perform independent, self-sustaining work, even in a community service job, there is a general participation program. In Wisconsin these are, for the most part, individuals whose application for SSI is pending or individuals with mental or physical disabilities. It is assumed that, whatever their situation or disability, they do have some capabilities, and they are expected to engage in some work activities consistent with those capabilities.

Work-based programs operate on the premise that individuals will move up the ladder from community service employment to subsidized employment to unsubsidized employment. Both the Wisconsin and Massachusetts programs have intake processes to determine the specific components of the programs recipients will participate in. For those in the Massachusetts program a wide array of services is available, including job readiness and job search. Participants are informed of job openings, including those jobs available through the DTA's Full Employment

Program, the Department of Employment and Training, Job Training Partnership Act (JTPA) Agencies, Regional Employment Boards (REBs), and local businesses.

Massachusetts subjects those classified as “nonexempt” to a 2.75 percent reduction in their cash assistance benefits, but they are permitted to retain more of their earned income. After having received assistance for 60 days, nonexempt individuals are required to work a minimum of 20 hours per week. In two-parent households, both parents are subject to work requirements, but only one parent is required to work if children are of preschool age. Those placed in the Full Employment Program must work 40 hours per week and no more. Employers may not use them to displace regular employees or to supplant vacancies previously established. Participants are to be paid a minimum of \$4.50 per hour. These wages are to be in lieu of assistance under AFDC and food stamps. Also, for those participating in the Full Employment Program, AFDC and the cash value of their food stamps are to be pooled and used to reimburse employers for a portion of the wages they pay to participants.

Minnesota launched its own waiver, called the Minnesota Family Investment Program (MFIP), in April 1994. Like the other waivers, MFIP was intended to promote employment, alleviate poverty, and reduce dependence on public assistance as a primary source of income. MFIP integrates several old welfare programs into a program that operates efficiently and makes work pay for families on welfare. This is accomplished primarily by decreasing the extent to which families’ welfare grants are reduced when they work. MFIP also relieves participants of up-front costs of child care by paying the child care provider directly. Instead of dealing with several programs, recipients deal with only one bureaucracy, thereby increasing efficiency.

Both Wisconsin and Massachusetts have intake processes to make early determinations of who will participate in work programs. MFIP determines exemption from participation by distinguishing between long-term and short-term welfare recipients. Long-term recipients are generally defined as those who have received assistance for at least 24 out of the last 36 months. This is similar to recent changes in the unemployment insurance laws, which attempt to identify those most likely to

exhaust their benefits. Recipients identified as long-term are the individuals who are less likely to find jobs without assistance and who also account for a large share of welfare expenditures. They are required to participate in intensive employment and training services. Single parents who have received welfare for 24 out of the last 36 months and two-parent families that have received welfare for 6 out of the last 12 months must participate.

In an assessment of this program, the Manpower Development Research Corporation (MDRC) found that MFIP decreased the share of single-parents receiving welfare by 4.3 percentage points and increased the share of those who were officially combining work and welfare by 14.3 percentage points. MFIP increased the share of recipients who were either not on welfare or combining work and welfare by 10.1 percentage points (Knox, Brown, and Lin 1995).

Although there are differences among these programs, what they appear to have in common is an attempt to break the poverty culture of dependency through the creation of work programs. If every state adopted a work program along these lines, the nation might be on its way toward more complete and effective welfare reform. On the other hand, the programs also share a problem in their use of employer subsidies. Although some of the programs offer technical training to the hard-core unemployable, a major premise of all these efforts seems to be that what these recipients need most, more than the acquisition of specific skills, is the development of work habits. A second premise is that subsidies are a necessary incentive for employers to hire them. Even if employers cannot afford to retain them once the subsidies have run out, they will nonetheless have developed the type of work habits that can make them more attractive to other employers in the labor market. The new welfare law assumes that because welfare recipients' major handicap is their lack of appropriate work habits, subsidies will gain them initial entry into the labor market. However, even if recipients do acquire new skills and do develop desirable work habits, it does not follow that there will be any more jobs available to them at that point than there were in the past. Work and training requirements and employer subsidies address only one side of the unemployment issue, mainly, the supply of skilled labor. They do not address the other side of the issue, the demand for labor (Marmor, Mashaw, and Harvey 1990, 121).

Nevertheless, with increasing pressure to move people from the welfare rolls into the labor market, it seems likely that more states will turn to employer subsidies as one policy tool for accomplishing those ends. Phelps (1994) has suggested that subsidies would be a good way of stimulating demand for low-wage labor. Danziger and Gottschalk (1995) have noted that lowering costs to employers would affect firms in two ways. First, firms might find it more profitable to hire the subsidized, less-skilled workers than the more skilled workers. Second, the reduction of total costs might enable firms to expand their output. While the former could be directly beneficial to the welfare population, the latter could ultimately be beneficial to all groups, including the less-skilled workers.

However, as Danziger and Gottschalk further argue, in order for subsidies to be beneficial, two conditions have to be met: Firms have to be able to substitute easily among different types of workers, and they must not take the subsidy as an indication that the workers' productivity is low. Danziger and Gottschalk do not find evidence on past subsidies to employers to be very promising. They note that when Congress passed the Target Jobs Tax Credit and the Youth Incentive Entitlement Pilot Projects, targeted at employers in the inner cities, there were few employers willing to participate. They may have been unresponsive because they viewed the subsidy as an indication that these workers were not good employees. Bishop (1989) found that participants in government-sponsored training programs were stigmatized and many employers were not willing to take a chance on hiring them.

Whatever their drawbacks, subsidies might still be essential inducements for employers to participate in the types of cooperative partnerships with public officials that will be necessary to move recipients from welfare to work. Given the high rate of turnover in the U.S. labor market, there is little incentive for employers to offer on-the-job training (Freeman 1994; Lynch 1994). Subsidies could be a good incentive for them to provide it. The key is to tie subsidies for hiring to some type of on-the-job training requirement. Hence, not only would these new hires be socialized into "proper" work habits, they would acquire specific skills. With subsidies solely for hiring, employers are likely to dismiss the workers they hire once the subsidy ends, but if employers are required to train the hires, they would have more reason to retain them after the subsidy has ended.

## Costs of Work-Based Reform

The problem with relying on states to devise their own programs is that there is no guarantee they will opt for one as ambitious as some of the serious work-based programs already out there. On the contrary, given the fiscal constraints in most states, it is more likely that they will choose to do the minimum required under the law. The new law does allow them wide discretion in denying people various kinds of assistance. Even those states that opt for strong work-based plans might limit eligibility for those components offering job training.

Work-based reform similar to that described above would cost the nation considerably more than it has been spending. The expected cost in Wisconsin, for instance, for the fiscal year beginning in 1997 is \$1.091 billion; \$653 million is from federal block grants, with the difference coming from state funds. In 1995 there were 72,366 AFDC cases in Wisconsin. Spending the entire current budget on that caseload would mean a cost per case of roughly \$15,070. If the plan were implemented nationwide, the cost for the total national caseload could be approximately \$72.6 billion.<sup>1</sup> Even with the new law's limits on benefits to legal immigrants, the plan could still cost \$67.5 billion.<sup>2</sup> Under the old welfare, AFDC spending in 1995 was roughly \$22 billion, of which \$12 billion came from the federal government and \$10 billion came from the states (*Green Book* 1996, 459). And the JOBS program was limited, as it was capped at \$1 billion. That means that the nation would be spending \$50 billion over what it was under the old welfare. It should be noted that the nation was spending another \$25 billion on food stamps and another \$25 billion still on the earned income tax credit (EITC). It is also important to note that the Wisconsin program and others like it rely heavily on wage subsidies from the EITC. Therefore, any future consideration of EITC reductions could seriously undermine these reform efforts.

According to the CBO, the base level of the federal block grant is to be fixed at \$16.4 billion annually through 2002. States will essentially be required to come up with the remainder. However, the new law requires states to spend at a rate equal to only 80 percent of what they were spending under the old law. Given that federal funding for cash assistance is expected to be frozen for the next five years, it will be difficult for states to maintain existing benefits in the event that poverty grows,

either as a result of recession or changing demographics. There are provisions for a Rainy Day Fund that would allow states to borrow during recessionary periods, but it is doubtful that federal funds will be increased to absorb those who otherwise would be covered under the old law. States might find themselves in the position of having to choose between using their own money to sustain welfare programs, restricting entry, or cutting back benefits (Peterson 1996).

In the short term we could expect to see states implementing portions of this law on at least \$2 billion less. The legislation does provide \$14 billion for child care, as well as strict new child support enforcement measures, and it is estimated that the stricter enforcement will raise an additional \$24 billion. If we assume the \$24 billion will materialize and add the resulting \$38 billion (\$14 billion plus \$24 billion) to the \$16.4 billion the federal government might continue to spend through block grants, we would still be short about \$18 billion of the \$72.6 billion needed to run a Wisconsin-type program on a national level. High-cost states will most likely be hurt more than low-cost states. Moreover, states with a history of low provision, such as Louisiana and Texas, may find themselves with relatively greater shortfalls overall, because allocations are based on a percentage of what states had been receiving under the old welfare. It is precisely these states the nation must be concerned with. It has not been part of their political culture to provide assistance to the poor or to experiment with work programs under federal waivers. Therefore, they may be among the first to find ways to reduce their rolls. One likely consequence is that although the new welfare allows for greater experimentation by states, it will do nothing to end the disparities among the states that existed under the old system; rather it will exacerbate them.

## **Effects of Job Training Programs**

The new welfare seems to stress work and training requirements, with the subtext that poverty to a large extent is a function of insufficient education and skills. Yet, it is not at all clear that the new system has any more of a commitment to developing skills through training programs than the old system. Instead, the emphasis appears to be on developing “proper” work habits. The question remains as to just what lessons can

be drawn from training programs. In a fairly recent study by the U.S. Department of Labor (1995), it was noted that some types of programs are indeed more successful than others.

As part of a study designed to explore the merits of worker profiling for unemployment insurance recipients, New Jersey conducted a demonstration project called the New Jersey Unemployment Insurance Reemployment Demonstration Project (NJUIRDP). The project involved three different treatments: job search assistance (JSA) only, JSA combined with training or relocation assistance, and JSA combined with cash bonuses for early reemployment. Overall, each treatment reduced the amount of unemployment insurance benefits received in the initial benefit year and in subsequent years. Though a relatively small number of claimants in the JSA plus training or relocation treatment received on-the-job training, those who did had significantly higher earnings than did the assessed JSA-only claimants in all quarters following the first quarter after the claim date. It was found that on-the-job training had a substantial and statistically significant impact on earnings and weeks worked throughout the six-year follow-up. On average, in the first year those who received on-the-job training earned about \$900 more and were employed 12 to 18 weeks more than those who did not receive such training. By contrast, the JSA-only group did do better than the control group, but not as well as the subgroup of the JSA combined with training group that received on-the-job training. It was estimated that the JSA-only group increased their earnings by an average of \$608 relative to the control group. With another \$128 in additional fringe benefits, the total increase was equal to \$736 in compensation (U.S. Department of Labor 1995). Because welfare bureaucracies will be forced to engage in serious profiling, a case could be made that a strong training component in addition to profiling could be useful. At the same time, however, it is not entirely clear that training programs by themselves are the most cost-efficient means of achieving an objective.

In a study of Jobstart, one of the Job Training Partnership Act (JTPA) programs targeted at youths who were school dropouts, the Manpower Development Research Corporation (MDRC) found the effects to be mixed (Cave, Bos, Doolittle, and Toussant 1993). The Family Support Act of 1988 had already increased educational services for young women receiving AFDC. The 1992 amendments to the JTPA went further and

created a separate year-round youth program known as Jobstart, which required that those youth who were dropouts or had serious barriers to employment be provided with increased educational services. The goal of Jobstart was to increase participation in education and training activities by a group that otherwise would be little served. The goal of Jobstart evaluation was to estimate the difference that access to the program made for its target population. What the evaluation showed was that the overall impact of Jobstart on earnings for a four-year period was a statistically insignificant gain of \$214, or 1.3 percent, over what participants would have earned had they not had access to the program. Those in the experimental group earned on average \$17,010 per year, while those in the control group earned on average \$16,796.

At the same time, there were differential impacts on different groups. Custodial mothers in the experimental group, for instance, had a gain of \$625, or 7.5 percent, over their control group's mean of \$8,334. Other women in the experimental group had a smaller gain—\$613, or 4.6 percent, of their control group's mean of \$13,310. For men, however, there was actually a loss. Men lost \$273, or 1.2 percent, of their control group's mean of \$23,637. This has to be weighed against the average cost per member of the experimental group in delivering Jobstart services—including intake, education, training, job placement assistance, counseling, and life skills workshops—which ran from \$4,000 to \$5,500, depending on the site. In New York City, for instance, the average cost ran as high as \$7,500 (Cave, Bos, Doolittle, and Toussant 1993).

## **Workforce Development Policies**

The AFDC system, in its initial design, reflected a societal norm of the time—that mothers with small children should remain at home (Teles 1996; Gordon 1994). The norm, however, has changed, and it is now demanded that they work. Therefore, it is perhaps time to end the artificial distinction between employment policy and welfare policy. Instead of increasing funding for existing programs, more money ought to be appropriated for transitional services such as education and training. Despite the mixed results of job training, it is still going to be useful for some people. Therefore, ways should be sought to coordinate existing job training programs with the new efforts to assist the poor. If such a



streamlined plan were implemented correctly, states would essentially be embarking on more comprehensive employment programs. The key would be to add greater unity and coherence to the welfare and work programs. Also, given that the new welfare is no less regulatory than the old, it might not be unreasonable to require that all states model their programs along the lines of the three work-based plans described in this brief. States might even be offered bonuses for doing so sooner. The only apparent obstacle, then, would be coming up with the funds to pay for the plans. But given the recent reform of the unemployment insurance (UI) system, with the Unemployment Compensation Amendments of 1993, this task may not be as complicated as it seems.

The unemployment insurance amendments established a system whereby individuals, upon filing for UI benefits, are profiled according to demographic and occupational characteristics. The goal is to identify those likely to be unemployed for long periods. Those so identified are targeted for job search assistance. In an earlier brief (Levin-Waldman 1996a), I argued that the UI system could be reformed to be the basis of a system through which the long-term unemployed receive training in order to meet the new demands of the labor market. This training could be provided by offering vouchers to employers for on-the-job training. The vouchers would in part be funded out of the UI benefits the long-term unemployed would have received. The use of vouchers seems to be a logical implication of findings that employer-based training is perhaps more effective than program training, because it is specifically geared toward employers' needs (Lynch 1994).

If we could end the welfare-unemployment distinction and simply offer training vouchers to workers, the welfare stigma would no longer exist. Current welfare recipients might then have an easier time finding employment. Therefore, it would seem logical to look to the current UI system for the resources necessary to implement more comprehensive employment programs. Moreover, as the new welfare appears to point toward a path of workforce development, several policies ought to be considered for improving the new law. At a minimum, the new welfare law ought to require that all states provide job search assistance. In the end, this could prove to be more effective than simple workfare. A truly streamlined welfare-work bureaucracy would ultimately give substance to the Employment Act of 1946, the objective of which was to ensure that

all those who want to work are able to do so. All assistance programs of the future ought to be predicated on the notion that people need to work and that the goal of public policy is to provide opportunity, not entitlement. If new institutional structures can be created that will end the stigma associated with traditional assistance, they will ultimately achieve greater middle-class acceptance (Gans 1995). Improvements to the new welfare would include the following.

- Existing welfare bureaucracies would be merged with employment bureaucracies to offer more efficient delivery of employment services. The welfare state would no longer be characterized by public assistance programs, but by comprehensive employment services.
- Unemployment offices would no longer distinguish between those who were recently laid off and those who have been on welfare. Each applicant would be evaluated on the basis of what services he or she needs in order to obtain employment.
- Profiling would be used to identify those most likely to have the greatest difficulty in obtaining work. Those so identified would be targeted for education and training programs.
- States would, at a minimum, provide job search assistance.
- Subsidies would be made available to employers to hire welfare recipients, but the subsidies would be tied to on-the-job training requirements. This would enable employers to train workers according to their firm-specific needs.
- Those identified as most likely to need comprehensive employment services would be among the first to be selected for an employer-based voucher program, which offers vouchers to employers to hire and train workers.

Efforts to improve the new welfare would involve streamlining existing programs and ultimately creating new institutional structures. Congress, to some extent, has begun this process with its recent passage of the Workforce Development Act. The act essentially consolidates more than 100 federally funded training programs, administered by 15

different federal agencies at a cost of more than \$20 billion annually, and creates a new structure for their funding, principally through block grants. The idea behind this law was to make the United States more competitive globally by eliminating the fragmentation inherent in the old training system and creating “coherent, integrated statewide workforce development systems designed to develop more fully the academic, occupational, and literacy skills of all segments of the workforce.”

Consolidated workforce development works in much the same way as the new welfare. States submit to a national governing board their plans for providing many of the same types of services that are to be provided under the new welfare and the unemployment insurance reforms of 1993. Just as they must do with the new welfare, states are required to offer a core set of services that at a minimum include outreach, intake, and orientation to whatever information and services are available through one-stop career centers; initial assessment of skill levels, aptitudes, abilities, and supportive service needs; job search assistance, placement assistance, and career counseling if appropriate; screening and referral of qualified applicants to employment; and the provision of accurate information relating to local labor market conditions.

Ultimately, whatever it is called, workforce development involves emphasis on training. And to the extent that welfare recipients will, under the new welfare, be required to participate in education and training programs, the new welfare effectively moves in the same direction. Just as the new welfare returns welfare policy to the states under a uniform set of federal regulations, so, too, does the Workforce Development Act. The question is, however, why are workforce development, welfare reform, and unemployment insurance operated as separate entities. If the goal of the new welfare policy is to end dependency and foster a greater work ethic, then it needs to be tied more closely with existing policy aimed at developing the workforce. Not only would this lead to greater efficiency in the delivery of public services, but it would also end the stigma now attached to welfare. Instead of viewing the new system as welfare policy with new flexibility, we should look at it as an opportunity to end the artificial distinction between unemployment insurance and welfare. The reason for the initial bifurcation was to generate political support for a set of measures that were anomalous historically. The public was willing to support Social Security because

they paid into it and to support unemployment insurance because they worked to obtain it (Weir, Orloff, and Skocpol 1988). But the public now supports work for welfare recipients, and it makes no sense to continue the stigma attached to welfare. With the new welfare in place, opportunity to improve on it may finally present the nation with an opportunity to create a more comprehensive employment program that would replace outmoded public assistance. But for this to occur, a new institutional structure is essential. This can involve no less than breaking down bureaucratic distinctions between those programs traditionally regarded as welfare and those programs traditionally regarded as employment. The goal is to enable people to work.

### **Appendix. Demographics of the 1994 AFDC Population**

<b>Average family size (persons)</b>	<b>2.8</b>
<b>Number of child recipients</b>	<b>Percent of AFDC cases</b>
One	42.6
Two	30.0
Three	15.6
Four or more	9.6
Unknown	2.1
<b>Basis for eligibility</b>	<b>Percent of children</b>
Parents present in household	
Parent incapacitated	4.9
Parent unemployed	8.7
Parents absent from household	
Death	1.7
Divorce or separation	26.5
No marriage tie	55.7
Other reason	2.0
Unknown	1.4
<b>Education of mother</b>	<b>Percent of mothers</b>
Eighth grade or less	4.0
One to three years of high school	17.6
High school diploma	24.1
Some college	7.7
College graduate	.5
Unknown	46.0

<b>Age of mother</b>	<b>Percent of mothers</b>
Under 20 years	6.3
20 to 24 years	24.6
25 to 29 years	22.6
30 to 39 years	34.9
40 years or over	1.5
Unknown	—
<b>Age of children</b>	<b>Percent of recipient children</b>
Under 3 years	23.8
3 to 5 years	22.1
6 to 11 years	31.7
12 years and over	22.2
Unknown	0.3
<b>Employment status of mother</b>	<b>Percent of mothers</b>
Full-time job	3.3
Part-time job	4.6
<b>Presence of income</b>	<b>Percent of families</b>
With earnings	8.9
No non-AFDC income	77.5
<b>Median months on AFDC since most recent opening</b>	<b>22.8</b>
<b>Race</b>	<b>Percent of parents</b>
White	37.4
Black	36.4
Hispanic	19.9
Native American	1.3
Asian	2.9
Other or unknown	2.1
<b>Incidence of households</b>	<b>Percent</b>
Living in public housing	8.3
Participating in food stamps or donated food program	88.6
Including nonrecipient members	46.4
<b>Relationship of father to youngest child</b>	<b>Percent</b>
No father	89.4
Natural father	NA
Adoptive father	NA
Stepfather	NA

Source: From *Green Book* (Washington, D.C.: U.S. House Ways and Means Committee, 1996), 473–474.

## Notes

1. This figure is derived by multiplying the cost per case by the national caseload, which, according to unpublished tables by the Administration for Children and Families in the Department of Health and Human Services, was 4.818 million. The figure represents an average. It does not take into account cost-of-living disparities or costs associated with addressing entrenched social pathologies. Therefore, \$15,070 per case might overstate the cost in places like Arkansas and Mississippi, but understate them in places like New York and California.
2. This is based on a personal communication with a staff member of the House Ways and Means Committee that indicated that legal immigrants accounted for only 7 percent of the old AFDC caseload.

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