EXECUTIVE SUMMARY

During the 1990s, dramatically new federal and state policies reversed welfare policies that had prevailed since the New Deal. The 1996 Personal Responsibility and Work Opportunity Reconciliation Act (PROWRA) set an upper limit on federal welfare spending, set stringent work requirements and time limits for recipients, and gave states broad discretion to design their own programs. If the vision of PRWORA is fully implemented by the states, welfare will no longer typically mean government supporting low-income people who do not work but, instead, government helping low-income people to work to support themselves.

CED strongly endorses this bold initiative. But welfare reform must not simply make welfare recipients work. It must make work work for these individuals, their families, and their employers.

We urge the federal government, state and local governments, and the business community to join in bringing these efforts to fruition now. It is essential that we stay the course to implement and sustain reform, regardless of changes in economic and political circumstances.

FINDINGS

- The central premise of welfare reform is sound — most recipients can and should work. The new, work-centered approach reflects the social and economic benefits of self-reliance and individual responsibility for welfare recipients and their children. It is fairer to those in similar circumstances who are already working.

- Successful welfare reform must achieve three goals: personal responsibility, employment, and the reduction of poverty. Sharply falling welfare caseloads, by reducing dependency, indicate progress towards the first goal. But caseload reductions in themselves do not ensure employment or reduce poverty. It is therefore essential to support work and to make work work for these individuals, their families, and their employers.

- Welfare reform has made an impressive start, but performance among the states has been uneven. Welfare caseloads nationwide have fallen by nearly half, with roughly 80% of former recipients working at some point since leaving the rolls and about 60% employed at any one time. Some states have implemented creative and effective approaches to public assistance. The most effective programs require work, support work, and create incentives for work. Other states have primarily reduced welfare rolls without fundamentally rethinking their policies. Some of these states have done little to assist former recipients to make the often difficult transition from dependency to self-reliance through work.

  - The most important barrier to the employment of welfare recipients is not a lack of suitable jobs, but the limited work-readiness of applicants. The economy will adapt to an increased supply of low-skill workers, but higher incomes will require the development of the work attitudes and skills that facilitate advancement.

  - Important challenges remain. An extraordinarily strong labor market has given a great boost to welfare reform. But even in this tight labor market, only two-thirds of those employed are working full time, up to 75% lose their jobs within one year, and most earn wages too low to move their families out of poverty without continued government assistance. Some 30% of those who leave welfare subsequently return.

  - Substantial resources are available to address these challenges. Major federal programs have recently been enacted or expanded, including welfare reform itself, a welfare-to-work block grant, the Earned Income Tax Credit (EITC), and child health insurance. However, some states have been reluctant or unable to use available resources effectively or to sustain previous levels of state spending. More than $7 billion in currently available federal welfare block grant funds remain unspent.

  - The circumstances of the working poor are similar to those of welfare recipients who go to work. The approximately one million welfare recipients entering the labor force join more than seven million workers who are poor and another 13 million workers at chronic risk of falling into poverty. Inadequate education, limited access to jobs, restricted opportunities for upward mobility, lack of transportation, and the burdens of child care and health insurance costs circumscribe opportunities for these workers and their families. Some of the most effective state initiatives aiding welfare recipients can also serve these broader groups.
RECOMMENDATIONS

The federal government, state and local governments, employers, non-profit organizations, and welfare recipients themselves have vital roles to play in welfare reform.

States should responsibly exercise the authority that has been devolved to them. States that have not fundamentally restructure their policies should follow the example of “best practice” states that:

- Offer comprehensive, effective work-support services for welfare recipients, especially in such critical areas as child care, transportation, health insurance, and substance abuse.
- Provide portfolios of employment alternatives for welfare recipients that range from unsubsidized private employment to developmentally oriented, short-term public service jobs.
- Provide financial incentives to work both by designing public assistance to reward work and by lowering or eliminating state income taxes on families in poverty.
- Allocate adequate federal and state funds to support these initiatives, rather than reducing welfare expenditures as caseloads fall.
- Establish formal “rainy day” reserve funds as resources permit to ensure the availability of assistance if the economy weakens.
- Actively inform former welfare recipients of their continued eligibility for Medicaid, Food Stamps, and other supports.
- Consider extending the services provided to TANF recipients to other low-skill, low-wage workers, as resources permit.
- Improve Unemployment Insurance coverage of former welfare recipients by removing categorical exclusions of low-wage, part-time, seasonal and temporary workers.
- Improve the K-12 education system and the quality, availability, and funding of adult education.
- Improve the performance of publicly funded employment and training programs, especially through creative implementation of the federal Workforce Investment Act.

The federal government should serve as a responsible partner in these state efforts.

- Congress should not rescind federal welfare block grant funds that have not yet been spent.
- The executive branch should work with states and employers to enroll eligible households not currently claiming the Earned Income Tax Credit and to expand the use of its monthly payment option.
- Congress should reexamine the design of Food Stamps, Medicaid, and other support programs and modify them as required to encourage the shift from a dependency-oriented public assistance system to one centered on work.
- Congress should reexamine the EITC to determine whether increasing its value, especially for workers who accumulate longer experience, would further strengthen work incentives and reduce poverty.
- Congress and the executive branch, in consultation with the states, should develop a nationally uniform system for reporting on welfare policies and their consequences and assist the states with the resources and technical assistance required to implement such a system.

Employers, motivated by welfare recipients’ potential as productive employees in a tight labor market, should cooperate with public efforts. Where appropriate, they should:

- Evaluate welfare recipients for jobs on the basis of their individual qualifications and potential, not their public assistance history.
- Take advantage of the screening, training, mentoring, and work-support services offered by public and non-profit welfare-to-work programs.
- Expand internal support services for low-wage workers in areas such as transportation, child care, flexible hours, and other employee assistance measures.
- Extend “career ladder” workplace training and upward mobility to employees with lower initial qualifications.
- Adopt innovative business practices to create family-friendly workplaces and manage a demographically diverse workforce.

Committee for Economic Development
477 Madison Avenue, New York, New York 10022
Phone: 212-688-2065 Fax: 212-758-9068
2000 L Street, NW, Suite 700, Washington, DC 20036
Phone: 202-296-5860 Fax: 202-223-0776
Web Site: www.ced.org