WELFARE REFORM AND BEYOND

MAKING WORK *WORK*

A Policy Statement by the Research and Policy Committee of the Committee for Economic Development

WELFARE REFORM AND BEYOND

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All CED policy recommendations must have the approval of trustees on the Research and Policy Committee. This committee is directed under the bylaws, which emphasize that "all research is to be thoroughly objective in character, and the approach in each instance is to be from the standpoint of the general welfare and not from that of any special political or economic group." The committee is aided by a Research Advisory Board of leading social scientists and by a small permanent professional staff.

The Research and Policy Committee does not attempt to pass judgment on any pending specific legislative proposals; its purpose is to urge careful consideration of the objectives set forth in this statement and of the best means of accomplishing those objectives.

Each statement is preceded by extensive discussions, meetings, and exchange of memoranda. The research is undertaken by a subcommittee, assisted by advisors chosen for their competence in the field under study.

The full Research and Policy Committee participates in the drafting of recommendations. Likewise, the trustees on the drafting subcommittee vote to approve or disapprove a policy statement, and they share with the Research and Policy Committee the privilege of submitting individual comments for publication.

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Purpose of This Statement

CED Trustees have long appreciated the intricate connections between economic growth, education, the work force, and public assistance. In this policy statement, CED Trustees examine the policies dealing with these issues in light of the state and national experiences resulting from the 1996 federal welfare reform legislation.

Welfare Reform and Beyond is the most recent in CED's ongoing series of policy studies aimed at helping the U.S. work force adapt to changing economic conditions and improving the living standard of all Americans, especially those on the lower rungs of the economic ladder. We came to this study mindful that the old welfare system had become dysfunctional. It had developed corrosive disincentives and obstacles not only to work, but to participation in mainstream American society. There had to be a better way.

Poverty is a national issue and a shared national and state responsibility. Now, after four years of experience in shifting the emphasis of policy from welfare checks to jobs, is welfare reform working? We believe that, overall, it is. To be sure, it is a work in progress—indeed, a work just beginning—whose final results will not be seen for years or decades. And, certainly, progress has been uneven among states and communities. But we conclude that the central premises of welfare reform are sound: as a matter of simple equity, able-bodied recipients should work; and as a matter of simple economics, only employment, with public support and encouragement where necessary, offers a permanent path out of poverty.

Communities, states, businesses, and individuals now face a major challenge: how do we make welfare reform work better to achieve what we believe should be its three fundamental goals: enhanced personal responsibility, stronger employment, and the reduction of poverty?

Welfare Reform and Beyond provides both near-term and longer-term suggestions in answer to this question. For the near term, we offer a set of specific recommendations for moving towards these goals by completing welfare reform. We urge Congress to examine these recommendations when it considers reauthorization of the program. For the longer term, we offer directional guidance to individuals, employers, and public officials for building institutions that will extend to all Americans opportunities to acquire productive skills. It is our firm conviction that only this development of individuals' capacities can eventually raise their living standards.

In offering these recommendations, we recognize that no system that is equitable, politically viable, and affordable can improve the circumstances of every family and individual in economic distress. Our more realistic goal here is to present a balanced and achievable agenda for moving our society more effectively from welfare to work, and eventually to the highly productive and rewarding work to which all Americans aspire.

Since its founding in 1942, CED Trustees have addressed these and related issues through our ongoing programs on education reform, the labor force, and the changing nature of work. Most recently, we have explored them in such statements as *The Employer's Role in Linking School and Work*, *Connecting Inner-City Youth to the World of Work*, *Rebuilding Inner-City Communities*, *Putting Learning First: Governing and Managing the Schools for High Achievement*, *Why Child Care Matters*, *The Unfinished Agenda: A New*

Vision for Child Development and Education, and *An America That Works: The Life-Cycle Approach to a Competitive Work Force*. A list of these and other CED policy statements appears in the back section.

ACKNOWLEDGMENTS

I would like to thank the dedicated group of CED trustees and advisors who comprised the subcommittee that prepared this report (see page vi). Very special thanks go to the subcommittee's co-chairs, Rex Adams, Dean of the Fuqua School of Business at Duke University, and Matina Horner, Executive Vice President of TIAA-CREF. We are also grateful to CED's staff for the research, analysis, and writing they have contributed to this policy statement: project director Marc Bendick, Jr., of Bendick and Egan Economic Consultants, Inc.; CED research associate Alastair Smith; and project counselor Van Doorn Ooms, CED Senior Vice President and Director of Research.

Finally, we gratefully acknowledge generous financial support provided by The Chase Manhattan Foundation, The John D. and Catherine T. MacArthur Foundation, Federated Department Stores, Northwestern Mutual Life Foundation, and The Commonwealth Fund. Contributions such as these enable CED to produce thoughtful, well-researched policy statements and disseminate them widely to contribute to the national dialogue on these important issues.

Josh S. Weston, *Chairman*
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Chapter 1.

Introduction and Summary of Recommendations

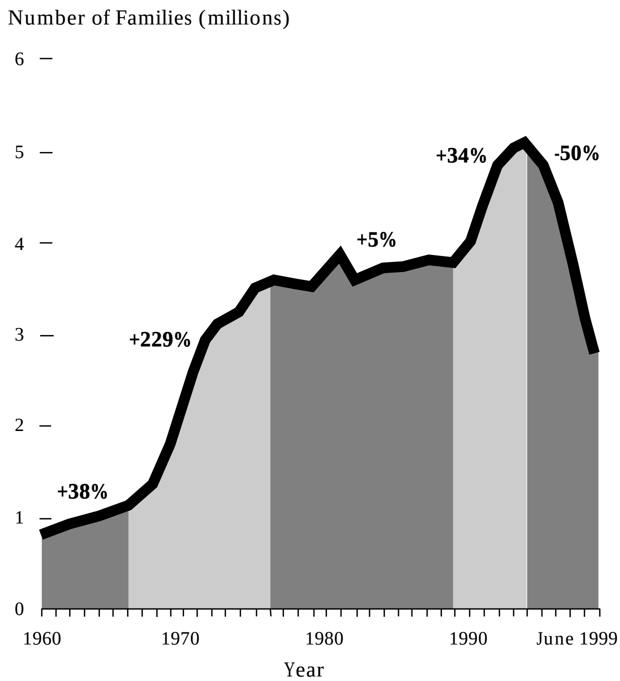
In the White House Rose Garden on August 22, 1996, President Clinton signed the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA). This law replaced the nation's principal cash welfare program, Aid to Families with Dependent Children (AFDC), with a boldly different approach called Temporary Assistance to Needy Families (TANF). PRWORA provided the capstone to policy initiatives undertaken in many states to modify AFDC under federal waivers. Reversing policies that had prevailed for decades, TANF caps federal public assistance spending and ends its entitlement status, subjects recipients to stringent work requirements and eligibility time limits, increases financial incentives to work, and grants states flexibility to design their own programs. When PRWORA is fully implemented in 2002, welfare will no longer 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 PRWORA's bold mandate to replace a public assistance system that often discouraged personal responsibility and employment with one whose central premise is that most assistance recipients *can* and *should* work.

Between 1994 and 1999,† welfare caseloads nationwide shrank 50 percent. (See Figure 1.) As welfare families left the rolls, the adults heading these families (principally women) entered the workforce and employment in large numbers. (See Figure 2, page 2.) As many as 80 percent of those persons leaving the

Figure 1

Families Receiving AFDC / TANF



SOURCE: Data from U.S. Deptartment of Health and Human Services, adapted from Douglas Besharov, Testimony before the U.S. House of Representatives, Subcommittee on Human Resources of the Committee on Ways and Means, May 27, 1999.

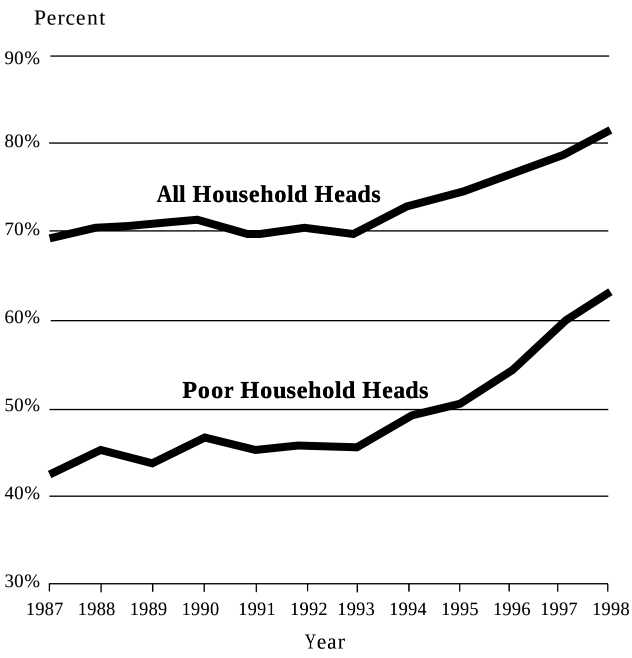
† Enrollment in AFDC peaked in 1994 and started to fall prior to PRWORA's passage in 1996 because 40 states were then operating under federal waivers that allowed them to modify AFDC in directions that subsequently evolved into their TANF programs.

welfare rolls held jobs during some period, and 60-70 percent were employed when surveyed. These results have been hailed as evidence that the new approach has already taken hold, and in many states it clearly has. However, an unusually strong job market has also contributed, disguising the fact that some states have made more progress than others in implementing a pro-work system. Not all states currently provide even basic work support services and incentives, and only a minority comprehensively undergird families' transitions to employment. Only about half have made substantial preparations for a weakening of the strong labor market.

Four circumstances currently create an unusual opportunity for states to develop welfare systems that are thoroughly work-centered: (1) strong public support for a work-oriented approach; (2) legislation providing a clear framework; (3) substantial financial resources for work-supportive services and incentives; and (4) a strong job market. This unusual coincidence of circumstances will not last indefinitely. **We urge state and local governments, the federal government, providers of employment and training services, and the business community to complete welfare reform *now*.**

Figure 2

Employment of Single Female Heads of Household with Children



SOURCE: Data from U.S. Bureau of the Census

WELFARE REFORM GOALS: RESPONSIBILITY, WORK, AND REDUCING POVERTY

The welfare program that preceded TANF, Aid to Families with Dependent Children (AFDC), was established in the 1930s to assist low-income widows and orphans. When welfare reform was debated in 1996, AFDC still principally assisted single mothers and their young children, but by then most were divorcees or mothers with children born out of wedlock. While many AFDC participants received benefits only for short periods, about 48 percent of the caseload was expected to remain welfare-dependent for 10 years or more — in some cases, for multiple generations. Most important, the number of recipients had been growing explosively in the 1990s.[1] Critics attacked welfare as spreading a dysfunctional "culture of poverty," undermining important social values of family stability, personal responsibility, investment in education, and commitment to work. By 1994, AFDC was supporting 14.8 percent of all American families with children.

Eligibility for AFDC was limited to households with very low incomes, so that recipients typically lost benefits or became ineligible if they became employed. Beneficiaries could participate indefinitely (as long as they had dependent children) and received only sporadic training or counseling to improve their prospects for employment. Government-provided health insurance, food assistance, and other social services followed similar rules. The incentives, therefore, were pernicious: *to be eligible for support, a family had to remain jobless and poor.*

TANF reverses these incentives. It sets time limits on individuals' eligibility for benefits, and funds and encourages states to provide services supporting work. It permits recipients to receive earnings without immediate, drastic reductions in benefits, so that work brings larger rewards than before. These changes are reinforced by the federal Earned Income Tax Credit and recently expanded programs for child care and health insurance. These developments create a new set of incentives: *to be eligible for support, a low-income family head must work.*

We believe that the great flaw in public assistance prior to welfare reform was not its provision of public support *per se* but its failure to require and encourage responsible individual behavior, including work by the able bodied. The system was not only costly to society. It was fundamentally unfair. The public could not justify subsidizing welfare recipients to sit at home while many others in similar impoverished circumstances took responsibility and worked hard. Nor can we. We see a world of difference between *public support that accommodates or encourages idleness and public support that encourages work.*

We also see a world of difference between a welfare system that focuses exclusively on the *problems and limitations* of the poor and one that recognizes their *potential to contribute* to their families, employers, communities, and the economy at large. It is woefully shortsighted to view the poor, who often exhibit remarkable coping skills and stress management capabilities, as "deficient" individuals who are an unavoidable burden on society. With appropriate opportunities, incentives, and support, they can be active and productive members of society.[2]

In this spirit, welfare recipients have been among the most vociferous proponents of enhanced opportunities to support themselves. Most welfare recipients share the values of the American public in preferring self-reliance to dependence and have been frustrated by welfare rules and disincentives that encourage them to remain jobless.[3] It is not surprising that they have generally shown strong support for the new work-oriented system.[4]

Individual responsibility and work, important in their own right, also provide a route out of poverty. While the old welfare system had the incentives wrong, we believe that its ultimate goal of relieving poverty was correct. As an affluent society with an historical commitment to social justice and an important stake in the well being of *all* its children, the United States should not tolerate chronic poverty among those who act responsibly.

We therefore believe that the public, policymakers, practitioners, and employers should recognize and adopt three equally important goals for welfare reform:

1. ***Responsibility* by individuals for their lives and the well being of their children;†**
2. ***Employment* as an individual's obligation to society, a primary source of income, and a requirement for public aid; and**
3. ***Reduction of poverty*†† through higher incomes, derived primarily from work but publicly supplemented if necessary in ways that encourage and support work.***

In implementing welfare reform, some states have embraced this full range of goals. Others, however, have focused narrowly on the responsibility goal — reducing welfare dependency and caseloads — without adequately assisting welfare families to replace dependency with work. For many welfare recipients, finding and keeping a job is not easy. Many have personal circumstances, such as child-care needs, unstable home situations, and health and transportation problems, that create serious obstacles to steady employment. Many are hindered by deficiencies in education, functional literacy, and marketable skills that prevent them from commanding above-poverty

†In addressing the issue of responsibility, PRWORA included as goals not only a reduction in welfare dependency through job readiness and work, but also the formation and maintenance of two-parent families and reduction of non-marital childbearing. This statement focuses primarily on the employment and income issues addressed in the legislation.

††For a brief discussion of the official poverty measure and its deficiencies, see box: *Measuring Poverty*, p. 23.

*See memorandum by COLETTE MAHONEY (page 65).

wages. For decades, the nation sidestepped the complexities and expense of employment for these individuals, allowing them to languish in dependency.

CED strongly endorses PRWORA's intent that limited job readiness should no longer exempt welfare recipients from working, in some capacity, to support themselves and their families. But we also recognize the difficulties and new societal obligations that this policy entails. The rapid, fundamental shifts triggered by PRWORA overturn expectations built up over decades. Life plans constructed around a culture of dependency must now be rebuilt around a culture of work. Because of the obstacles to stable employment that many public assistance recipients face, our society, by requiring work, assumes greater responsibility to make it feasible. **We believe that successful welfare reform must not simply *make welfare recipients work*. It must *make work itself work* for these individuals, their families, and their employers.**

By providing program flexibility and substantial financial resources, PRWORA and related federal legislation establish a framework within which states can create the work-centered welfare system that the nation requires. Taking advantage of this framework, many states have implemented innovative requirements, incentives, and services to encourage and support work. But much remains to be done. We believe that our recommendations presented below would improve and complete the reform that has begun well in many, but not all, states.

RECOMMENDATIONS:* COMPLETING WORK-CENTERED WELFARE REFORM

Providing Services to Support Work

Welfare reform is expected to increase the number of low-skill workers nationwide by somewhat more than one million workers by 2002. The largest additions, about 300,000 per year, probably occurred during 1997-1998, the first two years PRWORA was in force. Strong economic growth has recently been adding about two million jobs to the economy each year, and the absorption of these new low-skill job seekers has been further aided by slower growth in the entry-level workforce. Thus, this change in labor supply should not prove difficult for the nation's large and flexible economy to handle — and to date it has not, although areas of structural unemployment remain, especially in older urban centers. The limited survey data available suggest that half to two-thirds of former recipients left welfare for a job, and 70-80 percent have been employed at some point after leaving the rolls. And, although an increase in job seekers in itself exerts downward pressure on wages, the labor market has been so strong that entry-level wage rates have been rising. In short, concern about whether there are "enough jobs to go around" for persons moving from welfare to work has been somewhat misplaced, at least in most locales and in the buoyant economy of 1994-2000.

CED believes that the primary challenge to welfare reform is not the *number of jobs* that must be found for welfare recipients but the *work readiness of the job seekers*. Workers without advanced education or specialized skills hold millions of jobs in the American economy. However, even entry-level jobs typically require minimum literacy, communication skills, and appropriate workplace behavior. They also demand worker dependability that, in turn, requires proper work attitudes, reliable arrangements for transportation and child care, and reasonably stable personal lives. A substantial proportion of public assistance recipients who have sought jobs to date, and a higher share of those who will be doing so over the next several years, cannot meet these basic standards unaided.

Moreover, the jobs that former welfare recipients typically acquire do not offer a permanent escape from poverty and dependency. Hourly wages average $6.61 ($13,750 per year

*See memorandum by JOSH S. WESTON (page 66).

if employed full time, full year). But only about two-thirds are full-time, and as many as 75 percent of these jobs last less than a year. Furthermore, only about 23 percent carry employer-based health insurance, and few offer significant opportunities for training or advancement. Some 30 percent of persons leaving welfare subsequently return.

While many states and localities actively address these problems with appropriate pre- and post-hiring support services and financial incentives, others require welfare recipients to seek jobs with little or no aid and induce them to leave welfare even if they have few job prospects (for example, by imposing difficult administrative requirements). Even in states where the provision of work-support services has been impressive, there are dangers that these efforts will not be sustained politically.

CED believes that public assistance rolls should be reduced principally by encouraging and assisting recipients to succeed in the job market. Many states are developing substantial, well-designed work-supportive services to do this, and we urge states that currently provide little assistance to join these "best practice" states. Welfare reform cannot be judged a success nationwide until *all* states adequately assist welfare recipients' work efforts.

States can provide such support without new federal legislation or additional federal or state funds. Rapidly-declining welfare rolls have *already* built up $7.3 billion in unspent TANF funds, and additional resources are available from other federal and state programs. States giving high priority to employment are devoting these resources to child care, transportation assistance, career counseling, job placement, education and training, temporary wage subsidies, short-term job creation, substance abuse treatment, health insurance, and similar services. Other states, however, have substituted TANF funds for services that were previously state-financed, in effect diverting these resources to activities unrelated to work and welfare or to tax reductions.

CED believes that, in general, public funds for welfare-to-work services should *not* be reduced in the near term. We urge states to invest federally provided resources, supplemented by state funds where appropriate, in activities that assist welfare recipients to find and hold jobs. Furthermore, we urge Congress *not* to rescind federal funds simply because they have not been obligated to date. If resources remain after current welfare recipients are served, they can be used productively to prevent non-welfare, low-skill workers from becoming welfare-dependent.

We wish also to express our concern about the adequacy of information to properly administer, monitor, and evaluate welfare reform. The states must be accountable to the public for their management of public assistance under welfare reform. However, when Congress transferred primary decision-making authority from the federal government to the states, it also weakened or eliminated many requirements that states document the policies they have implemented and their effects. We believe the federal government must remain concerned about poor families across the nation and should therefore ensure that there is information adequate to monitor their condition and evaluate federal and state policies that vitally affect them. The federal government also must exercise oversight over the billions of federal dollars transferred to states under the TANF block grant. In preparing this policy statement, we were often frustrated by the lack of data that would allow us to compare states in a consistent manner and assess the impact of their policies. **We urge the Congress, in consultation with the states, to develop a nationally uniform system for reporting on welfare policies and their consequences and to assist the states with the resources and technical assistance required to implement such a system.**

Preparing for Economic Downturns

Welfare reform's first three years have coincided with the longest economic expansion in postwar history. Between March 1991 and

November 1999, payroll employment grew by 21.2 million, or 20 percent, and the national unemployment rate fell from 6.8 percent to 4.1 percent, its lowest level in 29 years. This strong labor market has greatly facilitated the transition of many assistance recipients to employment.

There is a danger that this extraordinary economic expansion will mislead us into believing that strong labor markets are inevitable. They are not. Should the economy weaken, as is surely likely, unemployment and welfare applications will expand while federal TANF grants to states will remain fixed and state tax revenues will contract. Since most state constitutions require budgets to balance annually, severe pressure will develop to reduce spending on employment services and income assistance, just when they are needed most**.** Our new work-centered welfare system will experience new problems when work becomes harder to find. Prudent future planning is therefore incumbent on both the federal and state governments.

Under PRWORA, states are allowed to reserve TANF funds from current surpluses in "rainy day" funds for such contingencies, and about half the states are doing so. Although we recognize that states face different fiscal situations, **CED recommends that states without such formal "rainy day" reserves consider developing them**. States should do so, however, only after allocating adequate resources to currently needed work support services, as noted above.

When the economy slows or declines, welfare recipients will experience increased difficulty in finding jobs. Under TANF, innovative states such as Wisconsin have developed portfolios of employment alternatives, with unsubsidized private employment as the preferred option and publicly funded jobs (at subsidized private firms, nonprofit organizations, or public agencies) as back-ups. In strong labor markets, these latter positions primarily serve welfare recipients with disabilities, who can function only in "sheltered" jobs, and welfare recipients without recent work experience, as a transition to regular employment. During economic downturns, these positions can readily be expanded for TANF recipients who would have found regular jobs in a stronger labor market.

CED urges states currently without a comprehensive range of job alternatives for TANF recipients to develop options that include publicly funded jobs for limited use during prosperity and expansion during recessions. This approach can reconcile the program's work requirements with the nation's commitment to support low-income families with children. Government should *not,* however, become an "employer of last resort," creating public jobs for the general population of the unemployed.

Unemployment Insurance (UI) provides temporary income for the involuntarily unemployed. UI coverage has eroded sharply over several decades; it now covers only one-third of workers who lose their jobs, principally those employed more steadily than most low-skill workers. Under current rules, no more than 20 percent of those leaving welfare for work are likely to become eligible for UI through their new jobs. This is in large part because some state eligibility rules categorically exclude low-wage, part-time, short-term, and seasonal workers from coverage even if they meet other UI requirements, such as attachment to the labor force. Two-thirds of the states do not categorically exclude low-wage workers, and a number of states have removed the exclusions of temporary, seasonal, and part-time workers. **We urge the remaining states to expand their UI coverage in a similar manner, as recommended by the federal Advisory Commission on Unemployment Compensation.**

If such an expansion were financed by higher UI payroll taxes, it would tend to reduce the hiring of low-wage workers and thus defeat its purpose. **Therefore, we recommend that the federal and state government consider ways to finance such broader UI coverage with general revenues.** For example, the UI trust fund could be credited with individual income taxes paid on UI benefits, as is done in the

Social Security and Railroad Retirement trust funds.

Making Work Pay

Many of the previous recommendations sharply distinguish between TANF recipients and other "working poor" — families who remain under or near the federal poverty threshold even though one or more adults in the household is employed. This is the conventional way welfare reform has been debated and legislation framed. The distinction is administratively convenient because the target population is clearly defined. It has budgetary appeal because putting welfare recipients to work reduces government expenditures more than expanding employment among the working poor. However, the distinction does not serve social and economic policy well. It concentrates public resources on welfare recipients, who constitute less than half of America's poor families. It ignores the fact that, even prior to welfare reform, many recipients routinely moved between public assistance and work. Most important, it treats workers who face similar economic difficulties very differently, offering more generous public support to those who receive welfare than those who do not. This creates serious inequities and disincentives to seek independence from public assistance.

Recognizing these circumstances, some states support the work efforts of welfare recipients through programs that also serve other low-skill, low-wage workers. For instance, Washington state provides health insurance to all working families with incomes less than twice the federal poverty threshold, and Illinois offers child care subsidies for all working families earning less than half the state's median income.

Such broadly-targeted programs often require substantial public outlays as well as a political consensus that government should assist low-income workers in these ways. Therefore, they may not be feasible in all states. However, these programs benefit low-income people who work — the guiding principle of welfare reform. **We urge states, in providing services to TANF recipients, to consider approaches that assist other low-skill, low-wage workers as well.**

In this context, we are concerned that a significant number of those who have found jobs and no longer receive TANF cash benefits do not receive other assistance for which they remain eligible, including Medicaid and Food Stamps. Poor information and confusion about eligibility appear to be major sources of this problem, especially in an administrative environment where many states have aggressively sought to "divert" potential beneficiaries from the welfare rolls to work. The complexity and restrictive rules of these programs also pose a major problem, carrying over into the present, work-oriented environment rules that were developed in a different environment, in which they were administered in tandem with a welfare program centered on dependency, not work.

Quite apart from the entailed hardship, such actions create disincentives and barriers to employment. **We urge federal and state officials to administer Medicaid, Food Stamps, and related programs to make their benefits as available as possible to beneficiaries eligible under current law, taking vigorous actions to inform them of their eligibility and facilitate their enrollment.**

The Earned Income Tax Credit (EITC) is a principal instrument by which the nation makes work pay for low-wage workers. This refundable credit against the federal income tax supplements the earnings of low-income working families by as much as $3,756 annually, enabling both unskilled workers and their employers to benefit from jobs that command meager wages in the marketplace. The EITC has been a powerful force in dramatically raising the employment of low-income women in recent years. With the EITC, full-time workers earning only the minimum wage can raise their families above the federally-defined poverty threshold. **CED urges the federal and state**

governments, community-based organizations, and employers to cooperate in outreach to enroll eligible households not currently claiming the EITC. We also recommend that the federal government and employers encourage EITC recipients to exercise their option to incorporate the credit in their monthly earnings rather than waiting for a delayed annual payment.

The federal income tax's current exemptions and rate schedules, in combination with the EITC, eliminate tax liability for most families below the federal poverty threshold. While many states have followed the federal example, 15 still require families in poverty to pay state income taxes. **As states consider tax reductions, we recommend that they reduce or eliminate state income tax burdens for families below the federal poverty threshold. We also recommend that states use relatively high "earnings disregards" in designing the eligibility for benefits in their TANF programs.** Both policies allow TANF recipients to keep more of their earnings from work and thereby simultaneously encourage work and reduce poverty.

In the longer term, a more comprehensive reexamination of the nation's safety net programs is required, although detailed recommendations lie beyond the scope of this policy statement. Food Stamps and Medicaid traditionally have been linked to AFDC cash assistance and have complex and often burdensome eligibility mechanisms; their use by eligible workers is declining as those links are broken, as noted above. In a world of required work, child care has become more critical both as a prerequisite for employment and a job-related expense. Child support enforcement has emerged as a potentially important tool for both encouraging responsibility and supporting working mothers. And the role of Disability Insurance and Supplemental Security Income will necessarily change as disabled individuals leave welfare. **We therefore urge Congress, as it considers modifications to TANF, to reexamine the design of Food Stamps, Medicaid, and other support programs. It should modify them as required to encourage the shift from a dependency-oriented public assistance system to one centered on work. We also recommend that Congress reexamine the EITC to determine whether increasing its value, especially for workers who accumulate longer experience, would further strengthen work incentives and reduce poverty.***

RECOMMENDATIONS: EXPANDING OPPORTUNITIES TO ACQUIRE SKILLS

In its first several years, welfare reform has made substantial progress in terms of the first two goals outlined above – enhancing individual responsibility and increasing employment. Progress toward the third goal, the reduction of poverty, has been less evident. For the majority of families affected by welfare reform, the primary effect to date has been to transform them from *dependent poor to working poor*. For those able to work, this is an important first step, because work provides a potential to escape poverty that continued dependency does not. But until the possibility of upward mobility is turned into actual opportunities and increases in income, welfare reform will not have achieved its anti-poverty goal.

In the ranks of the working poor, newly-employed public assistance recipients join many other low-wage workers, including recent immigrants, low-income youth, and experienced workers who face job displacement from new technology, globalization, and structural change. Together, these groups encompass approximately 20 million workers, 15 percent of the nation's work force. **We believe that welfare reform's greatest long-term challenge is to put significant numbers of the working poor, not just former welfare recipients, on a path of upward mobility.**

The only sustainable basis for such upward mobility ultimately is the development of skills. Throughout the American economy, competitive pressures require employers to base hiring

*See memorandum by PRES KABACOFF and STEFFEN E. PALKO (page 65).

and compensation decisions primarily on workers' productivity. In our market-oriented society, stable jobs and good incomes are built primarily on a foundation of human capital — the ability, knowledge, and effort on which a worker's productivity is based.[5] Workers with poor job skills will generally continue to struggle in the labor market. Equity and efficiency both demand that our society expand opportunities to acquire marketable qualifications.

Skill acquisition occurs within a broad range of education, training, community, and workplace institutions, both public and private. Expanding opportunities to acquire skills will require cooperative efforts by federal and state governments, schools and colleges, other providers of employment and training services, employers, unions, and workers. This policy statement cannot make comprehensive recommendations for increasing opportunities throughout these large and complex systems. However, we identify three major directions for needed change.

Education for Children and Adults

Public elementary and secondary schools are the nation's most fundamental institutions for developing informed citizens and productive workers. In previous policy statements, CED has argued that our schools generally are not meeting the needs of the new, skill-demanding economy.

Their failures are particularly evident among the high school dropouts, functionally illiterate graduates, and under-skilled workers prominently represented among welfare recipients and the working poor. The best long-run strategy for reducing welfare rolls is to cut off the flow of poorly schooled young persons entering adulthood each year. **We urge federal, state, and local governments to give urgent attention to improving education in preschool through the twelfth grade, particularly in schools serving low-income, disadvantaged students.**

Adult education is an often-overlooked adjunct to the nation's schools that directly serves welfare recipients and the working poor. For many adults, remedial education, high school completion, English as a second language, and occupational skills courses are essential if they are to earn above-poverty wages. The providers of these courses include high school adult programs, community college remedial programs, community-based vocational training centers, and in-prison schools.

These institutions often share the managerial and pedagogical weaknesses of secondary schools and have additional problems as well. They typically receive little public attention, are inadequately funded, and often depend on uncredentialed, part-time, and voluntary staff. Expenditures per full-time-equivalent adult student average about one-third that in elementary and secondary schools. **CED urges the federal and state governments to recognize the importance of adult education and improve its quality and availability.**

Publicly-Funded Employment and Training Programs

Change is also badly needed in publicly-funded programs that provide employment counseling, job placement, and training to low-skill, low-wage workers. While some programs are well designed and executed, many produce discouraged trainees and disenchanted employers, as evidenced by negative evaluations. In many localities, public funds support a hodgepodge of uncoordinated initiatives that support neither effective nor ineffective efforts. Undersubscribed and duplicative programs coexist with waiting lists, program gaps, and unpublicized services. Community-based initiatives are often well-intentioned but resource poor, and employer involvement is intermittent at best. This performance is *not* acceptable.

The 1998 federal Workforce Investment Act has created important opportunities to improve these activities. Under this legislation, innovative state and local governments in locales such as Boston and Cleveland have been developing coherent, effective employment and training *systems.* **We urge other states and localities to**

consider the best practices developed by these pioneering efforts. The Act's mechanisms for improving performance through accountability, evaluation, and consumer choice should be aggressively implemented. Government, employers, service providers, and community-based organizations should cooperate in transforming the Act's Workforce Investment Boards into influential organizations that strategically allocate employment and training resources. Service delivery should be reorganized around "one-stop" labor market intermediaries that offer a range of services and a convenient single point of contact. These new arrangements can more effectively serve both employers and low-skill workers, including former welfare recipients.

Hiring and Advancement in the Private Workplace

Successful work-centered welfare reform will require the active participation of large and small private employers. In our market economy, the role of business is to innovate, produce goods and services efficiently, serve clients and customers, and provide a financial return on invested capital. Job creation is a healthy byproduct of these activities, but not a business goal in itself. Indeed, economic progress ultimately depends on increasing productivity, often producing more output with fewer workers.

Employers therefore cannot be expected to hire welfare recipients *because they need jobs*. Nor can employers be expected to hire applicants who are unqualified, to offer wages higher than worker productivity justifies, or to provide unusually expensive training or employee support. Although these constraints apply to all employers, they particularly affect the small and medium-sized firms that employ disproportionate numbers of low-skill, entry-level workers.

In this spirit, we consider welfare reform and related education, employment, training, and social service initiatives primarily *public* responsibilities. Private firms will cooperate and make substantial investments of their own in workforce development — *if* public institutions help individuals become qualified job candidates.

The tightest job market in recent memory currently provides strong incentives for employers to hire former welfare recipients. By seeking them out, firms have filled positions that might otherwise have remained vacant. Many firms have found that, with the screening, training, and post-hiring support provided by welfare-to-work programs, public assistance recipients have adapted better and shown lower turnover than other entry-level workers. Such experiences reinforce our optimism that state and local governments, in partnership with business, can devise and operate welfare-to-work programs that simultaneously serve the interests of taxpayers, employers, and welfare recipients.

American business spends about $55 billion annually on employee training, and this formal training is dwarfed by informal skill acquisition on the job. For many employees, opportunities to learn new techniques, diversify their experience, demonstrate their capabilities, and develop networks of personal contacts are an expected aspect of daily work life. However, these arrangements are far more common for employees with post-secondary education and several years of steady work experience than for low-skill, entry-level workers. Even the lowest rungs of *career ladders* remain beyond the reach of many former welfare recipients and other low-skill workers. These opportunities for training and advancement often can be extended to workers with lower initial qualifications to the benefit of both employees and employers. The workers will benefit from enhanced skills, greater earning power, and stronger attachment to the work force, while employers also benefit through expanded recruitment, lower turnover, and higher productivity.

The American workforce is becoming increasingly diverse in race and ethnicity, gender, age, citizenship, personal background, and family status. In response, many employers have made explicit efforts to "manage diversity" through employment policies and workplace practices. These initiatives often include "family friendly" workplaces. Because of their typical characteristics, low-skill workers, including former welfare recipients, especially benefit from these efforts. Businesses stand to gain through increased productivity, an expanded customer base (both domestic and international), and greater retention of effective employees.

The box "Key Recommendations for Employers" summarizes the actions that we ask our business colleagues to consider.

*   *   *

If the watchword in public assistance prior to welfare reform was *entitlement*, the new watchword is *responsibility*. CED strongly supports this renewed emphasis on individual self-sufficiency, but we also believe that it creates mutual obligations. If able-bodied adults are expected to work, they must have reasonable prospects of employment. Society must assist motivated workers with services that make steady job performance feasible, income supplements that enhance limited initial earnings, and longer-term opportunities to advance to full self-support. We see this *new social contract* as the core of welfare reform. Now is the moment for the federal government, states and localities, providers of employment and training services, the business community, and welfare recipients themselves, to fulfill that contract.

KEY RECOMMENDATIONS FOR EMPLOYERS

- Consider welfare recipients as possible employees in a broad range of occupations. Judge applicants on their individual qualifications and potential, not their public assistance history.
- Cooperate with public agencies, non-profit organizations, and public-private partnerships running welfare-to-work programs. Take advantage of the screening, training, mentoring, and other work-supportive services these programs offer.
- Consider expanding internal support services for employees, especially child care, transportation, flex-time, training, career counseling, and mentoring.
- Reconsider formal and informal arrangements for employee advancement in the workplace. Where feasible, extend them to encompass workers with more limited initial qualifications.
- Consider innovative business initiatives to manage workforce diversity and provide family friendly workplaces.

Chapter 2.
Welfare Reform and the Labor Market

The social, legislative and administrative changes that center around the 1996 Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) represent one of the most dramatic developments in social policy since the New Deal. This chapter describes this law, the environment in which it is operating, and the changes it represents, providing the context for our recommendations for completing welfare reform in Chapter 3.

CHANGING THE RULES: WORK FIRST [6]

PRWORA replaced a 60-year-old federal program, Aid to Families with Dependent Children (AFDC), with Temporary Assistance to Needy Families (TANF). Many states had begun to make significant changes in their welfare policies under federal waivers of the law prior to 1996. Change accelerated sharply with the enactment of PRWORA, as states have been translating it into practice through a variety of new work requirements, financial incentives, and work support services. Because TANF is a block grant, providing federal resources that states can flexibly apply within broad guidelines, considerable variation has emerged among the states with regard to these policies. (See Table 1.)

Work Requirements

AFDC was an entitlement to cash benefits that a family could receive as long as the family head was a low-income, single parent with dependent children.[7] In contrast, TANF imposes time limits on cash benefits. Except for 20 percent of their caseloads that states may exempt, PRWORA requires states to terminate assistance to an individual after no more than five years; forty states have adopted this five year limit, and eleven have set shorter limits, such as two years. Thirteen states have added time limits for each continuous period of welfare use, most commonly two years.

PRWORA also strengthens requirements that recipients work or prepare for work while they receive benefits. Under AFDC, few recipients faced such requirements. TANF requires states to place at least 40 percent of their caseloads in work (or work-related activities such as job search or training) in 2000, and at least 50 percent by 2002. All adults receiving benefits for more than two years must participate in these activities. In addition, 29 states require welfare applicants to search for work (for example, for a month) before their application is considered, and 11 states require some or all recipients to “work off their grant” in unpaid positions in public or nonprofit agencies. Recipients under age 18 who are not high school graduates must participate in education or training; however, training in lieu of work for recipients other than teenagers is limited to 30 percent of those in work activities and 12 months per trainee.

Financial Incentives to Work

Prior to welfare reform, work and welfare were predominantly mutually exclusive, with

TABLE 1

States' Use of Selected TANF Policies to Promote Work, 1998 [8]

POLICY	NUMBER OF STATES USING THIS POLICY (Definition of Policy)		
	NO USE	MODERATE USE	MORE EXTENSIVE USE
Require Work or Limit Eligibility			
Time limit set on lifetime enrollment	0	40 (limit of 5 years)	11 (limit of less than 5 years)
Time limit set on continuous enrollment	38	11 (limit of 2 years or longer)	2 (limit of less than 2 years)
Time limits applied to disabled	16	8 (applied to some disabled)	27 (applied to all disabled)
Work activity is required after enrollment	0	23 (after 2 years)	28 (in less than 2 years)
Hours of work activity required per week	0	39 (25 hours or less)	12 (more than 25 hours)
Benefits are reduced for failure to meet work requirements	0	38 (partially reduced)	13 (fully reduced)
Job activities are required prior to enrollment	22	13 (orientation or registration)	16 (job search)
Acceptance of diversion payment precludes eligibility	23	26 (for less than 1 year)	2 (for 1 year)
Create Financial Incentives to Work			
Amount of earnings disregarded is different than under AFDC	9	35 (partial disregard)	7 (initial 100% earnings disregard)
Asset limits allow more savings than under AFDC	12	39 (yes)	0 (N/A)
Value of vehicle allowed is greater than under AFDC	3	26 (limit raised)	22 (1 vehicle is exempt)
Individual Development Accounts are offered	26	1 (without state contributions)	27 (with state contributions)
EITC against federal individual income tax is offered	0	51 (yes)	0 (N/A)
EITC against state individual income tax is offered	41	3 (non-refundable)	7 (refundable)
All families with incomes below the federal poverty threshold (for a family of 3) are exempted from state income tax	15	15 (below 100% of poverty)	21 (below 150% of poverty, or no tax)
Provide Services Supporting Work			
Child care is subsidized	10	4 (only while receiving TANF)	37 (both TANF and post-TANF)
Health insurance is subsidized	0	39 (for 1 year after TANF)	12 (for more than 1 year)
Federal Welfare-to-Work tax credit is offered	0	51 (yes)	0 (N/A)
Federal Work Opportunity Tax Credit is offered	0	51 (yes)	0 (N/A)
State tax credits for new hires are offered to employers	37	14 (yes)	0 (N/A)
Non-tax subsidies for new hires are offered to employers	19	32 (yes)	0 (N/A)
Community service employment is offered	40	8 (only in some localities)	3 (state-wide)
Generous spending on support services (per family)	17	23 ($1,000-$1,999)	11 (>$2,000)
Uses federal Welfare-to-Work funds	6	1 (used some funds)	44 (used all funds)
Average Number of States	**14**	**25**	**12**

NOTE: The District of Columbia is included in the state totals.
N/A = Not applicable

most low-income households depending on either public assistance or earnings and only a minority receiving both. In 1995, for example, only 23.7 percent of AFDC families worked.[9] Such a pattern was not surprising because of the program's high "benefit reduction rate" — if an AFDC recipient increased her earnings, her benefits were sharply reduced, often by more than the additional earnings, and her eligibility for Food Stamps and Medicaid might also be lost. Work was often a losing proposition.

TANF allows welfare and work to be more readily combined because many states allow recipients to keep a majority of their earnings. One study of 13 states found that TANF recipients on average now face benefit reductions of only 12 percent of additional earnings.[10] These new financial incentives within TANF now combine with a substantial expansion of assistance for the working poor that has occurred during the last decade to produce large rewards for work.

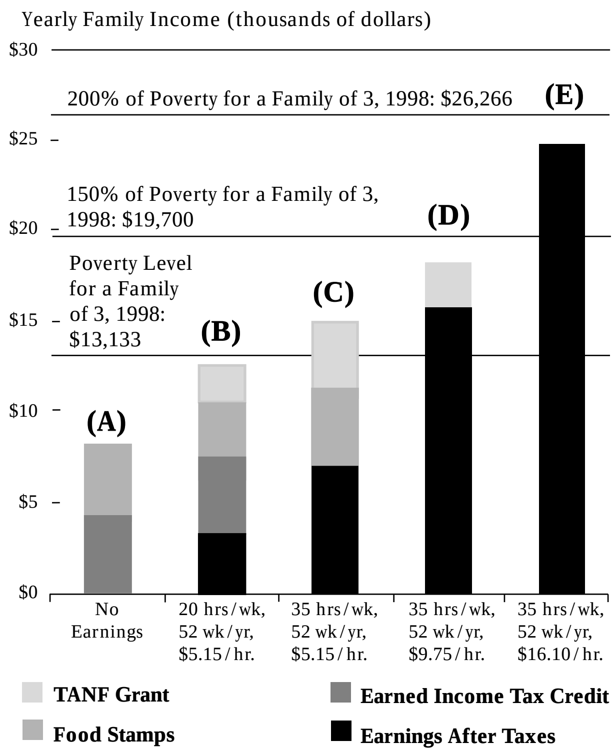
The most important of these assistance programs is the Earned Income Tax Credit (EITC), which was significantly increased in 1993. The EITC is a refundable credit against the federal income tax currently received by 20 million low-income households at an annual cost of $30 billion. In 1999, for households with two or more children and annual earnings of $10,000, for example, the EITC provided $3,816 per year. In 1997, this supplement raised 4.3 million low-income families across the federal poverty threshold.[11] In addition to the expansion of the EITC, health care has been extended to children in working poor families through expansions in Medicaid and Child Health Insurance programs, and assistance for child care has increased.

The difference such new policies have made in the rewards for work is profound. Consider, for example, a typical welfare family in Pennsylvania with one worker who earns $10,000 per year. In 1986, the family would have netted about $3,600 from these earnings after taxes (including a small earned income credit) and the reductions in AFDC benefits and Food Stamps they entailed. Under the new rules, the family would keep about $9,400 — about 160 percent more — and have Medicaid coverage for the children.[12]

Figure 3 shows the main elements in this reward structure in more detail, using a typical TANF household (one adult and two children) in Colorado, a state with fairly typical benefit policies. If this household's only income were TANF and Food Stamps, its annual income would be $8,088, about 62 percent of the federal poverty threshold in 1998 for this family (Bar A in Figure 3). But Colorado's TANF program allows households to receive public

Figure 3

Yearly Family Income at Different Levels of Work for a Single Parent with Two Children in Colorado, 1998



SOURCE: Coe, et al., *Does Work Pay? A Summary of the Work Incentives Under TANF*, p. 10.

assistance while working. If the family receives TANF and the adult is also employed part time, full year at the minimum wage, the family's annual income increases to 95 percent of the poverty threshold; earnings account for 39 percent of this total, while TANF, Food Stamps, and the Earned Income Tax Credit contribute 61 percent (Bar B). If the adult works additional hours or earns a higher wage rate, the household's support from public programs is gradually reduced, but its total income continues to rise (Bars C and D). Public support falls to zero only when the adult is employed full time at $16.10 per hour, when earnings alone bring the household to 189 percent of the poverty threshold (Bar E). Of course, these outcomes depend upon sustained, full-year employment, which is difficult (and unusual) for many people leaving welfare to find or retain. Nevertheless, the policies provide a substantial incentive for welfare leavers to seek such employment and to raise their incomes.

Services Supporting Work

In 1996, AFDC's final year, 86.2 percent of program expenditures went for cash payments to families; only $1.4 billion was spent on training and other efforts to make employment feasible or financially rewarding. Under TANF, the average state now devotes only two-thirds of program outlays to cash payments, and annual expenditures for services supporting work have expanded to nearly $9 billion.[13]

Table 2 shows the distribution of state spending on these services in Fiscal Year 1998. Some states provided extensive services; 11 states spent at least $2,000 per household per year, and some spent more than $3,000. In contrast, 17 states spent less than $1,000, some of them close to zero.

The Direction and Extent of Change

Taken together, the new requirements, incentives, and services just described reflect a profound change in strategy — from *discouraging work by providing entitlement benefits* to *requiring work and providing incentives and support to make it viable.* To what extent has this new

TABLE 2

State Spending Per TANF Family on Work-Supportive Services, Fiscal Year, 1998 [14]

Spending per TANF Family	Number of States
$0-999	17
$1,000-1,999	23
$2,000-2,999	7
$3,000 or more	4

approach been embraced by all states in welfare reform's first three years?

To be sure, complicated administrative practices and entrenched organizational cultures are difficult to change quickly in complex bureaucracies.[15] The dramatic shift in public assistance goals and expectations regarding welfare recipients requires a corresponding profound change in missions, attitudes, and behavior for public officials. The focus must shift from process to outcomes, from error-avoidance to experimentation, from check cutting to career planning. The difficult transformation from welfare offices to job centers is likely to involve many painful decisions and false starts, and a great deal of "learning by doing." In many cases, different personnel will be needed to serve new functions and play new roles. Some states and localities have even gone so far as to completely reorganize the delivery of their social services. (See box, page 16: "LINC: Coordinating Comprehensive Services.") The years 1996–1999 have been years of transition, with many agencies just beginning to settle into their new operations. Preliminary evidence suggests impressive progress in many states, while important challenges remain in others.[16]

Since 1996, virtually all states have complied with PRWORA's mandates to change certain program rules, such as imposing time limits and requiring a proportion of recipients to engage in work or work activities. Virtually

LINC: COORDINATING COMPREHENSIVE SERVICES †

Kansas City, Missouri's Local Investment Commission (LINC) is an innovative model for governing programs assisting families in economic distress. Founded in 1992 as a public-private partnership managing school-linked services and comprehensive development in inner-city communities, the Commission began to apply its collaborative approach to welfare-to-work in 1995. During the next four years, more than 4,000 welfare recipients were placed in employment through its efforts.

LINC is a semi-state agency with a governing board of business executives, civic leaders, community representatives and involved citizens. It funds and coordinates activities throughout Kansas City and Jackson County of Missouri's departments of Social Services, Mental Health, Housing, Health, Labor, Corrections, Employment Security, Education, and Economic Development, as well as local nonprofits and faith-based institutions.

LINC's efforts to make comprehensive services accessible to families in need is most evident in the development of five "one-stop" centers that contain agencies providing TANF support, Food Stamps, job placement, training, child support enforcement, and help with health care, child care, transportation, and housing. Applicants for assistance are assessed by a joint intake process and then directed to appropriate sources of assistance from the multiple public and private agencies within the building. The success of this integrated approach has been enhanced by redefining the responsibilities of staff that assist TANF recipients. Rather than focusing upon confirming eligibility and providing a check, TANF staff (now known as "employment specialists") are trained to help welfare recipients transition into lasting jobs.

The LINC partnership generates substantial benefits for all its partners. For welfare recipients and others in difficult circumstances, co-location and coordination of services simplifies the process of receiving assistance and makes it more likely that they will use services for which they qualify. Having a single governing body supervising service delivery by multiple organizations eliminates duplicative and ineffective programs and makes more efficient use of public funds. Membership of 17 prominent business leaders on the commission's governing board provides organizational credibility that has proved particularly useful in placing welfare recipients in private sector jobs.

†Information is from LINC's web site (www.kclinc.org).

all states have also made changes to signal a new approach to assistance, such as renaming "income maintenance centers" as "job centers." These developments alone mark a significant break from AFDC.

Beyond that, however, states vary considerably in the direction and degree of change. Researchers observing the interaction between public assistance administrators and recipients have concluded that roughly one-third of local welfare offices focus on employment as their primary goal, while an equal proportion are primarily concerned with caseload reduction, whether or not it is achieved through employment.[17] Welfare reform means very different things in different places.

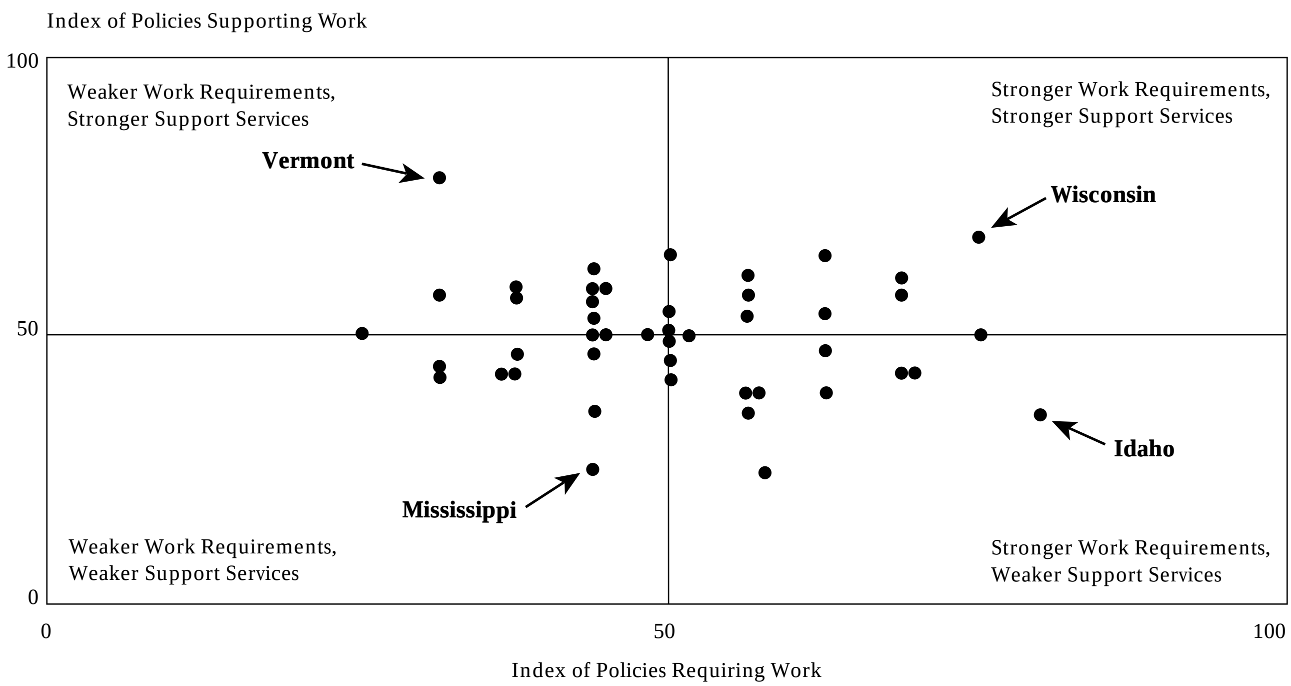
Table 1 illustrated this diversity by reporting the extent to which states have adopted 24 policies regarding work. In choosing among these policies, each state decides how it wishes to balance work *requirements* with work *incentives and support*. The variety of policy choices made by different states is shown in Figure 4, which shows indexes of *policies requiring work* and *policies supporting work* for each state, based on the information in Table 1. (For the state-by-state indexes, see Appendix A.) Figure 4 reveals that almost equal numbers of states have elected each of four different combinations of policies:

- **Weaker Requirements, Weaker Supports –** In *Mississippi*, for example, work requirements are relatively weak, applying only the federally-mandated five-year lifetime limit and two-year work requirement. Financial incentives and support services are also limited — for example, offering Medicaid to welfare leavers only for the one year required by federal law and allowing recipients to own automobiles worth only $1,500 or less.

- **Weaker Requirements, Stronger Supports** – *Vermont* imposes work requirements that, like those in Mississippi, consist primarily of those mandated by federal law. However, unlike Mississippi, Vermont complements these requirements with work supports and financial incentives that range from guaranteed child care subsidies to a state earned income tax credit.
- **Stronger Requirements, Weaker Supports** – In *Idaho*, work requirements are far more stringent than the federally-mandated minima, limiting lifetime TANF eligibility to two years and imposing substantial financial penalties for not complying with work requirements. Concurrently, the state offers few incentives or support services — for example, only very limited state-funded child care and health insurance.
- **Stronger Requirements, Stronger Supports** – In *Wisconsin*, work requirements, like those in Idaho, go well beyond federally-mandated minima; as discussed later in this chapter, they essentially require all TANF recipients in the state to work. However, unlike Idaho or Mississippi, work is generously supported. For example, guarantees of child care and subsidized employment help to make work feasible, while incentives such as a state earned income tax credit make it financially rewarding.

Figure 4

Comparison of State TANF Policies for Work Requirements and Supports



Details on indices by state provided in Appendix A.

CED favors strong work requirements and strong work supports. We believe that a *combination* of substantial "carrots" and strong "sticks" is the most effective way to promote all three welfare reform goals — responsibility, employment, and poverty reduction — simultaneously.

We also believe that these goals will be attained only if welfare reform represents a dramatic break from past policies. To date, states vary in the degree to which welfare reform has been treated as an opportunity for comprehensive, creative change. Some states have merely modified their former AFDC systems in incremental ways, while others have essentially built new systems.

No state better exemplifies the vision of such a "dramatic break" than Wisconsin, which is frequently cited as a yardstick against which to measure other states. (See box: "Wisconsin: Testing TANF's Outer Limits.") Wisconsin's "Wisconsin Works" (W-2) plan undertakes to replace traditional cash assistance with four work alternatives — a regular job, a subsidized job, a community service job, or a "transitions" program of work-preparatory activities such as drug rehabilitation. Each option is designed to carry substantial work-supportive services, including counseling, training, transportation, and child care. If political support can be sus-

WISCONSIN: TESTING TANF'S OUTER LIMITS [18]

Wisconsin's approach to welfare reform became the most-publicized state effort to "end welfare as we know it" when dramatic policy changes combined with a strong economy to produce an 89 percent reduction in its welfare caseload between 1993 and 1999.

In a bold second phase dubbed "Wisconsin Works" (W-2), implemented in 1997, Wisconsin eliminated traditional cash welfare benefits in favor of four employment alternatives:

1. **Unsubsidized Employment:** Recipients deemed "job ready" are assisted to work in the regular job market. During the state's current economic expansion, this alternative has proved feasible for the majority of TANF clients. Although this status carries no subsidies for employers, the state and federal governments together provide extensive earnings supplements to recipients. The state subsidizes child care (on a sliding fee scale up to 165 percent of the federal poverty threshold), health insurance for one year, and an earned income credit against the state income tax of up to $498. Recipients also are eligible for Food Stamps and the federal EITC. This option is currently utilized by about 35 percent of TANF recipients.
2. **Trial Jobs:** For recipients who do not find unsubsidized employment, an alternative is employment for up to six months with the state paying the employer a subsidy of $300 per month. Recipients receive wages from their employer and the same earnings supplements as for unsubsidized employment. Only a small number of TANF recipients currently utilize this option.
3. **Community Service Jobs:** Community service jobs, which the state pays public or nonprofit agencies to create, are the third alternative, adopted by about 43 percent of Wisconsin's current TANF caseload. Recipients may remain in these positions for nine months, working 30 hours a week and spending 10 hours in education or training. They receive a TANF stipend of $673 per month ($3.91 per hour), child care subsidies, health insurance, and Food Stamps.
4. **Transitions:** For recipients with very limited employability — currently about 22 percent of the state's TANF caseload — "work" is defined to include such activities as drug rehabilitation and physical therapy. They participate in these assignments for 28 hours a week and spend 12 hours in education or training. They receive a TANF stipend of $628 per month ($3.65 per hour), child care subsidies, health insurance, and Food Stamps.

tained to provide the resources this comprehensive approach requires, the vision of W-2 will be realized in an action model of dramatic and creative change.

Bold experiments such as that in Wisconsin do not achieve universal or immediate success, of course. Particularly in Wisconsin's first years of transition to the new approach, administrative confusion about eligibility for benefits was problematic, and movement directly from welfare to employment was less common than departures from welfare without a clear work alternative.[19] Both imposed initial hardship on many welfare recipients. In later years, political pressure has built within the state to reduce the generosity of work-supportive services. These circumstances should remind us no state offers a model that is applicable nationwide; each state must adapt policies to its individual circumstances. Nevertheless, certain states — including Wisconsin — deserve special attention for designing bold initiatives that appear to be producing results, and specific policies they have pioneered often represent best practices that other states should consider.

The Federal Government's Role

While the principal responsibility for supporting TANF recipients in their transition to work has devolved to the states, the Federal government continues to play an important role. As described in Chapter 3, it appropriately provides incentives for businesses to hire welfare recipients, who often require higher initial recruitment, supervisory, and training costs. Apart from the basic TANF block grant, the federal government provides other support for transitions to work. The Welfare to Work block grant offered states $1.5 billion annually to promote employment among hard-to-serve or long-term welfare recipients in 1998 and 1999. The Child Care Development Fund, which consolidates several pre-existing programs as stipulated by PRWORA, offers $14 billion to states over 1997–2002 to subsidize child care for poor families. Under the recently enacted State Child Health Insurance Program (CHIP), the federal government provides $20.3 billion over five years to states for health insurance coverage of low-income children. An Access to Jobs program allocates $500 million over five years to facilitate travel to work for low-income workers, and $300 million per year in housing rental subsidies is earmarked for persons transitioning from welfare. Additional resources can be drawn from the Social Services Block Grant, the Community Development Block Grant, and the Workforce Investment Act, which provided $1 billion for training disadvantaged adults in 1999.

FROM WELFARE TO WORK: EXPERIENCE TO DATE

What have been the effects of the changes just described? It is useful to organize the answer around the three goals of responsibility, work, and the reduction of poverty.

Moving from Dependency to Responsibility

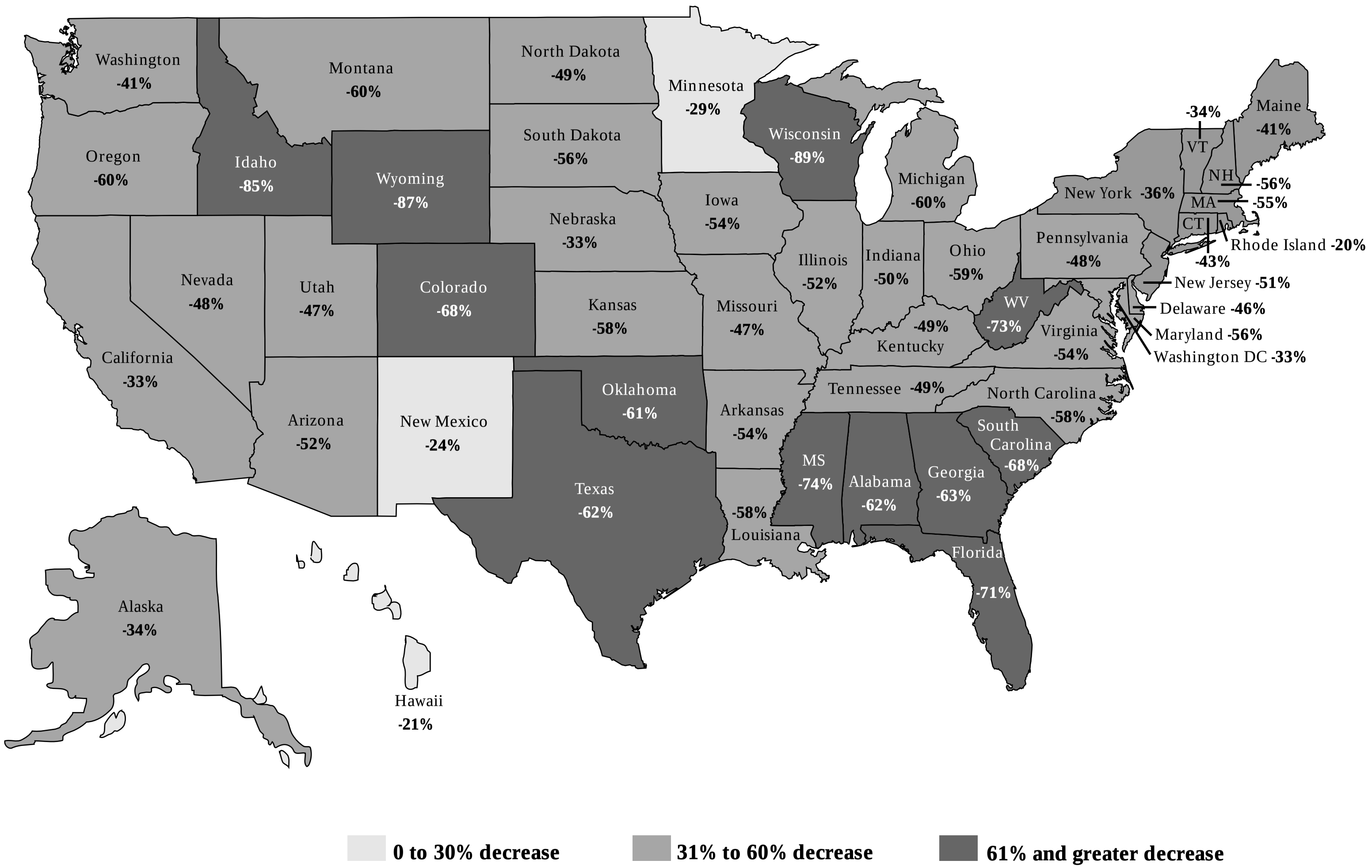
The most visible change in welfare since PRWORA's passage has been dramatic reductions in the number of TANF recipients. Between 1994 and 1999 the number of households enrolled in TANF fell 50 percent, from more than five million to about 2.5 million. By 1999, the rolls had shrunk to levels not seen since 1970. Substantial caseload reductions have occurred in every state, from 89 percent in Wisconsin to 20 percent in Rhode Island. (See Figure 5, page 20.)

Of course, not all families that leave welfare remain off the rolls indefinitely; of 2.1 million families who left between 1995 and 1997, 600,000 (29 percent) subsequently returned.[20] Nevertheless, the overall rate at which new welfare cases join the rolls has fallen sharply, and the rates of departure have sharply accelerated.

Sustained national economic growth during this period underlies these dramatic caseload declines; employment rose by 21 million during the 1991–1999 expansion, and unem-

Figure 5

Changes in TANF Caseloads, January 1994 – June 1999



SOURCE: Updated and adapted from U.S. Department of Health and Human Services, *State Spending Under the New Welfare Reform Law 1998.*

ployment fell to its lowest rate in 30 years. To staff their enterprises in a tight labor market, employers increase wages, broaden recruitment efforts, modify hiring standards, and augment training. While such actions improve the job prospects of all workers, they have an especially strong impact on entry-level workers with limited qualifications.

The Council of Economic Advisers estimates that only about 8-10 percent of the 1996–1998 decline in the welfare rolls would have been generated by this strong labor market alone, with no change in welfare policies. However, this does not mean that the strong economy has been of minor importance. The tight labor market certainly facilitated and reinforced the movement to work activated by welfare reform.[21] A fortuitous coincidence of welfare reform with a period of sustained economic growth has produced increases in employment that neither prosperity alone nor changes in public assistance policy alone could have achieved.

An important corollary to this conclusion, of course, is that this reduction in welfare rolls could quickly reverse itself if the economy weakens. With low seniority and limited skills, many former recipients remain vulnerable to layoffs from their new jobs. In a slack labor market, many would experience considerable difficulty finding new positions, as would current welfare recipients seeking to leave the rolls. A weaker economy would sharply reduce the number of jobs available for former welfare recipients, and many might attempt to return to public assistance. It is therefore important that prudent planning for economic downturns be undertaken, as noted in Chapter 3.

Increasing Employment

The second major goal for welfare reform is to encourage work. Are the people leaving welfare moving into jobs?[22]

One dramatic indication that they are is provided by rapid increases in the employment of low-income single mothers nationwide. Between 1994 and 1998, the proportion of poor female household heads with dependent children who work rose dramatically, from 48 to 62 percent.[23] While this recent rise in work effort reflects in part TANF work requirements, it is a continuation of an increase over the last 15 years resulting from the expansion of the federal Earned Income Tax Credit and extension of Medicaid to non-welfare families — also elements of welfare reform, broadly defined.[24] The rise in the employment rate of adults without high school diplomas, from 35.5 percent in January 1993 to 40.1 percent in July 1999, tells a similar story.

Data specific to welfare recipients show similar increases in employment. Between 1993 and 1998, the proportion of adults currently receiving welfare who were also employed rose from 21.5 to 33.8 percent.[25] The results for those who leave welfare entirely are more impressive; 69 percent of the respondents in a national survey of persons leaving public assistance cited increased earnings or a new job as their reason for leaving.[26] Of those who had left welfare, 61 percent were employed, two-thirds of them full time. Their reported wage rate averaged $6.61 per hour. In many cases, former welfare recipients show higher employment rates and higher wage rates than other low-income women. For example, the employment and wage rates for all mothers with incomes under 150 percent of poverty were 50 percent and $5.83 per hour.[27]

While finding a job when leaving welfare is an important accomplishment, remaining employed can pose an even larger challenge. Studies conducted by various states typically found that although about 70-80 percent had worked for some period after leaving welfare, only about 60 percent of adults who had left TANF were employed when surveyed. (See Table 3, page 22.) Nationally up to 75 percent of the jobs obtained by former welfare recipients lasted less than one year.[28]

While it is encouraging that a majority of former recipients find jobs, why are the rest not working? The reasons former recipients give are varied: In one multi-state study, 27 percent report that they are unable to work

TABLE 3

Employment Outcomes for Persons Leaving Welfare, 1998 [29]

State	Employed at Time of Survey	Ever Employed Since Leaving Welfare	Average Hourly Wage Rate	Average Hours Worked Per Week
Indiana	64.3%	84.3%	$6.34	32
Maryland	N/A	63.0	N/A	N/A
Oklahoma	64.5	N/A	6.51	34
South Carolina	61.8	85.6	6.45	36
Tennessee	61.0	N/A	5.67	37
Washington	71.0	87.0	8.09	36
Wisconsin	62.0	83.0	7.42	36
National	61.0	N/A	6.61	N/A

because of an illness or disability, 26 percent are taking care of their family, 12 percent cannot arrange child care or transportation, and 9 percent are in school. Only 15 percent reported that they could not find work, and only one percent indicated that they did not want to work. While such self-reported results must be regarded with caution, specific medical, family, or personal circumstances seem to provide serious barriers to work in many cases. Such barriers can be daunting and explain why nearly half of non-working former recipients had not worked for two years or longer.[30]

Can the current levels of employment be sustained as welfare reform continues? The proportion of TANF recipients affected by new program rules will increase gradually over the next several years as states implement additional policy changes, TANF work requirements apply to a larger proportion of the caseload, and more recipients reach their time limits. It appears that the recipients who have left welfare to date are generally better prepared for the job market than those who remain on welfare and will become subject to work requirements over the next several years. A national study comparing the characteristics of those who have left public assistance under welfare reform with those who remain illustrates this point: Table 4 shows that individuals who have left welfare have more education, more recent work experience, fewer very young children, and fewer work limitations than those still on welfare. When the cumulative number of obstacles to work faced by an individual is tabulated, the results are even more striking; 24 percent of former welfare recipients report two or more of these obstacles, compared to 44 percent of current recipients.[31]

TABLE 4

Characteristics of Former and Current Welfare Recipients, 1997 [32]

Characteristic	Former Recipients	Current Recipients
Education		
Less than high school education	29%	41%
No post-secondary education	66	76
Never worked or last worked three or more years ago	13	43
Child under age one	12	15
Language barrier	4	7
Poor health limits work	13	18
Poor mental health	18	22

Because many of the recipients who were relatively work-ready have already left welfare, states are likely to find the proportion of recipients with more severe skill deficiencies and work limitations rising substantially over the next several years. Some states are already reporting that caseload reductions have slowed as they have dealt with increasingly hard-to-place individuals.[33] This suggests that job placement and work support activities by the states will become increasingly important in the next several years.

Reducing Poverty

Our third goal for welfare reform is to increase the incomes of low-income families through work. Here, the results have to date been less impressive than for the goals of enhanced responsibility and employment. (The measurement of poverty raises many issues that lie beyond the scope of this paper; for a brief summary, see box: "Measuring Poverty.")

Total incomes (including earnings, the Earned Income Tax Credit, and public assistance) of the poorest income quintile of all single mother families — which includes many welfare recipients — fell by 6.7 percent from 1995 to 1998, reversing a trend of rising incomes from 1993 to 1995.[34] However, incomes for families in the second quintile (which is likely to include many newly-working former welfare recipients) rose slightly, by 0.7 percent between 1995 and 1998. Concurrently, the poverty rate for female-headed families with children declined from 46 percent in 1993 to 42 percent in 1995 and 39 percent in 1998. (See Figure 6, page 24.) Such poverty rates are distressingly high and indicate an enormous problem to be addressed, but there is little indication that welfare reform has made the problem worse.[35]

Information specific to families leaving welfare is more sparse. However, the 1997 national survey referred to above found that the family earnings of employed welfare leavers were similar to or higher than those of other low-income families. Median monthly earnings were $1,149, which would translate into $13,788 annually for a worker who could maintain these earnings for the full year. This is at about the 1997 poverty level for a family of three, before including the EITC or other cash income such as child support. Among welfare leavers who were not working, about half (47 percent)were receiving cash assistance from child support, Social Security, or Supplementary Security Income.[36]

The available information on former welfare recipients suggest that some families increase their incomes after leaving welfare, while others do not. The critical factors, of course, are whether adults in the family become employed, find full-time work, and remain em-

MEASURING POVERTY [37]

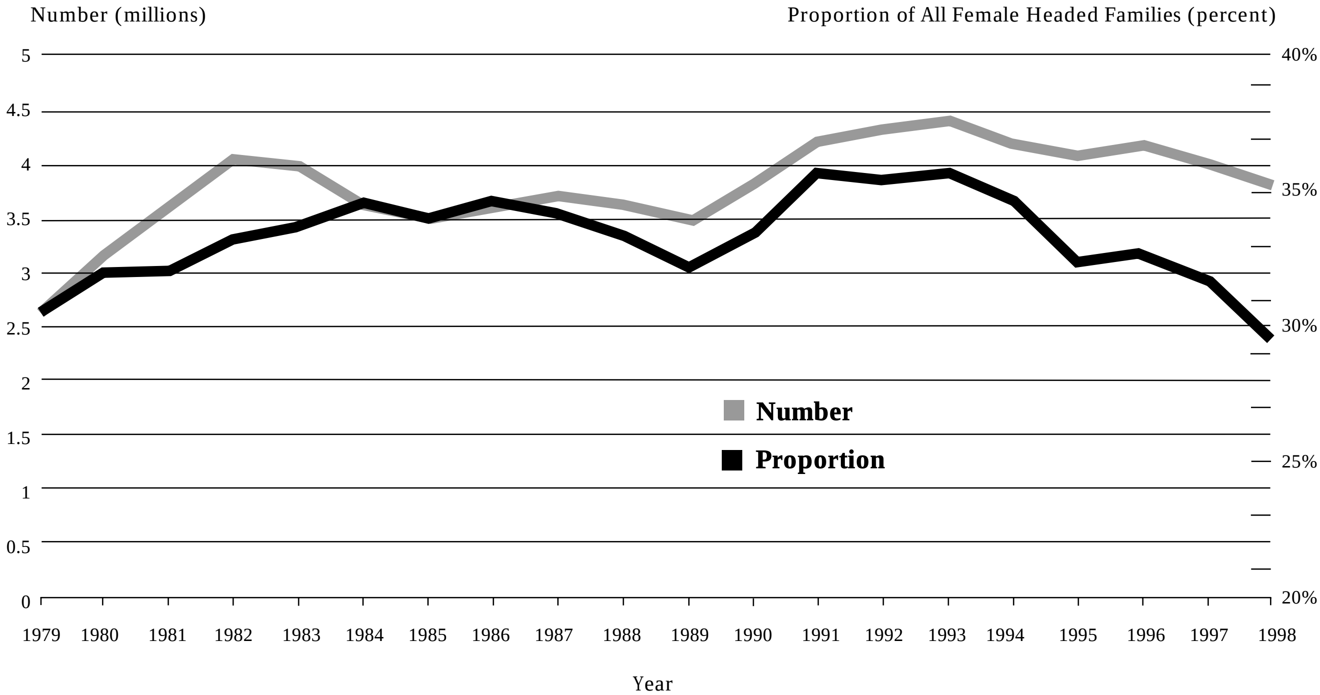
Each year, the Census Bureau calculates poverty thresholds for families of different size by using a relatively crude inflation-adjusted measure of subsistence expenditures for food and other household items. In 1998, the threshold was $13,133 for a family of one adult and two children (a typical TANF household).

The poverty measure has serious shortcomings, however, quite apart from the fact that poverty is a complex phenomenon involving noneconomic factors. A panel of the National Research Council, which recommended a revised measure in 1995, found that the current measure greatly understated the poverty rate for people in working families relative to those on public assistance. This was principally because the measure (a) includes only cash income (including assistance), excluding in-kind benefits such as food stamps; (b) uses gross earnings before taxes; and (c) does not distinguish between the needs of workers and non-workers, such as the need for child care. The measure also takes no account of differences in health status and insurance coverage, nor does it vary by location, so that poverty tends to be understated in areas with high costs of living (such as New York City) and overstated in lower cost rural areas. Finally, the poverty measure takes no account of societal changes in real living standards, and its inflation adjustment has reflected the much-discussed problems with the Consumer Price Index.

The National Research Council panel found that the overall poverty rate would be 3.6-4.5 percentage points higher under its recommended measure than under the current measure, with rates 7-8 points higher for working families and about one point *lower* for those on welfare.

Figure 6

Female Headed Families in Poverty



SOURCE: *Economic Report of the President 1999*, Table B-33.

ployed. In addition, families with few children, those in states with low welfare benefits, and those that were not working while on welfare often have improved their economic positions by leaving welfare for work, while larger families, those in higher-benefit states, and those that had already combined welfare with work, often have not.

Table 5 displays the six occupations in which the largest number of low-skill single mothers — typical former TANF recipients — find jobs. Consistent with most recipients' limited employment qualifications, all six are entry-level positions with few educational, experience, or skill prerequisites.

Wages for these occupations average $6.95 per hour, about one-third above the federal minimum wage of $5.15 per hour. This figure is consistent with the average wages in Table 3, page 22 for former welfare recipients, ranging from $6.34 in Indiana to $8.09 in Washington state. Many of these jobs are part time and short term, with the average person holding 1.7 jobs during a two-year period (sequential short-term jobs, simultaneous part-time jobs, or both) and working 78 percent of full time. Annual earnings from such employment average $11,231 per year. This level of earnings corresponds to 87 percent of the federal poverty threshold for a typical TANF household (one adult and two children) in 1997.[38]

As Figure 3, page 14 illustrated, these earnings potentially can be substantially supplemented by the federal Earned Income Tax Credit, Food Stamps, and TANF cash assistance. On top of earnings, this supplementation would

TABLE 5

Typical Occupations and Earnings for Low-Income Single Mothers, Nationwide 1990–1991 (in 1997 dollars)[39]

Hourly Occupation	Yearly Wage	Earnings	% of Federal Poverty Threshold
Cashier	$5.95	$9,615	74%
Nursing aid / orderly	8.03	12,976	100
Server / waitperson	5.48	8,856	68
Janitor / cleaner	6.64	10,730	83
Secretary	8.85	14,302	111
Sales clerk	6.67	10,779	84
Average	**$6.95**	**$11,231**	**87%**

TABLE 6

Families' Receipt of Public Assistance After Leaving TANF [41]

Group	Adult Medicaid Coverage	Child Medicaid Coverage	Food Stamps
Former recipients who left welfare within the past 6 months	52%	55%	47%
Former recipients who left welfare more than 6 months previously	21	29	19

move many TANF families out of poverty. A $3,816 federal EITC alone would increase the average total income to $15,047, or 117 percent of the poverty threshold.

Unfortunately, many of these families do not actually receive these supports when they leave welfare. Well over 90 percent of TANF recipients receive Medicaid and Foods Stamps while enrolled in TANF. However, Table 6 shows that only about half receive assistance from these programs during their first six months after leaving TANF, and the proportion falls dramatically after that. Similarly, in the first three months after leaving welfare, only 19 percent of former welfare families nationwide receive child care assistance, 15 percent receive help finding a job or training, and 11 percent receive help with work-related expenses.[40] In some cases lack of information, complex rules, or burdensome administrative procedures prevent families from claiming benefits despite their eligibility, while in other cases narrowly defined state eligibility rules restrict their access.

Support from family and friends further complicates this picture. According to one multi-state study, 39 percent of former recipients have either a spouse or unmarried partner from whom they are likely to receive economic assistance, and 17 percent received help from a family member in their first three months after welfare.[42] Among very poor female family heads with children, contributions from non-family household members account for nearly half of their incomes.[43] When these contributions are added to the incomes of the poorest quintile of single mother families, nearly all the decline in income from 1995 to 1998 is erased, and their spending may even have slightly increased.[44]

Families who leave the welfare rolls and do not find steady employment — as many as 40 percent of welfare leavers — are of particular concern. As noted above, many appear to obtain support for themselves and their children by relying on parents, relatives, or friends. However, others apparently "fall between the cracks," with neither substantial earnings nor family support to replace public assistance. Some indications of their number may be gleaned from those reappearing in other parts of the social services system. Nationally, nine percent of former recipients receive help from churches and seven percent from community centers. A ten-state study by Catholic charities found that one client in eight at food pantries and soup kitchens had been discontinued from welfare in the previous two years, while a survey of families in Atlanta homeless shelters identified nearly half as having left TANF in the previous year. In one national study, 11.8 percent of former welfare recipients reported that they often did not have enough money to buy food, and 38.7 percent reported that, at some point since leaving welfare, they were not able to pay housing or utility bills.[45]

We recognize that *every* vulnerable family that ends up in such circumstances is cause for concern. However, *no* affordable public assistance system can eliminate all cases of distress, and certainly the previous welfare system did not do so. These numbers suggest that, in most locations at least, welfare reform has been implemented without plunging large numbers of low-income families into dire distress, as some had feared prior to reform. Indeed, the reduction in poverty among female-headed families, noted above, suggests quite the opposite.

In balancing the positive and negative effects of welfare reform on public assistance recipients, it is particularly instructive to examine the experience in Wisconsin. As previously discussed, that state's restructuring of public assistance is the most far-reaching, and the dramatic 89 percent caseload reduction that followed is the highest in the nation. It is therefore encouraging to observe that no consequent widespread increase in destitution was observed. In fact, a recent study of 13 states found Wisconsin with the lowest poverty rate among the states, both overall and for children.[46] On the other hand, many former welfare recipients do appear to be subsisting at very low levels of income. Only between one-third and one-half of former welfare families in Wisconsin had earnings above the poverty level.[47] Families with larger numbers of children appear to remain particularly vulnerable; in Wisconsin, 49 percent of one-child families had greater cash incomes (including earnings and cash benefits) after leaving welfare, compared with only 38 percent of families with 3 or more children.

THE DEMAND FOR LOW-SKILL LABOR

Some critics of welfare reform have argued that work is not readily available for the millions of working poor already in the low-skill labor market, let alone welfare recipients being added to their ranks.[48] These critics cite continuing joblessness among low-skill workers even in periods of low general unemployment. For example, in February 1999, when the unemployment rate for all workers over the age of 25 was 3.3 percent, that for workers without a high school diploma was 7.5 percent, more than twice as high. Concurrently, 3.6 million workers were involuntarily working part time.[49]

These critics often emphasize the particularly bleak job prospects in inner-city neighborhoods, which contain many welfare recipients. Among applicants for fast-food jobs in New York City's Harlem, for example, one study counted 14 applicants for every job vacancy; among applicants not hired, 73 percent were still unemployed a year later. In high-poverty neighborhoods in Chicago in 1990, only 33 percent of working-age persons were employed, compared with 57 percent citywide.[50]

While such statistics document the undoubted problems that workers with low skills always face in securing employment, especially in depressed economic areas, they do not directly address the effects of welfare reform. What are the likely labor market effects of the reduction in welfare caseloads already experienced and continuing?

A recent, careful analysis estimates that roughly one million workers have been added to the low-skill labor force during 1993–2000 as a result of welfare reform, and that this number may increase to about 1.4 million by 2005. The largest increases appear to have taken place during 1997–1998, in the immediate wake of the new legislation. During those years, the annual increase was about 300,000.[51]

The capacity of the economy to employ these additional job seekers has been surprisingly strong. In spite of the problems that many of these new workers individually encounter in securing and maintaining employment, job opportunities for low-skill workers are, in fact, substantial in an economy that produces about 1.8 million net new jobs each year. The Bureau of Labor Statistics estimates that jobs in its lowest education and training category — occupations requiring on-the-job training of one month or less — comprise 39 percent of total U.S. employment. Total job openings in these occupations are projected to increase by 21.4 million during 1996–2006, allowing for 42 percent of the growth in job openings. The occupations projected to provide the largest additions to employment include cashiers, truck drivers, home health aides, child care workers, food counter workers, food preparation workers, packers, and security guards — all occupations open to persons with limited skills.[52]

Furthermore, simple projections such as these take no account of the labor market's reaction to changes in labor supply. In the short run, individual businesses hire employees to fill a fixed number of job vacancies. But in the long run and across the entire employer community, the number of vacancies itself constantly adjusts in response to many factors, including the number and qualifications of job seekers. Over recent decades, the labor market has accommodated several demographic movements of much larger scale than this. The labor force participation of women increased from 33 percent in 1950 to 60 percent today, adding nearly 27 million women to the current workforce; the proportion of foreign-born workers doubled from 6.4 percent in 1980 to 12 percent in 1997, adding 7 million workers, with 750,000 entering the labor force each year; and the baby boom generation contributed 18 million more entrants to the labor force than the generation that preceded it.[53]

Over time, employers react to such large-scale changes by relocating and redesigning jobs, as well as by expanding production and employment. The new workers' own earnings expand demand for goods and services that, in turn, opens new requirements for workers. Similar adjustments are occurring in reaction to the much smaller influx of welfare job-seekers.

Wage rates provide an important indicator of whether the number of job seekers and job vacancies are out of balance. Because welfare recipients seeking work expand the number of competitors for entry-level jobs, they would be expected, in themselves, to depress wages for these positions.[54] However, between 1993 and 1998, real hourly wages for men at the lowest 20th percentile of the wage distribution increased by 6 percent, and that for counterpart women by 4.7 percent, reversing a decline in real wages that had extended for more than two decades.[55] This development may be related to the fact that, as skill-upgrading in the labor force continues, the supply of low-skill workers appears to be growing more slowly than demand, evidenced by the fact that the number of workers with no post-secondary education did not grow during 1992–1998.[56] During the present period of economic growth at least, the labor market seems to be providing sufficient job opportunities to more than stay even with the increase in job seekers.

The long-term capacity of the economy as a whole to employ additional low-skill workers, however, should not obscure the serious problems in some local labor markets, especially in the short term. In particular, unemployment of low-skill workers will continue to be high, and may rise, in certain large urban labor markets, including Baltimore, New York, St. Louis, and the District of Columbia.[57] In addition, despite the favorable long-term outlook, the next recession, like those in the past, will have a severe employment impact on the less skilled, and especially on those (like welfare leavers) with the least experience and seniority. Finally, even under favorable general conditions of low-skill labor demand, particular workers will face problems of employability and access to jobs that will make employment — especially regular, full-time employment — difficult.

THE LOW-SKILL LABOR FORCE

The employment prospects of welfare recipients cannot be analyzed as though they are alone in the labor market. When they become job seekers, they join millions of other workers with characteristics like theirs. Some are former recipients who left the assistance rolls prior to welfare reform. Others have never received welfare but have employment qualifications and personal circumstances similar to the welfare population. Like most persons moving from welfare to work, the earnings they command leave them and their families near or below the federal poverty threshold. For that reason, this larger group is commonly referred to as the *working poor*. Table 7, compares the characteristics of adult welfare recipients with those of the working poor.

IMPLICATIONS OF THESE FINDINGS

Together, the facts reviewed in this chapter suggest three important conclusions:

1. *Welfare reform is off to an impressive start*. Its objectives are economically and socially sound. Its legal and fiscal provisions are consistent with these objectives. It does not ask welfare recipients, government agencies, or employers to undertake tasks beyond their capacity. As a consequence, welfare reform has already had substantial positive effects.
2. *Welfare reform's success is directly attributable to its employment-centered approach*. To the extent that this approach is not yet universally implemented, continuing and expanding its application should receive top priority.
3. *No circumstance more threatens welfare reform's long-term success than the limited work readiness of the majority of welfare recipients*. Unless they are addressed, these limitations will continue to make responsibility, employment, and poverty reduction difficult to attain.

TABLE 7

Characteristics of Adult Welfare Recipients and the Working Poor, 1995 [58]

Characteristic	Adult Recipients of AFDC†	Employed Adults with Household Incomes below Poverty
Sex		
Female	88%	49%
Male	12	51
	100%	100%
Race		
White	36%	54%
Black	37	23
Hispanic	21	23
Others	6	–
	100%	100%
Age		
Under 20 years	6%	7%
20–24 years	22	18
25–34 years	41	31
35–44 years	24	25
45 or older	7	19
	100%	100%
Education		
Less than H.S. diploma	39%	37%
H.S. graduate, no college	45	34
Some postsecondary, no degree	15	18
College graduate	1	11
	100%	100%
Family Structure		
Single parent with children	91%	46%
Two adults with children	9	39
No children	0	15
	100%	100%
Residence		
Central city of a metropolitan area	55%	40%
Suburb of a metropolitan area	24	31
Outside of a metropolitan area	21	29
	100%	100%

† In 1996, AFDC was renamed TANF.

Chapter 3.
Completing Work-Based Welfare Reform

This chapter presents recommendations for completing the transformation of work-based welfare reform from a concept in federal law to an operational reality in all states.

ENCOURAGING BUSINESS TO HIRE WELFARE RECIPIENTS

In a market economy, employers' principal responsibilities are to innovate, produce goods and services efficiently, serve clients and customers, and (for businesses) provide a financial return on invested capital. The creation of jobs is principally a byproduct of these activities rather than an objective in itself. Thus, employers cannot be expected to hire welfare recipients because they need jobs, nor to weaken hiring requirements substantially to accommodate workers who are not ready or able to work productively.

How then can states persuade businesses to hire from the welfare rolls? The only approach that will be effective on a large scale is to *offer job candidates who are good potential employees.* Millions of entry-level jobs in the American economy do not require advanced education or specialized skills, but they almost universally demand basic literacy, appropriate work attitudes, and employee dependability. Most welfare recipients who can meet these minimum standards are likely to find and retain some sort of employment, at least in reasonably strong labor markets.

In a tight labor market in which many employers are struggling to fill entry-level positions — advertising more extensively, offering hiring bonuses, or working with placement agencies — an increasing number of firms are recognizing welfare recipients as an untapped resource. In welfare reform's first three years, substantial numbers of recipients have been hired by some of the nation's best-known companies. (See Appendix B: Employers in the Welfare to Work Partnership.) Many former welfare recipients now work in common entry-level occupations employing large numbers of low-skill workers. For example, Burger King has hired more than 6,300 as fast food workers; TJX clothing stores, more than 4,400 as sales clerks; Borg Warner Protective Services, 1,950 as security guards; and CVS, 850 as sales clerks in its drug stores. Other employers have placed recipients in a broader range of occupations, some beyond entry-level. United Airlines has hired 1,000 welfare recipients as aircraft servicing personnel, customer service representatives, and reservations agents; Cessna Aircraft, 320 for airplane manufacturing; and Salomon Smith Barney, 65 as data clerks, secretaries, and customer service representatives.

Small and medium-sized firms employ a disproportionate number of low-skill workers. For example, 18.9 percent of employees in businesses with 500 or fewer workers do not have a high school diploma, compared with 11.5 percent in larger firms.[59] Thus, it is not surprising that recipients finding jobs under welfare reform often do so in firms with only a few dozen or fewer employees. (See Appendix B.)

Many employers have been pleasantly surprised by the quality of the workers they have found on the welfare rolls. Three-quarters of firms in the Welfare to Work Partnership report that recipients are good, productive employees, and half have found retention rates equal to or higher than those for non-welfare hires. Likewise, almost 70 percent of the more than 14,000 former welfare recipients hired by the federal government were still in their jobs one year later, compared with only 39 percent for non-welfare hires in similar positions (who probably on average had more alternatives available.)[60] In light of such experiences, more employers are now inclined to consider welfare recipients as potential employees.

Other employers remain unconvinced. One survey found that 63 percent of companies do not hire welfare recipients or do not have programs for hiring them.[61] **CED urges all employers to consider making use of welfare recipients' potential as productive employees in a range of occupations.** Employers should not be deterred from interviewing welfare job-seekers by assuming that good employees are not to be found among them. Applicants should be judged on their individual qualifications rather than pre-judged on their public assistance history.

Employing welfare recipients is often *initially* more complex and expensive than hiring other low-skill workers, and in some cases the difficulties persist. Realistically, some risk is often involved, especially for recipients with more serious skill deficiencies and work limitations, and some extra investment in supervision and staff development is often required.

This point is illustrated by the experience of the Marriott Corporation, for whom integration of welfare recipients into their work force required extensive screening, special training, and ongoing mentoring and support. The investment represented by these services proved to be a good one for the firm's initial group of trainees. However, later efforts, which attempted to place recipients with more extensive barriers to employment, were unsuccessful. (See box: "Treading Carefully Along Marriott's Pathway to Independence.")

We believe that it is appropriate for government to contribute toward the extra costs that employers incur in such circumstances. Particularly when welfare hires require substantially more recruitment, training, and supervisory resources than other low-skill workers, subsidies such as cost reimbursements or tax credits can be a wise government investment. (See box, page 32: "Incentives to Hire Welfare Recipients.") In Marriott's Pathways program, for example, the federal government bore 75 percent of program costs.

PROVIDING SERVICES TO SUPPORT WORK

For many employers, the support services that states provide play a crucial role in hiring welfare recipients. Over the next several years, as TANF's work requirements increasingly affect recipients with very limited work readiness, the proportion needing substantial support is likely to rise. **CED urges states to provide job placement and transportation assistance, child care, substance abuse treatment, education and training, health insurance, and similar services at the level necessary to give welfare recipients a reasonable chance of succeeding in the job market. Equally, we call upon employers to cooperate with public agencies, nonprofit organizations, and public-private partnerships running welfare-to-work programs, to take advantage of the screening, training, mentoring, and other work support services these programs offer.**

Moving Welfare Recipients Into Jobs

One important form of support is job placement — training and assisting recipients to identify job vacancies, file applications, and complete interviews. Some welfare recipients have never worked, while others have worked only in informal jobs such as those in small firms near their homes. For them, finding steady employment often involves more written appli-

TREADING CAREFULLY ALONG MARRIOTT'S PATHWAY TO INDEPENDENCE [62]

The Marriott Corporation's Pathways to Independence has been justifiably hailed as a model corporate welfare-to-work program. Since 1990, Pathways has transformed more than 800 public assistance recipients into full-time, permanent Marriott employees.

The core of Pathways is training, lasting 20 hours per week for six weeks, that participants attend prior to employment. Trainees learn about the hospitality industry and Marriott's work requirements. They are instructed in workplace behavior, including how to relate to supervisors and coworkers, communicate effectively, and handle crises. They work with program staff to ensure that issues likely to hamper job performance — inadequate child care, health problems, lack of appropriate clothing, unstable living situations, or unreliable transportation — are addressed prior to commencing work. When participants have completed training, problem-solving and mentoring become the responsibility of the worker's immediate supervisor, who spends 15 percent more time on these tasks than for other employees.

Pathways has proved an excellent investment for Marriott. In part, this outcome reflects government subsidies covering $3,700 of the $5,000 average cost per trainee. It also reflects a higher than usual one-year retention rate of 78 percent.

Much of Pathways' success can be attributed to its careful screening, accepting only one applicant in four. Enrollees must test at a sixth grade reading level, demonstrate a willingness to work, and pass drug screening.

Emboldened by Pathway's initial success and facing a tightening labor market, Marriott opened the program to harder-to-employ welfare recipients, including substance abusers and persons with criminal records. These "hard case" training classes were much less successful. Eight months after graduating a class of 12 in Washington, D.C., Marriott fired several participants for problems ranging from poor attendance to drug abuse, and the remaining graduates proved to be difficult, inconsistent employees. Even with public subsidies, Marriott did not recover its training costs. In North Carolina, a similar class yielded only four graduates from 22 enrollees, and all of them were separated from employment within a few months. In light of this experience, Marriott reinstituted its previous screening requirements.

cations, formal interviews, and reference checks than they have previously experienced. Most have to search outside their home neighborhoods, because the market for low-skill jobs in inner-city locales is often over-crowded. They have to uncover opportunities in the "hidden job market" — vacancies not publicized in newspaper "help wanted" ads. Success often requires job leads from employed persons, who are not as common among welfare recipients' friends, relatives, and acquaintances as in the general population. Job seekers may encounter these challenges even for dead-end, entry-level positions; they are almost certain to do so for career opportunities that offer a long-term escape from poverty and dependency.[63]

Some states provide assistance that focuses more broadly than job applications and interviews — multi-week classes on workplace behavior, counseling in arranging recipients' personal lives so that they can be reliable employees, and mentoring during the crucial early months on the job. (See box, page 33: "America Works' Comprehensive Approach to Job Placement.") For welfare recipients with little prior experience, such services are often extremely useful. Even for entry-level positions requiring few specific skills, employers are reluctant to hire persons without important "soft skills" — positive work attitudes and personal qualities such as dependability, punctuality, honesty, appropriate appearance, and the ability to relate to customers, supervisors, and co-workers.[64] To avoid pressing recipients into futile job searches

INCENTIVES TO HIRE WELFARE RECIPIENTS [65]

Federal

- *Welfare-to-Work Tax Credit* – Reduces federal corporate income taxes for firms hiring TANF recipients who had received welfare for at least 18 consecutive months. The maximum credit is $3,500 for the first year of employment and $5,000 for the second year.
- *Work Opportunity Tax Credit* – Reduces federal corporate income taxes for firms hiring recipients not eligible for the Welfare-to-Work Credit. The maximum credit is $2,400 for the first year of employment.

States

- *Tax credits* – Fourteen states offer credits against state corporate income taxes to employers hiring welfare recipients. Maryland and Pennsylvania also offer credits to companies who provide child care assistance.
- *Wage subsidies* – Thirty-two states reimburse a proportion of wages paid to welfare recipients. Subsidies are typically limited to a year or less and jobs paying above the minimum wage.
- *Trial employment* – Some states allow work on a trial basis while job-seekers receive their TANF grant in lieu of wages. During the trial period, employers avoid the administrative complexities of hiring, as well as payment of payroll taxes (such as unemployment insurance).
- *Other incentives* – Some states offer innovative incentives. For example, through a partnership with the state's Board of Investments, Montana banks offer no-interest loans to firms which expand their staffs by hiring TANF recipients.

and burdening employers with excessive screening and turnover, government programs should interpret *work first* to mean *work as soon as minimally work-ready*.

Publicly-provided support services are often particularly important for smaller firms. These employers generally have neither the financial nor managerial resources to provide the counseling, training, or employee assistance more common among larger employers. **CED urges states to make services that support welfare recipients' transitions to work readily available to small and medium-sized firms.** Intermediary organizations, such as America Works, can be extremely useful in reaching out to smaller employers.

The need for job-seeking support does not end when recipients first become employed. Washington state found that as many as 50 percent of newly-employed TANF recipients lose their jobs in the first six months, and 75 percent within one year.[66] Innovative programs, such as Re-employ Washington Workers, can help former recipients who lose their jobs become re-employed. (See box: "Keeping Welfare Recipients in the Workforce.")

As noted in Chapter 2, some TANF recipients have work-limiting disabilities and many of these could be remedied through medical care, vocational rehabilitation, purchase of work-adaptive devices, training, work experience, or counseling. Substance abuse, affecting some 16 to 20 percent of TANF recipients, is of particular concern.[67] **For public assistance recipients whose employability can be enhanced through remedial services, we urge that states invest TANF funds, or other state or federal resources as appropriate, to provide these services.**

Helping Welfare Recipients Stay Employed

While the impact of work-oriented welfare reform is often measured by how many recipients move from public assistance to a job, an equally important concern is that these new

AMERICA WORKS' COMPREHENSIVE APPROACH TO JOB PLACEMENT [68]

American Works is a for-profit company whose product is to help the hard-to-employ find and retain jobs. They have achieved this goal for more than 12,000 persons, typically in office positions paying between $15,000 and $18,000 per year. Some 50 to 60 percent of their clients are successfully placed, and 80 percent retain their jobs after two years.

This record has prompted state and local governments around the country to contract with America Works. Consistent with the firm's commitment to stable employment at above poverty wages, contracts typically require that jobs pay more than the minimum wage and provide health benefits, and that clients remain employed full time for six months before America Works receives its placement fee. To ensure that clients include persons with very limited job readiness, some contracts stipulate that 25 percent of those placed must be public housing residents.

America Works' services begin with one week of training in which trainees prepare resumes and practice being interviewed. During this time, they are screened to exclude persons who are not motivated and ready to work. A limited amount of "soft-skills" and computer training is also provided.

To assuage employers' skepticism about welfare recipients, America Works offers employers four months of trial employment during which clients remain on America Works' payroll. Employers reimburse the firm for employees' wages but not payroll taxes. At no cost to the employer, America Works provides ongoing counseling, regularly visiting work sites and assisting with work-related problems such as child care and transportation. The firm also assists employers in claiming federal and state tax credits.

KEEPING WELFARE RECIPIENTS IN THE WORKFORCE [69]

No matter how much up-front assistance is provided, many welfare recipients finding employment eventually lose their jobs. In Washington state, Re-employ Washington Workers (RWW) is designed to identify such individuals quickly and avoid having them return to welfare.

RWW is available to any former TANF recipient who applies for Unemployment Insurance. The program offers a 30-hour job search workshop, job referrals, and ongoing support (such as "job clubs"). Transportation and child care are provided during RWW activities. Once participants have become re-employed, RWW counselors stay in contact to inform them of opportunities offering better pay or advancement.

Encouraged by the program's success with welfare recipients, the state has extended its services to non-welfare applicants for Unemployment Insurance who have dependent children and family income less than 175 percent of the federal poverty threshold.

workers *stay* employed. As Figure 2, page 2 showed, a worker earning only the minimum wage can support a typical TANF family above the poverty threshold *if* she remains employed full time, year round. Steady employment also improves an individual's chances for advancement and higher wages.

For many welfare recipients, job continuity is recurrently threatened by unstable arrangements for transportation, child care, and health care. This instability may cause employees to arrive at work late or leave early, or force painful choices between caring for a sick child and meeting job requirements. Employers have little patience for employees who are chronically unreliable, particularly in entry-level positions. **CED urges states to recognize that, for many welfare recipients, publicly-funded services addressing the three crucial areas of transportation, child care, and health care can contribute crucially to steady employment.** Services that continue *after* individuals stop receiving TANF cash benefits can be particularly effective by reducing disincentives to leave welfare and providing additional time for recipients to establish their own arrangements.

Transportation to work presents a serious challenge for many welfare recipients, 94 percent of whom do not own automobiles and many of whom do not even have driver's licenses.[70] In metropolitan areas, many promising job opportunities are concentrated in the suburbs. For example, 70 percent of all metropolitan area jobs in manufacturing, wholesaling, and retail nationwide are now located outside the central cities where most urban welfare recipients live. In Boston, 98 percent of welfare recipients live within one-quarter mile of a bus or trolley route, but only 58 percent of potential employers are located within a mile of these routes. In Cleveland, families living in low-income neighborhoods can reach only 15 percent of the metropolitan area's jobs with a 40-minute one-way public transit commute, and only 44 percent of the jobs in 80 minutes.[71] For welfare recipients living in rural areas, public transportation is usually non-existent.

Nearly every state acknowledges the importance of transportation by allocating some TANF resources to this issue. Because each locality's circumstances are unique, states and localities have implemented a wide variety of initiatives. (See box: "TANF Support for Transportation to Work.") Such assistance is often particularly important during the earliest months of employment, before workers have had time to save to purchase a car.

Partnerships with private employers can often assist public agencies in meeting transportation needs. To avoid expense, administrative complexities, and potential legal liability, most employers treat transportation as an em-

TANF SUPPORT FOR TRANSPORTATION TO WORK [72]

- A number of states purchase passes or vouchers on public or private transit systems. In Mississippi, individuals may receive a transportation allowance for as long as they are on TANF and for at least six weeks after they leave the caseload.
- Where transportation systems are not currently in place, some states organize them. In Michigan, TANF funds private contractors to operate shuttles, buses, and car pools for recipients.
- Transportation can be a job for welfare recipients. Colorado hires TANF recipients to drive state cars shuttling other recipients to work. In Maryland, recipients have received refurbished vehicles and training to transport welfare recipients and others.
- Public vehicles, such as school buses and para-transit vans, can transport welfare recipients in the course of their other duties. North Carolina allows TANF recipients to ride to work on school buses; while riding, the adults serve as bus monitors.
- Although private automobiles are the most practical alternative for many welfare recipients, some states virtually preclude this possibility by counting the value of vehicles against restrictive asset limits for TANF eligibility. For instance, in Indiana, a person is ineligible for TANF if she owns a car worth more than $1,000; in contrast, Montana exempts the entire value of any vehicle used for work.
- Some welfare recipients may find it difficult to purchase even a modest car. Under Colorado's Wrecks to Rides program, donated vehicles are repaired by high school students and given to TANF recipients with three months' insurance. In Nebraska, the state will purchase a vehicle costing up to $2,000 for any TANF recipient who becomes employed. Other states provide low- or no-interest loans for car purchases.
- In New Hampshire, a TANF recipient can receive up to $750 for auto registration, insurance, taxes, licensing, or driver's education. In New York, recipients can receive up to $500 for car repairs.

ployee responsibility. However, a growing number realize that this hands-off approach may not suffice, especially in the current strong economy. Moreover, firms that have become involved in employee transportation have often found the costs unexpectedly modest and the benefits significant in terms of expanded recruitment, reduced staff turnover, and improved employee attendance. (See box: "Transportation Opens New Sources of Employees.") **CED urges employers to consider innovative arrangements to improve transportation to work for welfare recipients and other members of their low-skill work force.**

TRANSPORTATION OPENS NEW SOURCES OF EMPLOYEES [73]

In 1996, United Parcel Service of America (UPS) was having difficulty recruiting for the late-night, part-time shift at its distribution center near Philadelphia International Airport. Welfare officials in Camden, New Jersey offered their clients as a solution to UPS's dilemma. Although the company was initially skeptical, a six-month test yielded an unusually-high retention rate of 88 percent. Camden's welfare rolls eventually provided UPS with 700 workers.

Camden is across the Delaware River more than 10 miles away from UPS, with no direct public transportation. To accommodate its new employees, the company initially operated three buses. Once potential ridership had been demonstrated, UPS negotiated with the public New Jersey Transit to take over the operation. The company promised to subsidize any losses on this route, but all 53 daily trips proved profitable.

UPS also uses company-operated transportation to fill vacancies at its facility in Louisville, Kentucky. Buses collect employees from neighboring rural areas that have no public transportation. UPS continues to operate the system two years after initiating the effort and has found that riders have better attendance than non-riders, especially during bad weather, and higher retention.

Virtually all TANF households consist of single parents with young children, some five million children in all. Finding safe, accessible, reliable, affordable child care often presents them with a major challenge. For example, among former recipients who were not employed, 20 percent in Wisconsin, 24 percent in South Carolina, and 41 percent in Indiana cited lack of affordable child care as the reason they were not working.[74] In general, research suggests that the supply of child care services, both formal and informal, has expanded substantially in recent years in response to rapid growth of demand. However, several areas of concern remain. Pre- and after-school supervision of school-age children, care during night or weekend shifts, and infant care often are not easily arranged. Such child care is of particular relevance to former recipients, as more than a quarter work at night and eight percent hold two or more jobs.[75] Even when care is available, its cost can be prohibitively high in relation to a working parent's entry-level wages. In Wisconsin, unsubsidized child care would absorb more than half of a family's earnings for two-thirds of welfare households.[76]

Welfare recipients without access to health care for themselves and their children are always one accident or illness away from returning to welfare. Only 23 percent of former recipients who are employed receive health insurance through their employer, leaving the others reliant on Medicaid or among the 41 percent of former adult recipients without health care.[77] States are federally-mandated to provide one year of Medicaid for former TANF recipients, and 12 states offer it for longer. However, actual enrollment in Medicaid after leaving welfare is low (see Table 6); in Wisconsin, a survey of former recipients indicated that 39 percent were not aware that working adults could receive Medicaid after leaving welfare.[78] **CED urges federal and state officials to inform potential Medicaid beneficiaries of their eligibility and make benefits readily available to those who qualify.**

State Spending on Support Services

The combination of fixed annual Federal TANF block grant payments and a 47 percent decrease in the TANF caseload has provided states with substantial short-run surpluses in their welfare budgets, which currently total $7.3 billion nationwide.[79] Many states are using these resources to support recipients' transitions to work through the type of services described above. However, some states are substituting TANF funds for activities previously paid for by state resources. Although federal law may permit such substitutions, they have the effect of diverting TANF resources into programs unrelated to work and welfare or to politically popular tax reductions.[80] A number of states have also declined other federal funds for welfare-to-work services, thereby avoiding the commitment of state matching funds. About one-third of the $1.5 billion available annually to states under the federal welfare-to-work block grant remained unclaimed in FY 1998.

While the increased employment of recipients should eventually reduce welfare expenditures substantially, in the near term many recipients require substantial support to succeed in the labor market. In its initial phases, the transition to work is likely to require *larger,* rather than smaller, public outlays per recipient household.[81] **CED believes that, in general, state expenditures on welfare should not be reduced over the next several years. Instead, we recommend that states invest temporary public assistance budget surpluses, other available federal funds, and additional state funds as appropriate, in aggressively supporting recipients' employment efforts. To sustain this effort, we also strongly urge Congress not to rescind federal funds simply because they have not been obligated to date.**

We address this recommendation especially to states that have not yet made substantial investments in work support services. The overall cost of increased activity need not be dramatic. For example, Table 2, page 15 shows that state annual spending on work-support services in 1998 ranged from near zero per TANF household to $3,000 or more. Within this range, the median state (Arkansas) spent $1,214. If the 25 states below the median were to increase their spending to the median, outlays nationwide would increase about $600 million annually, roughly eight percent of the current unspent TANF surplus of $7.3 billion.

Our recommendation, however, is intended for *all* states, not simply those with low levels of current spending. Even states that have made extensive commitments to work-support services, such as Wisconsin, now face political pressure to reduce the resources available for these efforts or to divert TANF funds indirectly to other expenditures or tax reduction. If welfare reform is to succeed nationally, it is essential to *sustain* our vision and commitment. We must not mistake current prosperity and caseload declines for victory in a struggle against on-going poverty and dependency. **We urge active states to stay the course and other states to use the leaders as models.**

Data to Support State Accountability

We wish also to express our concern about the adequacy of information to properly administer, monitor, and evaluate welfare reform. The states must be accountable to the public for their management of public assistance under welfare reform. However, when Congress transferred primary decision-making authority from the federal government to the states, it also weakened or eliminated many requirements that states document the policies they have implemented and their effects. We believe the federal government must remain concerned about poor families across the nation and should therefore ensure that there is adequate information to monitor their condition and evaluate federal and state policies that vitally affect them. The federal government also must exercise oversight over the billions of federal dollars transferred to states under the TANF block grant. In preparing this policy statement, we were often frustrated by the lack of data that would allow us to compare states in a consistent manner and assess the impact of their policies. **We urge the Congress, in consultation with the states, to develop a nationally uniform system for reporting on welfare policies and their consequences and to assist the states with the resources and technical assistance required to implement such a system.**

STRENGTHENING FINANCIAL INCENTIVES TO WORK

As noted in Chapter 2, financial incentives can simultaneously encourage welfare recipients to work and reduce their poverty. Many states are currently making work under TANF financially rewarding, but others can do more in this regard.

One direct way to reward and encourage work is to limit reductions in TANF benefits as earnings increase. Nearly all states have raised their former AFDC "earnings disregards" — the earnings allowed without offsetting reductions in welfare benefits — but some still reduce additional earnings by more than half. Demonstration programs that raised earning disregards considerably and combined them with work requirements and support services increased the work effort and earnings of those not already working full time.[82] Currently, a few states, such as Alabama, Mississippi, and Nevada, allow recipients to keep all earnings without benefit reduction, at least for the first several months of work. **CED urges states to increase earnings disregards and lower benefit reduction rates to allow TANF recipients to keep more of their earnings.**

The federal Earned Income Tax Credit (EITC) is another important tool to make work financially rewarding. Between two and four million families that are eligible for the EITC currently are not claiming it.[83] **CED recommends that the federal government, states, and businesses employing low-wage workers cooperate to help eligible families claim the EITC.[84]**

Nearly all households claiming the EITC receive the credit as a lump sum payment after filing their annual tax returns. An Advance Payment Option is available under which claimants can receive half their expected refund as a supplement to each paycheck. This option provides an immediate financial incentive and is useful in meeting daily and monthly living expenses. However, it is currently used by less than one percent of EITC claimants.[85] **CED recommends that the IRS undertake outreach to inform EITC recipients about the advance payment option and to assist employers in complying with employee requests. We urge employers to become active partners in these efforts.**

In combination with the standard exemptions and deductions in the federal income tax, the EITC eliminates federal income tax liability for virtually all families with earnings below or near the federal poverty threshold. This is also true for the majority of states with state income taxes. However, in 19 states a typical TANF family (single parent with two children) earning less than the federal poverty threshold still pays state income tax.[86] Taxpayers in such marginal economic circumstances contribute relatively little to state treasuries, but their tax liabilities make it substantially more difficult to move out of poverty through work. **CED recommends that states consider reducing or eliminating state income tax burdens on families below the federal poverty threshold.** They can achieve this result through appropriate changes to exemptions, rate schedules, or state earned income tax credits.

For many households moving from welfare to work, Food Stamps provide a significant portion of household purchasing power. Low-income households are eligible for Food Stamps regardless of their TANF status. However, many households leaving TANF are unaware of their eligibility, and some states do little to inform them or to assist them in applying. For example, 34 percent of those leaving welfare in Wisconsin were unaware that they might still be eligible for Food Stamps.[87] Poor information and confusion about eligibility appears to be a major source of this problem, especially in an administrative environment where many states have aggressively sought to "divert" potential beneficiaries from the welfare rolls to work. The complexity and restrictive rules of Food Stamps (and Medicaid) also pose a major problem, since they have previously been administered "in tandem" with AFDC for dependent beneficiaries, not in a more flexible, work-oriented environment. In some instances, states have focused so aggressively on the goal of reducing welfare caseloads that they hampered Food Stamp applications or denied Food Stamp benefits in ways that courts subsequently found illegal.[88] **We strongly urge federal and state officials to ensure that Food Stamps, Medicaid, and related programs' benefits are available to eligible beneficiaries under current law, to take vigorous actions to inform beneficiaries of their eligibility, and to facilitate their enrollment.**

In the longer term, a more comprehensive reexamination of the nation's safety net programs is required, although detailed recommendations lie beyond the scope of this policy statement. Food Stamps and Medicaid traditionally have been linked to AFDC cash assistance and have complex and often burdensome eligibility mechanisms; their use by eligible workers is declining as those links are broken, as noted above. In a world of required work, child care has become more critical both as a pre-requisite for employment and a job-related expense. Child support enforcement has emerged as a potentially important tool for both encouraging responsibility and supporting working mothers. And the role of Disability Insurance and Supplemental Security Income will necessarily change as disabled individuals leave welfare. **We therefore urge Congress, as it considers modifications to TANF, to reexamine the design of Food Stamps, Medicaid, and other support programs. It should modify them as required to encourage the shift from a dependency-oriented public assistance system to one centered on work. We also recommend that Congress reexamine the EITC to determine whether increasing its value, especially for workers who accumulate longer experience, would further strengthen work incentives and reduce poverty.**

PLANNING FOR ECONOMIC DOWNTURNS

Rainy Day Funds

Although the American economy has now sustained an economic expansion for more than eight years, it would be imprudent to ignore the potential impact on welfare reform of slack national or regional labor markets. In such a market, as unemployment increases, the number of recipients leaving welfare is likely to drop substantially, while the number of applicants will rise.

Because federal funding to states for TANF is fixed, the fiscal burden of such caseload expansions will fall directly on states. However, state tax revenues tend to fall sharply during economic downturns, and many state constitutions require that budgets remain balanced. A weaker economy could therefore leave many states unable to serve the expanding number of persons seeking public assistance or forced to curtail other services to cover rising welfare costs.

Anticipating this contingency, PRWORA allows states to reserve resources from current TANF budget surpluses. Some states have taken advantage of this option to create substantial "rainy day funds"; by the end of FY 1998, 15 states had established these funds by state statute, and 11 were reserving funds using other budgetary authority.[89] The remaining states — nearly half — have made no formal provisions, yet nearly all have substantial unspent federal funds on which they may be counting. As this uncommitted money accumulates in the federal treasury, it becomes an increasingly tempting target for Congressional budget cuts.[90] Congressional proposals to reallocate these funds have prompted states to question whether they will be available when the need arises.

CED believes that the highest priority for states' unspent TANF funds should be effective services to support work and training. However, in the many states where additional funds have accumulated, we recommend the creation of explicit rainy day funds. We urge the federal government to allow states to preserve their unspent federal funds for use during periods of economic slack.

The Congress has also created a federal TANF rainy day fund to back up state reserves. Under its provisions, states can receive additional federal block grant funds if their unemployment rates or Food Stamps caseloads rise sharply. The current authorization for this fund is $2 billion, an amount likely to be exhausted during even a relatively mild economic downturn. For example, it is estimated that a recession similar to that of 1990–1991 would increase caseloads by 11 percent and raise TANF outlays by $2.4 billion.[91] In addition, to access these funds, states must experience a very sharp economic deterioration and spend considerably more of their own money than most are now doing.[92] **CED recommends that the federal government examine whether its "rainy day" fund should be supplemented and redesigned to better meet state needs during an economic downturn.**

The Role of Publicly Funded Jobs

Although welfare reform has shown that work can be expected of many persons previously not considered work-ready, some TANF recipients suffer from disabling conditions that, while not precluding employment, limit it substantially. In surveys in 1990 and 1992, between 8.4 and 10.6 percent of TANF recipients reported being unable to perform at least one job-related function. Others have limited intellectual capacity; among participants in welfare-to-work initiatives in Washington state, 19 percent were assessed as "mildly retarded" (IQ of 80 or less).[93]

Recognizing the employment difficulties of these individuals, states may exempt up to 20 percent of TANF recipients from the federally-mandated five year time limit on cash benefits. While such exemptions may often prove necessary, they weaken the program's commitment to the goals of personal responsibility and increased employment. In many localities, nonprofit organizations such as Goodwill and local Associations for Retarded Citizens have long provided "sheltered workshops" and similar adapted-work opportunities. Innovative states such as Wisconsin have enlisted these programs in employing welfare recipients. **CED recommends that all states follow the example of states that arrange employment alternatives suitable for welfare recipients with disabilities or other work-limiting conditions.**

Some states create jobs for welfare recipients as transitional job *preparation*, not as a permanent work alternative. In these initiatives, jobs may be located in government agencies, nonprofit organizations, or for-profit firms. The positions are temporary, typically with time limits of one year or less, after which recipients must seek other work.[94] They may be complemented by training, either on-the-job (coaching by supervisors and mentors) or in the classroom, to enhance participants' work readiness or occupational skills. Research indicates that publicly-financed work experience that is temporary and developmentally-oriented can be cost-effective, particularly for women with the limited work experience of many TANF recipients.[95]

Sometimes, however, states create public jobs for large numbers of *non-disabled, non-trainee* TANF recipients. The most prominent example is New York City's Work Experience Program (WEP), which, as of November 1999, employed 19,800 TANF participants as well as 14,000 recipients of state-funded General Assistance. In effect, WEP guarantees a minimum wage job to recipients who cannot find alternative employment. They enter the program after 30 days of mandatory searching in the regular job market, work up to 20 hours per week in city government agencies (with the number of hours determined by dividing their assistance payment by the minimum wage), and may continue in WEP until their TANF eligibility expires.

CED believes that publicly funded jobs for non-disabled TANF recipients are appropriate if they are temporary and prepare participants for regular employment. However, we do not support public employment programs, such as WEP, that offer a long-term alternative to private jobs. Such programs allow states and individuals to side-step taking responsibility for finding employment. **We urge states with programs that are long-term substitutes for private jobs to transform them into short-term, developmentally oriented work programs.**[96] In Tulsa, a program that originally provided permanent employment was successfully reoriented in just this manner. (See box: "Shifting Publicly-Funded Jobs to a Transition Role.")

Such programs can also provide a safety net of employment opportunities during an economic downturn. Under TANF, innovative states such as Wisconsin have developed portfolios of employment alternatives, with unsubsidized private employment as the preferred option and publicly-funded jobs (at subsidized private firms, nonprofit organizations, or public agencies) as a backup. In strong labor markets, these latter positions primarily serve welfare recipients with disabilities, who can function only in "sheltered" jobs, and welfare recipients without recent work experience in preparing for regular employment. During economic downturns, these positions can be expanded to serve TANF recipients who would find regular jobs in a stronger labor market.

CED urges states currently without a comprehensive range of job alternatives for TANF recipients to develop options that include publicly funded jobs for limited use during prosperity and expansion when the economy is weak. This approach can reconcile the program's work requirements with the nation's commitment to support low-income families with children. Government should *not*, however, become an "employer of last resort," creating public jobs for the general population of the unemployed.

SHIFTING PUBLICLY-FUNDED JOBS TO A TRANSITION ROLE[97]

Each year, the Oklahoma Department of Human Services refers more than 200 welfare recipients to IndEx, Inc., a nonprofit subsidiary of the Tulsa Chamber of Commerce. At IndEx's facility in downtown Tulsa, participants spend four hours each work day assembling and packaging products for local manufacturers. They spend the remaining four hours in training that ranges from remedial basic education to computer skills. Program participants do not earn wages but instead receive welfare benefits averaging $260 per month, Food Stamps, and subsidies for child care and transportation.

By being steadily employed, welfare recipients with little prior experience gain valuable exposure to the culture of the workplace. Simultaneously, training enhances their marketable skills. IndEx imposes few prerequisites for participation, thereby opening these opportunities to persons most likely to need them before seeking regular jobs. However, as IndEx was initially operated, it did not consistently push participants toward that ultimate goal. The program set no time limits on trainees' participation and did not require participating companies to hire program graduates.

After several years, IndEx refocused its efforts. It began to track placement rates and include hiring requirements in production contracts. It implemented 30-day trial work periods during which program participants work at firms in return for continued welfare benefits and wages of $4.50 per hour; at the end of the trial period, if the employer is satisfied, the worker is hired as a regular employee.

Unemployment Insurance

Since its creation in the 1930's, the federal-state Unemployment Insurance program (UI) has provided temporary, partial wage replacement to the involuntarily unemployed. It assists families to weather financial crises, and it serves as an "automatic stabilizer" by minimizing reductions in consumer spending that exacerbate economic downturns. However, its capacity to fulfill these roles has eroded over the past several decades as the proportion of jobs-losers who receive UI has declined, from one-half in the mid-1950s to one-third today. In some states, coverage has fallen as low as 17 percent of the unemployed.[98]

One factor in this decline has been the increase in the proportion of American workers in part-time, temporary, or short-term jobs that are categorically excluded from UI coverage in many states. A related factor is the growing number of low-wage workers whose earnings are too low to meet UI eligibility requirements. Both circumstances apply to many persons moving into work under welfare reform, as well as to many other low-skill households. As a result, only 20 percent of persons leaving welfare for work are likely to become eligible for UI through post-welfare employment.[99] The ineligibility of the vast majority of such workers for UI makes an already vulnerable population even more susceptible to poverty and a return to welfare dependency.

Recognizing this, two-thirds of the states do not categorically exclude low-wage workers, and a number of states have removed the exclusions of temporary, seasonal, and part-time workers. **We urge the remaining states to expand their UI coverage in a similar manner, as recommended by the federal Advisory Commission on Unemployment Compensation.** (See box: "Reshaping Unemployment Insurance to Serve More Low-Skill Workers.") Workers would still have to meet UI requirements for substantial work before claiming benefits and an active search for employment while collecting

RESHAPING UNEMPLOYMENT INSURANCE TO SERVE MORE LOW-SKILL WORKERS [100]

In 1996, a federal Advisory Council on Unemployment Compensation presented 50 recommendations for improving Unemployment Insurance (UI). Four are particularly relevant to former welfare recipients and other low-skill workers because of the types of jobs they disproportionately hold:

- **Low-wage work:** Workers can collect UI only if, prior to becoming unemployed, they earned at least a minimum on which their employer paid unemployment tax. Some states set this minimum sufficiently high that minimum-wage earners have to work more hours than other workers to become eligible. The Advisory Council recommended that states set this earnings minimum no higher than 800 hours at the state's minimum wage.
- **Part-time work:** In some states, part-time workers are categorically excluded from UI benefits even if their earnings qualify them. The Advisory Council recommended that workers not be precluded merely because they are looking for part-time work.
- **Short-term work:** To be eligible for benefits, many states require that workers have been employed in two calendar quarters excluding the current, incomplete one and the most recently-completed quarter. The Advisory Council recommended that states allow the most recently completed quarter to count if that would qualify a claimant. Furthermore, many applicants denied benefits because of this time lag are not aware that they can reapply once the quarter is over. The Council recommended that states inform claimants in writing when they should reapply.
- **Seasonal work:** Fifteen states permit workers in seasonal industries to collect benefits only during the season in which that industry is active. Thirteen states do not allow seasonal earnings to count towards the earnings requirement. The Advisory Council recommended that states eliminate seasonal exclusions and subject seasonal workers to the same eligibility requirements as other workers.

them. But they would no longer be categorically excluded because of the nature of the jobs they held.

If this expansion were financed by UI payroll taxes, the costs would be borne initially by employers but, ultimately, largely by low-wage workers in the form of lower wages. Furthermore, by raising the cost of low-skill workers compared to higher-skilled workers or to technology that might be substituted for workers, UI payroll taxes tend to reduce their job opportunities. To avoid these negative impacts on wages and employment, **we recommend that the federal and state government consider ways to support this expansion of benefits with general revenues rather than higher UI payroll taxes.** One approach, which would involve a change in federal law, would be to credit the UI trust fund with income taxes paid on UI benefits, as is currently done with the Social Security and Railroad Retirement trust funds. This arrangement would generate at least $3.6 billion for the UI trust fund, more than covering the estimated $2.0 billion annual cost of the Advisory Commission's four recommendations.[101]

WELFARE RECIPIENTS AND THE WORKING POOR

The same employment issues that hinder TANF recipients — such as job instability, health care, child care, and transportation — also trouble millions of other low-skill, working poor families. Some states design relatively broad programs to address these problems, serving welfare and non-welfare families alike. Others maintain a sharp distinction between the groups, often because they lack the fiscal resources or the political consensus to serve a wider poverty population.

There are two major advantages to the broad approach. First, it is more equitable to provide similar assistance to all families who face the same set of difficulties. Second, it removes the perverse incentive to remain on, or return to, welfare to receive more generous treatment. **CED recommends that states consider organizing their work-support services to aid a broad population of low-skill, low-wage workers rather than only TANF recipients.** The broad approach can be illustrated by several innovative state approaches to health insurance and child care.

While the vast majority of middle and upper class Americans rely upon health insurance from their employers, only 57 percent of workers earning less than $20,000 benefit from employer coverage. After taking account of coverage obtained through employed spouses or public programs, some 17.3 million employed persons earning $20,000 per year or less are currently without health insurance for themselves and their families. The well-being of the 11 million children lacking coverage is of particular concern.[102]

The new federal State Child Health Insurance Program (CHIP) and recent revisions to Medicaid provide states with additional resources and flexibility to address health needs, with which some states now cover substantial numbers of the working poor. (See box: "Two Ways States Can Provide Health Insurance to Low-Income Workers.")

Child care can be a substantial expense for most families, but it is particularly burdensome for households in poverty; it absorbs, on average, 18 percent of their income, in contrast to 7 percent for non-poor households. The potential need for additional child care assistance is suggested by the 10.5 million children under 13 in non-welfare households with working adults and incomes below 150 percent of the federal poverty threshold. At present only 3.3 million of them are in paid care.[103]

Both TANF and the federal Child Care Development Fund block grant allow states to set their own eligibility standards, so states can elect to cover both TANF households and the working poor. Some states, including three of the ten states with the nation's largest TANF caseloads, have used this flexibility to base eligibility solely on low income, treating former welfare families and others on an equal basis. (See box: "Child Care for All Low-Income Working Illinois Families.") Other states guarantee support for welfare families or give them priority, and assist others to the extent that remaining funds allow; about half of all states were recently turning away non-welfare families who were eligible on the basis of income.[104]

TWO WAYS STATES CAN PROVIDE INSURANCE TO LOW-INCOME WORKERS [105]

To expand health insurance coverage for low-income working families, states can either expand Medicaid or create a new program supplementing Medicaid.

In Wisconsin, a program supplementing Medicaid, Badgercare, extends state subsidized health insurance coverage to all families with children and incomes below 185 percent of the poverty threshold. Coverage is free for households with incomes up to 150 percent of poverty, while households between 150 and 185 percent of poverty pay premiums of no more than 3.5 percent of income. Once a household is eligible, it may maintain its coverage until its income reaches 200 percent of poverty. Families with access to employer-provided health care where the employer pays at least 80 percent of the costs are not eligible for Badgercare.

In contrast, Washington state uses Medicaid only for families already eligible for that program, a diverse group that includes pregnant women with incomes up to 185 percent of the poverty threshold, children in families with incomes up to 200 percent of poverty, and other non-elderly persons with incomes under 56 percent of poverty. All others with incomes under 200 percent of poverty, including most of the working poor, are eligible for the state's Basic Health Plan (BHP). BHP participants pay premiums on a sliding scale that range as low as $10 per month. Persons with incomes over 200 percent of poverty may also participate if they pay unsubsidized premiums of as much as $242 per month. Medicaid and BHP are coordinated to provide seamless coverage for persons whose fluctuating incomes shift their eligibility between the programs. BHP currently has 219,000 enrollees.

CHILD CARE FOR *ALL* LOW-INCOME WORKING ILLINOIS FAMILIES [106]

By offering child-care assistance to all low-income working families in the state, not only those receiving TANF, Illinois supports work for all low-income parents.

To address issues of *affordability*, in 1997 the state combined federal and state funds to increase its annual spending on child care from $280 million to $380 million. The state offers subsidies, on a sliding scale, to all families with employed parents earning less than 50 percent of the state's median family income (about $26,000 per year). This support covers an estimated 135,000 children, about 12 percent of children under six in the state.

To address issues of *quality* and *accessibility,* the state allocates additional funds for development of child care resources, regulation of providers, and operation of child care referral networks. The state provides $18 million annually for special quality initiatives and innovative arrangements to accommodate parents who work night, weekend, and rotating shifts. In 1995, referral agencies throughout the state provided information to 33,613 parents seeking child care, trained 34,000 child care workers, and helped more than 1,334 new providers to open or become licensed.

Chapter 4.
Expanding Opportunities to Acquire Skills

No circumstance more constrains welfare reform's promotion of responsibility, employment, and higher incomes than limited work readiness. Welfare recipients with inadequate education, training, or work experience find it difficult to envision or establish a life independent of public assistance. They struggle to land jobs and remain employed. They are frustrated when their limited productivity brings them only modest wages. The working poor face similar difficulties. Only by enhancing the qualifications they offer employers are low-skill workers likely to leave poverty and dependency permanently.

The nation must not shrink from this challenge. The example of welfare reform shows us that bold restructuring of public policies is possible. We have shifted discussion from the problems and limitations of public assistance recipients to their potential to contribute to their families, the economy, and society. The time has come to undertake a similarly fresh approach to *all* the working poor.

The circumstances leading to inadequate work preparation are varied and complex. They involve problems both with individual motivation and behavior and with our economic, social, and educational institutions. Effective remedies are often difficult to identify, and a detailed agenda for private and public action lies beyond the scope of this policy statement. However, our success in achieving the goals of welfare reform will ultimately depend upon the development of adequate human capital for those who lack it, especially for the young. Without such development of habits and skills, even a reformed public assistance system will devote too many resources to "picking up the pieces" of lost human and social potential. We therefore outline here, in general terms, the kinds of changes we believe are needed, focusing on improvements in schools, publicly-funded employment and training programs, and the workplace itself.

IMPROVING BASIC EDUCATION FOR CHILDREN AND ADULTS

Elementary and secondary schools provide many of the habits, skills, and credentials that shape future workers' employment prospects, especially for low-skill positions. However, many public school systems today turn out students who have not learned the skills that the new American economy requires. Their deficiencies are particularly pronounced for low-income and minority populations in urban areas. If the nation's schools prepared their students more adequately, the flow of adults into welfare and working poverty would sharply diminish.

We urge federal, state, and local governments to give urgent attention to improving education in preschool through the twelfth grade, particularly in schools serving low-income, disadvantaged students. CED has detailed its approach to improving elementary and secondary schools elsewhere. (See box: "CED's Agenda for Elementary and Secondary Education.") That agenda should command first priority in improving the nation's workforce preparation.

Adult education programs, a largely invisible adjunct to elementary and secondary schools, are often overlooked in discussions of education. Upgrading basic skills and credentials can have significant payoffs for adult workers. The unemployment rate of high school graduates is about half that of counterpart workers without diplomas.

CED'S AGENDA FOR ELEMENTARY AND SECONDARY EDUCATION [107]

School reform must be based on high educational expectations reflected in clear incentives for administrators, teachers, and students. While additional money may be needed in some schools, the chief job in others is to use resources more efficiently to improve student learning. Research and experience indicate that there are no "magic bullets" that will fix all public schools; context matters a great deal in identifying appropriate and feasible reform strategies. What must undergird all reform approaches is a commitment to making performance matter for both students and schools.

While much has been accomplished by the "standards movement" of the past decade, there is still much to do to refocus schools and teachers on outcomes and performance. This includes continuing attention not only to assessment and accountability systems, but also to curriculum improvement; teacher selection, retention, and promotion policies that will foster student learning; and professional development to ensure that teachers have the knowledge they need to teach to the new standards. New governance arrangements, such as greater involvement of mayors and/or school-based management, will be desirable in some places. New institutional options such as charter schools and public school choice should be vigorously expanded, especially where traditional public schools have a history of poor performance.

High school graduates age 25-34 years old earn 46 percent more than comparable dropouts. Those who acquire a GED earn, on average, 20-31 percent more than those without this credential. Increased literacy and job skills substantially expand employment opportunities and increase earnings, even among persons who are not high school graduates.[108]

Despite such potential payoffs, only about 4 million out of the 44 million adults who have not completed high school participate in adult education programs each year, and the lower a person's current income, the lower the probability of participating.[109] (See Figure 7, page 46.)

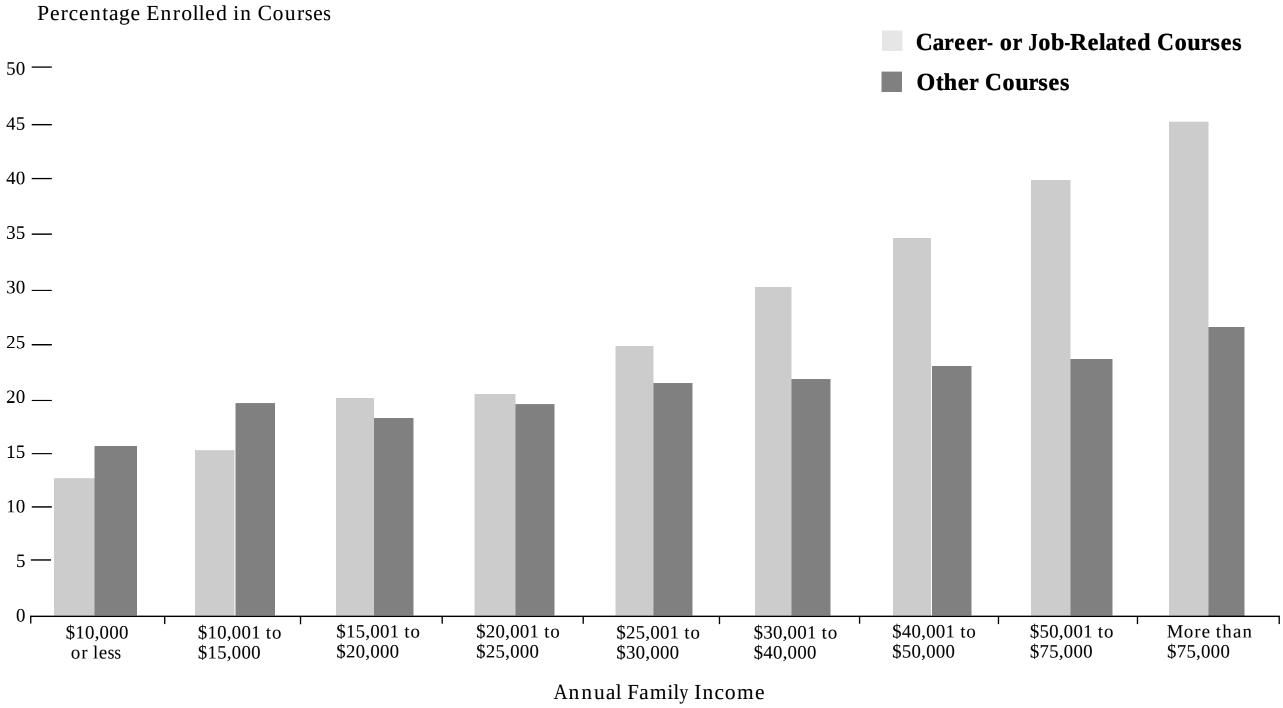
When low-skill adults wish to enroll in further education, appropriate classes may not be available. In particular, in states with a large and growing population of immigrants (such as California, Florida, Texas, Illinois, and New York), increased demand for English as a Second Language has resulted in burgeoning class sizes and long waiting lists in some localities.[110]

Availability of adult education is also an issue with respect to the nation's prison population. Some 1.2 million persons are currently in federal or state prisons, and most will eventually rejoin the nation's workforce. Nearly half lack high school diplomas, and 70 percent read at the two lowest literacy levels. Several studies have found that the more actively inmates participate in education, the less likely they are to relapse into crime. Yet in the federal prison system, where literacy classes are supposedly mandatory for all prisoners without a high school diploma, only 7 to 10 percent of inmates with low literacy receive literacy education. In state prisons, only 26 percent of inmates participate in educational programs.[111]

A third concern about adult education is the quality of instruction. Some deficiencies here simply mirror the weaknesses in educational management, standards, and pedagogy that prevail throughout the nation's elementary and secondary schools. However, the adult

Figure 7

Employed Adults Enrolled in Courses by Income, 1995



SOURCE: National Center for Education Statistics, *Digest of Education Statistics 1997*, p. 370.
These data exclude full-time enrollment in higher education.

education system often labors under additional handicaps as well.

At the root of many of these deficiencies is limited funding — important in itself, and also symbolizing the general lack of attention to adult education. Although generous funding does not guarantee educational success, severe underfunding nearly always produces unsatisfactory results. Adult education seldom receives sufficient funding to serve all students who might benefit and to deliver effective instruction. Nationwide, expenditures per full-time-equivalent adult student average only one-third that of their counterparts in kindergarten through the twelfth grade. One Congressional study summed up funding for adult education as "meager in terms of the total population in need, and low as a national priority."[112]

One area in which funding deficiencies have their most direct effect is instructional staffing. Less than a third of adult education instructors are certified to teach in their field, and more than 80 percent work only part time. Many programs rely extensively on volunteers.[113]

In short, although adult education is potentially an important means of enhancing the earnings of low-skilled workers, its typical quality is low and its scope is limited. **CED urges the federal and state governments to recognize the importance of adult education and improve its quality, availability, and funding.** A greater commitment of federal and state attention and resources will be required to improve its effectiveness and, eventually, to reach millions of potential students who might benefit from an effective system.

STRENGTHENING PUBLICLY-FUNDED EMPLOYMENT AND TRAINING PROGRAMS

The working poor depend heavily upon the nation's publicly-funded employment and training programs. The federal government spends about $1 billion per year on these programs, and states add an additional $600 million.

In many localities, these efforts command little respect from either employers or enrollees. They consist of a hodgepodge of programs that range from the effective to the marginal. Under-subscribed and duplicative programs coexist with waiting lists, program gaps, and services about which many potential clients are unaware. Community-based initiatives are often well intentioned but resource-poor, and employer involvement is intermittent at best.

A recent federal law, the Workforce Investment Act of 1998, offers an important opportunity to reorganize and improve this system. The Act consolidates numerous scattered programs into three block grants, stipulates greater accountability for programs, and allows service recipients to choose service providers through a voucher system. Development of full-service labor market intermediaries is another key part of this effort. State and local governments are required to begin reorganizing employment and training efforts into "one stop centers" — operations that are administratively integrated, co-located, and that offer a comprehensive range of services to both employers and workers. (See box, page 48: "Boston's One-Stop Career System.") The gains in efficiency and effectiveness can be substantial, particularly if the one-stop centers operate in a consistently customer-responsive, business-like manner.

The Workforce Investment Act also provides for Workforce Investment Boards at the state and local levels to improve coordination and increase effectiveness. If properly implemented, these boards can draw together the strengths of the public, private, and nonprofit sectors and provide area-wide employment and training systems with a coherence they have consistently lacked. However, they will lack the power and influence to affect significant change unless senior executives from the business community, as well as high-level officials from state and local government, give them priority and serve on the boards.

The Workforce Investment Boards and one-stop centers ideally can bring greater flexibility to public employment and training programs. Government agencies tend to organize their operations around narrow administrative categories, such as persons eligible for assistance under a specific funding source. That approach is particularly troublesome when applied in the labor market.

The advantages of programs that serve a broader clientele are significant. Through economies of scale, they operate more efficiently than programs serving narrowly-targeted populations. Employers often find broadly-targeted programs less confusing. They also are more willing to accept applicant referrals if the agency does not offer only severely disadvantaged individuals. Finally, agencies serving multiple types of job seekers tend to be staffed by persons whose expertise is employment and training, not social work. The integrated agencies therefore tend to deal with their clients in a more relevant style that is more consistently work-oriented and business-like. The practices of innovative localities, such as Boston, in promoting institutions that serve welfare recipients and low-skill workers alike should be closely considered by other localities seeking to transform their workforce development system.

The quality of the individual employment and training programs is often as problematic as the organization of the system as a whole. Some publicly-funded programs are of poor quality and do little for their clients, while others have consistently raised the wages of their trainees and won the trust of employers by providing excellent employees. (See box: "A

BOSTON'S ONE-STOP CAREER SYSTEM [114]

A low-skill worker seeking employment and training but unsure where to find them is fortunate if he lives in Boston. The same is true for an employer seeking job candidates or government funds for training. Boston is well along in the process of transforming a complicated and duplicative set of programs into an integrated system which employers or job seekers can access through a single phone call or visit.

This redesign is part of a statewide initiative, but most decisions are made by Boston's Regional Employment Board. This coalition of business, labor, education, government, and community leaders is responsible for deciding how many one-stop centers to establish, selecting center operators and evaluating their performance.

Three centers are currently open, and they are so popular that they are operating 40 percent above capacity. Some 86 percent of their customers expressed a high or very high level of satisfaction. Even those that have not used the new system view it as a major improvement. One survey of business executives found 82 percent likely to use the new centers, compared with 3 percent for previous programs.

Boston attributes this success to four guiding principles:

- **Integration** – Creating a single, seamless system from numerous job placement, training, and education programs scattered among multiple state and city agencies is a primary goal. The process of receiving information and services has become easy and understandable for both workers and employers.
- **Universality** – The centers serve a wide variety of job seekers, whether they are downsized middle managers, the long-term unemployed, or persons trying to leave welfare. In turn, they are able to attract employers by offering candidates for a wide range of positions.
- **Accountability** – Contracts to operate the centers are awarded to for-profit and nonprofit organizations through competitive bids. Operators must meet strict standards set by the Regional Employment Board and score well on customer satisfaction surveys. Those that do not must either improve or go out of business.
- **Consumer choice** – The state requires that each region offer multiple centers from which employers and workers can chose. Additionally, at each center, customers can access an education and training database that includes user ratings of programs.

Training Program That Works.") With its emphasis on performance evaluation, accountability, and consumer choice, the Workforce Investment Act enhances the ability of state and local governments to target employment and training resources to their most efficient uses, but not all jurisdictions are taking full advantage of these mechanisms.

In short, we urge all states and localities to consider the best practices developed by pioneering efforts under the Workforce Investment Act and other publicly-funded exemplary employment and training initiatives. In particular, government, employers, service providers, and community-based organizations should cooperate in transforming the local Workforce Investment Boards created by the Act into influential organizations that strategically allocate employment and training resources; service delivery should be reorganized around "one-stop" labor market intermediaries that offer a range of services and a convenient single point of contact; and the Act's mechanisms for ensuring performance accountability should be aggressively implemented.

A TRAINING PROGRAM THAT WORKS [115]

The Center for Employment Training (CET) in San Jose, California is a nonprofit, community-based organization with an unwavering commitment to individuals with very limited employment qualifications. Simultaneously, it enjoys an unparalleled reputation among employers as a source of competent workers. CET is an adult skill training program that works.

The earnings of CET trainees average $6,700 more over a four year period than those of a comparable group not receiving training. Typical graduates receive $15,003 ($7.21 an hour) to start and fringe benefits worth an additional 20 percent of wages. These levels are achieved for seriously disadvantaged workers. Earnings of participants prior to entering the CET program average only $7,135 per year. Some 94 percent of participants are racial/ethnic minorities, 53 percent are high school dropouts, 36 percent are limited English speakers, and 26 percent are welfare recipients.

What accounts for this record? CET integrates remedial education into vocational training, with participants learning reading and mathematics at the same time as occupational skills ranging from automotive mechanics to child care. It also replicates the work environment that recipients will face, with trainees punching a time clock each morning and instructors relating to trainees as job supervisors rather than as teachers.

Close ties are maintained with the business community to ensure that clients are not trained in skills for which there is no demand, a common criticism of other training programs. Active advisory boards and technical committees of local corporate executives keep CET aware of changing workplace requirements and eliminate occupational tracks when the market for an occupation weakens.

CET's long-term relationships with local employers also underlie its effectiveness in job placement. Many employers require personal referrals and references when hiring, even for low-skilled job positions. CET provides an effective reference for its trainees because it has a "brand-name" reputation as a source of reliable workers. CET provides employment networks that substitute for services provided to more mainstream workers by executive search firms, union hiring halls, and internal labor markets within large corporations.

EXPANDING OPPORTUNITIES TO ADVANCE IN THE WORKPLACE

Formal public education and training are by no means the only ways for welfare recipients and other low-skill workers to enhance their employment qualifications. Less formal opportunities to acquire skills on-the-job, diversify work experience, demonstrate capabilities, and develop networks of personal contacts are also very important.

Extending Career Ladders

For many American workers, opportunities to advance are an expected aspect of their jobs. Employers generally assume that managerial, professional, technical, and similar higher-level employees can be hired and retained only in positions that contribute to their long-term careers. Some firms extend the same principle to more moderately-skilled employees as well. However, in many workplaces, these opportunities are available principally to employees who already possess some post-secondary education and several years of steady work experience. These prerequisites place the lowest rungs of career ladders above the reach of most welfare recipients and other low-skilled workers.

This pattern is reflected in the distribution of classroom training that workers receive on the job. Each year, American employers spend more than $55 billion on formal training for their workers. However, while 90 percent of workers with a bachelor's or higher degree receive some training each year, only 60 percent of those with a high school education do so.[116]

While the lack of training for lower level employees obviously hinders workers' efforts to escape poverty and dependency, it may also raise turnover and reduce productivity and quality.[117] Extending opportunities for career advancement to employees with limited current qualifications is not appropriate or possible for all types of jobs and businesses. However, creative redesign of entry-level job functions and promotional paths can often benefit employers as well as their employees. (See box: "Transforming Dead-End Jobs into Careers.") **We urge employers to reexamine their formal and informal arrangements for training and upward mobility in the workplace and to consider extending them to workers with lower initial qualifications.**

Managing Diversity

The American workforce looks strikingly different today than it did even one generation ago. White, non-handicapped, prime-age males once dominated offices, plants, and other business places, especially in better paid, decision-making positions. Now the workforce is a highly variable mix of genders, races, ethnicities, ages, disabilities, and other characteristics. Most employers now realize that their enterprises will thrive only if they can use such a diverse workforce productively.

Rising to that challenge is no small matter. Few employers today knowingly tolerate ex-

TRANSFORMING DEAD-END JOBS INTO CAREERS [118]

Reflecting an aging population and changes in health care delivery, home health care aides are the fastest-growing occupation in the American economy, expected to employ 1.25 million persons by 2005. Typical jobs in this field offer low wages, minimal fringe benefits, little job security, and few opportunities for advancement.

Founded in 1985, New York City's Cooperative Home Care Associates (CHCA) structures its jobs differently. CHCA believes that home health care positions that are reasonably compensated and upwardly mobile reduce turnover and recruitment costs, producing a staff that is more productive and more attractive to potential clients. These production advantages, in turn, can pay for the enhanced wages, fringe benefits, and training that generate them. CHCA's operating experience ratifies this strategy. The company has been consistently profitable without subsidies for six years. Its staff has grown to more than 300 in New York City, and parallel operations are being developed in other localities.

The career-oriented approach begins when new aides are hired, more than 80 percent of them former welfare recipients. In an industry in which many aides receive virtually no training, CHCA provides four weeks of full-time initial training. Subsequently, supervisors provide coaching on-the-job, and four times a year, the company holds classes on new techniques and advanced skills.

CHCA aides are full-time, permanent employees, rather than the on-call temporaries that are common in the industry. They receive wages above the industry average, fringe benefits (including health insurance and paid vacations) not common in the industry, and year-end bonuses.

CHCA does not expect its aides to remain at the entry-level. The first upward step is "senior home health aides," who divide their time between delivering services and administrative duties such as scheduling and training. Subsequent advancement requires additional education to become a Licensed Practical Nurse (LPN) or Registered Nurse (RN). CHCA funds on-site adult education, particularly English as a Second Language, to prepare its employees for additional education. Future plans call for adding tuition reimbursement as a fringe benefit.

plicit discrimination.[119] However, many struggle with business cultures that, in varying degrees, are not fully prepared to attract and retain diverse workers and use their talents effectively. Policies and processes for personnel selection and assessment, compensation and fringe benefits, social relationships, and even habits of thought, often enhance progress for some types of employees and impede it for others.[120]

These circumstances especially affect workers making the transition from welfare to work, because disproportionate numbers of them are women, racial or ethnic minorities, persons with disabilities, or socially and culturally different from their fellow workers. These same circumstances disproportionately affect the working poor. These groups accordingly benefit significantly when employers recognize and nurture employees from diverse backgrounds. However, the greatest benefits of improved diversity management accrue to employers through higher employee morale, reduced turnover, more accurate assessments of individuals' performance and potential, and improved teamwork.[121] **CED urges employers to consider the efforts of innovative firms to manage diversity and the applicability of these approaches to their own needs and practices.**

One aspect of diversity management particularly relevant to TANF families and their dependent children is the compatibility of work and family responsibilities. In recent years, many employers have begun to make their workplaces more family friendly. (See box: "Typical Elements of a Family Friendly Workplace.") Leading companies such as Dupont, MBNA Bank, Eddie Bauer, and Motorola have established programs that give their employees more scheduling flexibility and provide such aids to parents as child care referrals and lactation rooms. These initiatives not only make employees happier, but result in more loyal and productive employees and a healthier bottom line. After eliminating rules limiting employees' control over their schedules and creating a series of programs to help working families, First Tennessee National Bank saw both employee and customer retention grow, which contributed to a 55 percent rise in profits over two years. By extending its unpaid parental leave to six months, Aetna Life and Casualty Company cut in half the rate of resignations by new mothers and saved $1 million annually in hiring and training expenses.[122]

TYPICAL ELEMENTS OF A FAMILY FRIENDLY WORKPLACE [123]

Child Care

- *Information* – Employers can contract with referral services providing information about child care alternatives and customers' experiences with them.
- *Pre-tax accounts* – Employers can allow employees to estimate the cost of child-care or elder-care expenses and put that amount in an account not subject to income tax. Firms benefit by reducing their total payroll, thus reducing payroll taxes.
- *Emergency day-care* – Employers can contract for back-up child care when an employee's regular arrangements fail or when children are ill.

Family-Oriented Compensation

- *Health insurance for all family members* – Firms can offer insurance covering employees' spouses and children as well as workers themselves.
- *"Cafeteria" benefits* – Firms can allow employees to choose among child-care reimbursement, additional vacation days, health insurance, and other fringe benefits. For example, employees that already have health insurance through their spouse's employer may prefer child care benefits instead.

Schedule Flexibility

- *Flexible working hours* – Firms can allow employees to adjust work schedules to match their children's school or day care schedules.
- *Flexible leave* – Employers can offer employees vacation time in short increments, as little as an hour at a time, to meet family obligations such as attending parent-teacher conferences, or visiting day-care or elder-care facilities.
- *Telecommuting* – Firms may allow employees to work at home when productivity would not be reduced.
- *Family emergencies* – Employers may permit employees to leave work for sudden illnesses or accidents involving family members.

Management Commitment

- *Supervisor training* – Supervisors must accept the concept of a family-friendly workplace, help promote company initiatives, and allay employee concerns that they will be penalized for taking advantage of these initiatives.
- *Program marketing* – Employees must be made aware of their options and feel comfortable using them.

Conclusion

On balance, we believe that welfare reform is changing America's public assistance system for the better. Fundamental changes are taking place in attitudes, incentives, and assumptions regarding individual capacities and responsibilities. These changes are occurring among welfare recipients, employers, officials who administer public programs, and the public at large. In the longer term, these changes will enhance economic opportunities for millions of welfare recipients and other low-income Americans. However, fundamental change inevitably brings dislocations that will be painful for some individuals and families. We are acutely aware of the uneven outcomes of welfare reform to date and of the formidable problems that remain. We have therefore focused on welfare reform as a *work in progress* and on the need to turn its potential into a reality in all the states.

As welfare was repeatedly reformed between the 1930s and the 1990s, problems and solutions were defined in Washington. The mechanisms of reform were nation-wide mandates and federal spending. Under PRWORA, reform decisions are being made in 50 state capitals, and the standards for performance have become best practices implemented by leading states and localities across the country. To the extent that welfare reform has been successful, state and local public officials deserve much of the credit. These same officials are now responsible for making the additional changes and committing the resources necessary to achieve three central goals: increased responsibility, expanded employment, and the reduction of poverty.

Responsibility for welfare reform is also shared by the private sector. As welfare recipients move into the labor force, employers must be prepared to do their part in helping them to succeed.

Lasting welfare reform is at long last within the nation's grasp. If all parties — the federal government, state and local governments, employers, nonprofit organizations, and welfare recipients themselves — rise to their responsibilities, it can be achieved.

Appendix A:

Indices of Policies Requiring Work and Supporting Work, by State

(Figure 4, Chapter 2)

State	Policies Requiring Work	Policies Supporting Work
Alabama	50.0	50.7
Alaska	43.8	50.0
Arizona	68.8	60.7
Arkansas	68.8	57.1
California	43.8	60.7
Colorado	50.0	49.3
Connecticut	31.3	57.1
Delaware	31.3	43.8
District of Columbia	57.7	**25.0(lowest)**
Florida	75.0	50.0
Georgia	69.6	42.9
Hawaii	31.3	42.9
Idaho	**81.3(highest)**	35.7
Illinois	**25.0(lowest)**	50.0
Indiana	50.0	46.4
Iowa	44.9	57.1
Kansas	56.3	60.7
Kentucky	56.3	53.6
Louisiana	50.0	42.3
Maine	37.5	57.1
Maryland	62.5	64.3
Massachusetts	37.5	57.1
Michigan	43.8	57.1
Minnesota	50.0	60.7
Mississippi	43.8	57.1
Missouri	56.3	57.6
Montana	62.5	46.4
Nebraska	44.9	50.0
Nevada	50.0	53.6
New Hampshire	43.8	53.6
New Jersey	43.4	46.4
New Mexico	36.6	42.3
New York	50.0	64.3
North Carolina	57.0	39.3
North Dakota	37.5	42.9
Ohio	68.8	42.3
Oklahoma	62.5	47.1
Oregon	50.0	59.9
Pennsylvania	37.5	46.4
Rhode Island	43.8	56.3
South Carolina	56.3	53.2
South Dakota	56.3	35.7
Tennessee	56.3	57.1
Texas	62.3	53.6
Utah	62.5	39.3
Vermont	31.3	**78.6(highest)**
Virginia	48.8	50.0
Washington	51.3	50.0
West Virginia	43.8	35.7
Wisconsin	75.0	67.9
Wyoming	56.3	39.3

NOTE: The indices are derived from the information in Table 1, Chapter 2. The index for “policies requiring work” is derived from the proportion of policies in the category “require work or limit eligibility” listed in the table used by each state. The index for “policies supporting work” is similarly derived from the use of listed policies that “create financial incentives to work” and “provide services supporting work.” States were assigned 0 points for no use of a policy, 1 point for moderate use, and 2 points for extensive use, and the totals were standardized by conversion to an index with a range of 0-100.

Appendix B:

Employers in the Welfare to Work Partnership [124]

Created under the auspices of the White House, the Welfare to Work Partnership is a national, nonpartisan, not-for-profit network of businesses who have hired or are planning to hire welfare recipients. Large companies that have joined as of the end of 1999 include:

Aetna, Inc.
American Airlines
ARAMARK Corporation
Bank of America
BFGoodrich
Borg-Warner Protective Services
Burger King Corp.
Cessna Aircraft Co.
Chase Manhattan
CVS Pharmacy
Fannie Mae
Federal Express
Giant Foods, Inc.
Knights Franchise Systems, Inc.
The Limited, Inc.
Loews Hotels
Manpower, Inc.
Marriott International
Mashantucket Pequot Tribal Nation
Molly Maid
New England Electric System
New England Medical Center
Pacific Bell
Pep Boys
Salomon Smith Barney
Sprint Corp.
Time Warner, Inc.
TJX Companies, Inc.
United Airlines Corp.
United Parcel Service
Wal-Mart and SAM's Club
Westinghouse Electric Corp.
Xerox

Examples of smaller employers that have joined the partnership include:

Beverly Healthcare
New York, NY
Nursing/Rehabilitation
200 employees

Boscart Construction, Inc.
Washington, DC
Construction
22 employees

Bristol Place Corporation
Minneapolis, MN
Mental Health
160 employees

Immediate Temporary Help
Midland, MI
Temporary Staffing
150 employees

Just Nails
Washington, DC
Beauty Salon
22 employees

Lombardi's Cucina
Olympia, WA
Restaurant
85 employees

(continued)

Cal Insurance
San Francisco, CA
Insurance Services
27 employees

Candleworks
Ames, IA
Candle Making
30 employees

Distinctive Marketing
Montclair, NJ
Marketing Research
20 employees

Hygienic Service Systems
Red Wing, MN
Commercial Laundry
83 employees

Illinois School Bus
Crestwood, IL
Bus Company
170 employees

M.R. Hopkins Transportation
Baltimore, MD
Transportation
56 employees

Nursery Hut
Washington, DC
Child Care
17 employees

Office Environments
Charlotte, NC
Furniture Distributor
135 employees

Our Valley Fence Company
Ridgecrest, CA
Fencing
13 employees

Superior Industrial Coating
Racine, WI
Metal Finishing
52 employees

Appendix C:

Sources of Further Information

Administration for Children and Families, U.S. Dept. of Health and Human Services
370 L'Enfant Promenade, S.W.
Washington, DC 20447
202-401-9215
(www.acf.dhhs.gov/news/welfare/)

American Public Human Services Association
810 First Street, N.E., Suite 500
Washington, DC 20002
202-682-0100
(www.aphsa.org/reform/reform.htm)

America Works
575 8th Avenue, 14th Floor
New York, NY 10018
212-244-5627
(www.americaworks.com)

Boston One-Stop Career Centers
The Work Place
1-800-436-WORK
Boston Career Link
1-888-536-1888
JobNet
1-800-5JOBNET
(www.masscareers.state.ma.us/)

Center on Budget and Policy Priorities
820 First Street, N.E., Suite 510
Washington, DC 20002
202-404-1080
(www.cbpp.org)

Center for Employment Training
701 Vine Street
San Jose, CA 95110
408-287-7924
(www.best.com/~cfet/main.htm)

Community Transportation Association of America
1341 G Street, N.W., Suite 600
Washington, DC 20005
202-628-1480
(www.ctaa.org)

Employment and Training Administration, U.S. Dept. of Labor
200 Constitution Avenue, N.W.
Washington, DC 20217
202-219-6871
(www.ttrc.doleta.gov/onestop/)

Local Investment Commission (LINC)
3100 Broadway, Suite 226
Kansas City, MO 64111
816-889-5050
(www.kclinc.org)

Manpower Demonstration Research Corporation
16 East 34 Street, 19th Floor
New York, NY 10016
212-532-3200
(www.mdrc.org)

Marriott International, Community Employment and Training Programs
Dept. 935.47
1 Marriott Way
Washington, DC 20058
1-800-638-8108, Ext. 88582

National Alliance of Business
1201 New York Avenue
Washington, DC 20005
202-289-2888
(www.nab.com)

(continued)

National Association of Workforce Boards
1201 New York Avenue, Suite 350
Washington, DC 20005
202-289-2950
(www.nawb.org)

National Council of State Legislatures
1560 Broadway, Suite 700
Denver, CO 80202
303-830-2200
(www.ncsl.org)

National Governors' Association Center for Best Practices
444 North Capitol Street
Washington, DC 20001
202-624-5300
(www.nga.org)

Urban Institute Assessing the New Federalism Project
2100 M Street, N.W.
Washington, DC 20037
202-833-7200
(www.newfederalism.urban.org)

Welfare Information Network
1000 Vermont Ave., N.W., Suite 600
Washington, DC 20005
202-628-5790
(www.welfareinfo.org)

Welfare to Work Partnership
1250 Connecticut Ave.,N.W., Suite 610
Washington, DC 20036
202-955-3005
(www.welfaretowork.org)

Wisconsin Department of Workforce Development
P.O. Box 7905
Madison, WI 53705
608-267-9613
(www.dwd.state.wi.us/)

Endnotes

1. Mary Jo Bane and David Ellwood, *Welfare Realities: From Rhetoric to Reform* (Cambridge: Harvard University Press, 1994), p. 31. Growth in other income-tested programs — including Food Stamps, Medicaid, Supplemental Security Income, General Assistance, social services, school meals, housing assistance, and energy assistance — paralleled or exceeded that in AFDC / TANF. In 1996, these programs distributed $106.4 billion, with AFDC / TANF accounting for 22.3 percent of the total. See Committee on Ways and Means, U.S. House of Representatives, *1998 Green Book* (Washington: U.S. Government Printing Office, 1998), pp. 1418, 402.

2. For example, in its policy statement *Rebuilding Inner-City Communities: A New Approach to the Nation's Urban Crisis* (1995), CED made leadership by inner-city residents and institutions central to its proposed strategy for addressing problems of inner-city poverty.

3. For example, in opinion polls, 61 percent of a sample of welfare recipients in New Haven expressed feelings of shame over their dependent status; 67 percent of a sample in Chicago stated that receiving welfare has a negative effect on their family life; 98 percent in a multi-state sample agreed that a working life was more interesting than a life on welfare, and 54 percent agreed that even a low-paying job was preferable to dependence. See Nancy Goodban, "The Psychological Impact of Being on Welfare," *Social Service Review* (September 1985), p. 414; Susan J. Popkin, "Welfare: Views From the Bottom," *Social Problems* (February 1990), p. 72; Jan L. Hagen and Liane V. Davis, "The Participants Perspective on the Job Opportunities and Basic Skills Training Program," *Social Service Review* (December 1985), p. 661; and Leonard Goodwin, *Causes and Cures for Welfare* (Lexington, MA: Lexington Books, 1983). A recent large-scale study of welfare recipients suggests that these negative views are reflected in actual behavior, in which many low-income people avoid the stigma of welfare receipt even at large monetary cost. See Bruce D. Meyer and Dan T. Rosenbaum, *Welfare, the Earned Income Tax Credit, and the Labor Supply of Single Mothers*, Working Paper 7363, National Bureau of Economic Research, September 1999.

4. Rachel Swarns, "The Search for Self-Reliance: In Welfare Offices, Some Welcome City's Push Toward Jobs," *New York Times* (February 23, 1999), p. A18. State surveys of persons leaving welfare often reflect their support for their lives off of welfare. For example, in Wisconsin, only 29% of welfare leavers reported that life was better on welfare, and only 18% in Washington answered that their family was worse off since leaving welfare. See *Survey of Those Leaving AFDC or W-2 January to March 1998, Preliminary Report* (Madison: Wisconsin Department of Workforce Development, 1999), p.17; and Jack Tweedie and Dana Reichert, *Tracking Recipients after They Leave Welfare: Summaries of State Follow-up Studies* (Denver: National Conference of State Legislatures, 1998).

5. Human capital is the knowledge, skills, abilities, and credentials that workers acquire through native ability, education and experience and offer to employers; see Ronald Ehrenberg and Robert Smith, *Modern Labor Economics* (Reading, MA: Addison Wesley, 1997), Chapter 9.

6. In many discussions of welfare reform, "work first" refers to policies favoring immediate employment over long-term training. Throughout this statement, it refers to policies favoring immediate employment over any form of employment preparation, including training and "social work" problem solving.

7. In some states, AFDC covered two-parent families as well. Also, since welfare reform, an increasing proportion of the caseload consists of "child only" cases, in which TANF assists a child but not his or her caretaker (such as a grandparent).

8. Table 1 is based on: *Round Two Summary of Selected Elements of State Programs for Temporary Assistance for Needy Families* (Washington: National Governors' Association Center for Best Practices, 1998); L. Jerome Gallagher, et al., *One Year after Federal Welfare Reform: A Description of State Temporary Assistance for Needy Families Decisions as of October 1997* (Washington: The Urban Institute, 1998); Nicholas Johnson, Christina Smith FitzPatrick, and Elizabeth C. McNichol, *State Income Tax Burdens on Low-Income Families in 1998: Assessing the Burden and Opportunities for Relief* (Washington: Center on Budget and Policy Priorities, 1999); Clifford M. Johnson, *Public Job Creation: Current State and City Initiatives* (Washington: Center on Budget and Policy Priorities, 1999); Nicholas Johnson and Ed Lazere, *Rising Number of States Offer Earned Income Tax Credits* (Washington: Center on Budget and Policy Priorities, 1998); U.S. General Accounting Office, *Welfare Reform: Status of Awards and Selected States' Use of Welfare-to-Work Grants* (Washington: U.S. Government Printing Office, 1999); Amy Brown, Maria L. Buck, and Erik Skinner, *Business Partnerships: How to Involve Employers in Welfare Reform* (New York: Manpower Demonstration Research Corporation, 1998), p. 58-9; U.S. Department of Health and Human Services, *State Welfare-to-Work Policies for People with Disabilities: Changes Since Welfare Reform* (Washington: U.S. Government Printing Office, 1998); and Kathleen A. Maloy, et al., *Description and Assessment of State Approaches to Diversion Programs and Activities Under Welfare Reform* (Washington: George Washington University Center for Health Policy Research, 1998).

Throughout this statement, when data are reported for 51 jurisdictions, they refer to the 50 states and the District of Columbia.

For additional information on state TANF policies, see Heather McCallum, *Ending Welfare as We Know it: State Approaches to TANF* (paper presented at the annual meeting of the American Political Science Association, 1999).

9. Richard Bavier, *An Early Look at the Effects of Welfare Reform* (Washington: Office of Management and Budget, 1999), p. 12.

10. Norma Coe, Gregory Acs, Robert Lerman, and Keith Watson, *Does Work Pay? A Summary of the Work Incentives Under TANF* (Washington: The Urban Institute, 1998), p. 8.

11. *Are Eligible Workers Not Claiming their Earned Income Credit?* (Washington: Center on Budget and Policy Priorities, 1998), p. 4; and Council of Economic Advisors, *Good News for Low Income Families: Expansions in the Earned Income Tax Credit and the Minimum Wage* (Washington: U.S. Government Printing Office, December 1998), p. 4.

12. Ron Haskins, *Welfare in a Society of Permanent Work* (Washington: U.S. House of Representatives, 1999), p. 15.

13. *1998 Green Book*, pp. 411, 479; *FY 1998 State Spending Under the New Welfare Program* (Washington: Department of Health and Human Services, 1999), Tables A, B, and C.

14. Table 2 is based on calculations from data in *FY 1998 State Spending Under the New Welfare Program* (Washington: U.S. Government Printing Office, 1999), Tables A, B, and C.

15. One of the tasks that states have found most difficult is changing the culture in their public assistance agencies and retraining staff to become employment oriented. See U.S. General Accounting Office, *Welfare Reform: States are Restructuring Programs to Reduce Welfare Dependence* (Washington: U.S. Government Printing Office, 1998).

16. See Richard Nathan and Thomas Gais, *Implementing the Personal Responsibility Act of 1996: A First Look* (Albany: State University of New York, 1999). For a thoughtful discussion of the far-reaching changes required in the "culture" of welfare administration, see Midwest Welfare Peer Assistance Network (WELPAN), *Transforming the Culture of Welfare* (Madison, WI: Institute for Research on Poverty, University of Wisconsin-Madison, forthcoming Spring, 2000).

17. Nathan and Gais, p. 45. Another study reaching similar conclusions is Marcia Meyers, Bonnie Glaser, and Karin MacDonald, "On the Front Lines of Welfare Delivery: Are Workers Implementing Policy Reform?" *Journal of Policy Analysis and Management* (Winter 1998), pp. 1-22.

18. *Wisconsin Work (W-2) Overview* (Madison: State of Wisconsin, Division of Economic Support, 1998).

19. Larry Mead, "The Decline of Welfare Rolls in Wisconsin," *Journal of Public Administration Research and Theory* (October 1999), and Larry Mead, *Statecraft: The Politics of Welfare Reform in Wisconsin* (paper presented at the annual conference of the American Political Science Association, 1998).

20. Pamela Loprest, *Families Who Left Welfare: Who Are They and How Are They Doing?* (Washington: The Urban Institute, 1999), p. 5.

21. Council of Economic Advisors, *The Effects of Welfare Policy and the Economic Expansion on Welfare Caseloads: An Update* (Washington: U.S. Government Printing Office, 1999), p. 23.

22. Welfare rolls can shrink by reducing new enrollments as well as by increasing exits. However, no studies presently estimate the extent to which fewer people are applying for welfare because they have found jobs instead.

23. U.S. Census Bureau, *Income, Poverty, and Valuation of Noncash Benefits: 1994* (Washington: U.S. Government Printing Office, 1996), p. 41; and Joseph Dalaker, *Poverty in the United States 1998* (Washington: U.S. Government Printing Office, 1999), p. 17.

24. Jeffrey B. Liebman, "The Impact of the Earned Income Tax Credit on Incentives and Income Distribution," *Tax Policy and the Economy* 12, James M. Poterba, ed. (Cambridge, MA: MIT Press, 1998), pp. 8-120; Meyer and Rosembaum, op. cit. See also *Economic Report of the President, 1999*, pp. 112-5.

25. Bavier, p. 12.

26. Loprest, Chart 3.

27. Loprest, pp. 7-13. Part of this difference is explained by the fact that low-income mothers are more likely than former recipients to be in two-parent families, in which fewer mothers generally work.

28. *Washington Work First: Building Better Lives, Results of the First Year* (Olympia: Washington Work First, December 1998), p. 9.

29. U.S. General Accounting Office, *Welfare Reform: Information on Former Recipients' Status* (Washington: U.S. Government Printing Office, 1999), p. 18; and Loprest, pp. 7-8.

30. Loprest, Table 3.

31. Pamela Loprest and Sheila Zedlewski, *Current and Former Recipients: How Do They Differ?* (Washington: The Urban Institute, 1999), p. 9. See also Megan DeBell, Hsiao-Ye Yi, and Heidi Hartman, *Single Mothers, Jobs and Welfare: What the Data Tell Us* (Washington: Institute for Women's Policy Research, 1997), p. 5.

32. Loprest and Zedlewski, pp. 3, 6.

33. Sue Kirchhoff, "Pushing the Limits of Welfare Overhaul," *Congressional Quarterly* (February 6, 1999), p. 323; and "Citing Drop in Welfare Rolls, Clinton to Seek Further Cuts," *Washington Post* (January 25, 1999), p. A12.

34. Unpublished tabulations, Current Population Survey for 1998; Haskins, p. 27; Wendell Primus, Lynette Rawlings, Kathy Larin, and Kathryn Porter, *The Initial Impacts of Welfare Reform on the Incomes of Single-Mother Families* (Washington: Center on Budget and Policy Priorities, 1999), p. 47; and Bavier, p. 10.

35. U.S. Census Bureau, *Poverty in the United States, 1998*, p. B-10

36. Pamela Loprest, "Families Who Left Welfare: Who Are They and How Are They Doing?" (Washington: The Urban Institute, May 1999).

37. *Measuring Poverty: A New Approach*, National Research Council (Washington: National Academy Press, 1995).

38. See also *Welfare Reform: Information on Former Recipients' Status*, p. 18; and Sarah Brauner and Pamela Loprest, *Where Are They Now? What States' Studies of People Who Left Welfare Tell Us* (Washington: The Urban Institute, May 1999).

39. Megan DeBell, Hsiao-Ye Yi, and Heidi Hartman, *Single Mothers, Jobs and Welfare: What the Data Tell Us* (Washington: Institute for Women's Policy Research, 1997), p. 7. These data are based upon the 1990 and 1991 Survey of Income and Program Participation. Average hourly wage data are in 1997 dollars. Column (b) assumes employment for 78 percent of a 2,080 hour work year at the hourly wage rate in Column (a). Column (c) is Column (b) divided by the federal poverty threshold for a family of one adult and two children in 1997, which was $12,931.

40. Loprest, Chart 10.

41. Loprest, Chart 11.

42. Loprest, Table 1, Chart 13. Among families leaving the welfare rolls who do not have an employed spouse or partner, the proportion of female-headed families living with non-family household members increased in the poorest quintile of this group from 16 to 21 percent between 1996 and 1997. See Bavier, Appendix A. See also Jason DeParle, "As Welfare Rolls Shrink, Load on Relatives Grows," *New York Times* (February 21, 1999), p. A1, and Douglas Besharov, Testimony before the U.S. House of Representatives, Subcommittee on Human Resources of the Committee on Ways and Means, May 27, 1999.

43. Bavier, Appendix A.

44. Haskins, p. 27-28; Primus, et al., p. 47.

45. Loprest, Chart 13, Table 4; Arloc Sherman, Cheryl Amey, Barbara Duffield, Nancy Ebb, and Deborah Weinstein, *Welfare to What? Early Findings on Family Hardship and Well-Being* (Washington: Children's Defense Fund and National Coalition for the Homeless, December 1998).

46. The Urban Institute, *Snapshots of America's Families* (Washington: Urban Institute, January, 1999).

47. Brauner and Loprest, pp. 6-7; Sheila Zedlewski and Sarah Brauner, *Declines in Food Stamps and Welfare Participation: Is There a Connection?* (Washington: The Urban Institute, 1999).

48. See, for example, Jared Bernstein, *The Challenge of Moving from Welfare to Work: Depressed Labor Market Awaits Those Leaving the Rolls* (Washington: Economic Policy Institute, 1997).

49. U.S. Department of Labor, Bureau of Labor Statistics, Labor Force Statistics from the Current Population Survey, Unemployment Rate, 25 Years and Over, Less than a High School Diploma, and Labor Force Statistics from the Current Population Survey, Number At Work Part-time for Economic Reasons, Table A-4.

50. Catherine Newman and Chauncey Lennon, "The Job Ghetto," *The American Prospect* (Summer 1995), pp. 66-7; and William Julius Wilson, *When Work Disappears, The World of the New Urban Poor* (New York: Knopf, 1996), p. 19.

51. Timothy J. Bartik, *The Labor Supply Effects of Welfare Reform* (Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 1998), Table 3.

52. George T. Silkvestri, "Occupational Employment Projections to 2006," *Monthly Labor Review* (November 1997), pp. 58-83. Total job openings include both net employment growth and the replacement of workers who retire, leave the labor force, or enter other occupations. Net employment growth during the same period is projected to be 6.9 million.

53. U.S. Bureau of Labor Statistics, *Labor Force Statistics* (www.bls.gov, 6/99); Richard W. Judy and Carol D'Amico, *Workforce 2020: Work and Workers in the 21st Century* (Indianapolis: Hudson Institute, 1997), p. 98; and Louise B. Russell, *The Baby Boom Generation and the Economy* (Washington: The Brookings Institution, 1982), p. 51.

54. Robert Solow, "Guess Who Pays for Workfare?" *New York Review of Books* (November 5, 1998), pp. 27-37. Solow predicted that the increase in workers generated by welfare reform would reduce wage rates throughout the low-skill labor market by 3 to 5 percent.

55. *Economic Report of the President,1999*, pp.104, 106.

56. Robert I. Lerman, Pamela Loprest, and Caroline Ratcliffe, *How Well Can Urban Labor Markets Absorb Welfare Recipients?* (Washington: The Urban Institute, 1999), p. 5.

57. Lerman, et al., Figure 1; Bartik, pp. 18-20.

58. Unless otherwise noted, data for adult recipients of AFDC are from *Characteristics and Financial Circumstances of AFDC Recipients, Fiscal Year 1995*, while data for working poor are from Thomas Hale, *A Profile of the Working Poor, 1995* (Washington: U.S. Government Printing Office, 1997). Here, the working poor are defined as individuals who spent at least 27 weeks in the labor force in a year but whose annual household incomes fell below the federal poverty threshold. Data for the working poor count Hispanics both as Hispanics and Whites. Data for education of AFDC recipients are only for adult females, and education attainment is unknown for 43 percent; data are from *1998 Green Book*, Table 7-19, p. 440. Data for residence of AFDC recipients are from Martina Shea, *Dynamics of Economic Well-Being: Program Participation, 1990 to 1992* (Washington: U.S. Government Printing Office, 1995), Table 1. Data for residence of working poor are based on children in working poor families, reported in William O'Hare and Joseph Schwartz, "One Step Forward, Two Steps Back," *American Demographics* (September 1997), p. 54.

59. U.S. Small Business Administration, *Characteristics of Small Business Employees and Owners, 1997* (Washington: U.S. Government Printing Office, 1998), pp. 6, 9.

60. The Welfare to Work Partnership, *1998 No. 1 Member Survey: Executives Speak Out* (www.welfaretowork.org/facts/98survey1.htm, 3/99); and *The Federal Welfare to Work Hiring Initiative, Second Annual Report* (Washington: National Partnership for Reinventing Government, 1999).

61. The Welfare to Work Partnership, *Welfare by the Numbers* (www.welfaretowork.org/facts/bythenumbers.html, 5/99).

62. Dana Milbank, "Hiring Welfare People, Hotel Chain Finds, Is Tough But Rewarding," *Wall Street Journal* (October 31, 1996), p. A1; Michael Grunwald, "Welfare-to-Work: The Challenge Grows Harder," *Boston Globe* (April 20, 1998), p. A1.

63. Neil Smelser (ed.), *Handbook of Economic Sociology* (New York: Russell Sage Foundation, 1996), Chap. 15; Harry Holzer, *What Employers Want: Job Prospects for Less-Educated Workers* (New York: Russell Sage Foundation, 1996).

64. Holzer, Richard J. Levy and Frank Murnane, *Teaching the New Basic Skills : Principles for Educating Children to Thrive in a Changing Economy* (New York: The Free Press, 1996).

65. Brown, et al., *Business Partnerships: How to Involve Employers in Welfare Reform*, pp. 58-9; U.S. Department of Labor, *Work Opportunity and Welfare-to-Work Tax Credits* (www.doleta.gov/employer/wotc.htm, 11/98).

66. *Washington Work First*, p. 9.

67. About 47% of TANF recipients with unresolved substance abuse problems (about 330,000 persons) are not currently receiving any substance abuse treatment services; see Fredrica Kramer, "The Hard-to-Place: Understanding the Population and Strategies to Serve Them," *Welfare Information Network Issue Notes* (March 1998), p. 4; and Albert Woodward, et al., "The Drug Abuse Treatment Gap: Recent Estimates," *Health Care Financing Review* (Spring 1997), pp. 5-17. Another 42 percent of adult women on public assistance may suffer from clinical depression; see Rukmalie Jayakody, Sheldon Danziger, and Harold Pollack, *Welfare Reform, Substance Abuse and Mental Health* (Presented at the Annual Meeting of the Association for Public Policy Analysis and Management, October 1998), p. 5. See also Sheila R. Zedlewski, *Work-Related Activities and Limitations of Current Welfare Recipients* (Washington: Urban Institute, July 1999).

68. America Works' website (www.americaworks.com).

69. *Building Better Lives: Re-employment Services for Low-Wage Workers* (Olympia: Washington Work First, 1999).

70. *Access To Jobs, A Guide to Innovative Practices in Welfare-to-Work Transportation* (Washington: Community Transportation Association of America, 1998), p. 5.

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76. Margy Waller, *Welfare-to-Work and Child Care, A Survey of the Ten Big States* (Washington: Progressive Policy Institute, 1997), p. 3; Sharon K. Long and Sandra J. Clark, *The New Child Care Block Grant: State Funding Choices and Implications* (Washington: The Urban Institute, 1998); and Council of Economic Advisers, *The Economics of Child Care* (Washington: U.S. Government Printing Office, 1997).

77. Loprest, pp. 12, 21.

78. *Survey of Those Leaving AFDC or W-2 January to March 1998*, p. 18.

79. Data refer to unclaimed federal obligations to states, as of the end of Fiscal Year 1999, Ed Lazere, *Welfare Balances After Three Years of TANF Block Grants: Unspent TANF Funds at the End of Federal Fiscal Year 1999* (Washington: Center on Budget and Policy Priorities, January 2000), Table 3. See also Jason DeParle, "Leftover Money for Welfare Baffles, or Inspires, States," *New York Times* (August 29, 1999), p. A1.

80. In Minnesota, for instance, federal TANF funds have been transferred to child care and social service programs and state contributions to these programs reduced by an equal amount, freeing state funds for other purposes; see Jason Walsh, "TANF Supplants Minnesota State Child Care," *CLASP Update* (February 26, 1999), p. 11. See also DeParle, "Leftover Money," p. A1.

81. Judith Gueron and Edward Pauley, *From Welfare to Work* (New York: Russell Sage Foundation, 1991); Daniel Friedlander and David Greenberg, "Evaluating Government Training Programs for the Economically Disadvantaged," *Journal of Economic Literature* 35 (December 1997), pp. 1809-55.

82. Johannes M. Bos, et al., *New Hope for People With Low Incomes,* (New York: Manpower Demonstration Research Corporation, August, 1999); see also Michael C. Laracy, *Making Wages Work: Demonstrating the Role of Financial Incentives and Income Supplements as a Welfare-to-Work Strategy* (Washington: The Annie E. Casey Foundation, May 1998).

83. *Are Eligible Workers Not Claiming,* p. 1.

84. If additional outreach increased enrollment by 10%, program costs would increase about $2.9 billion.

85. *Are Eligible Workers Not Claiming,* p. 4. Among the reasons EITC claimants list for not using the Advance Payment Option are that they are unaware of the option, they are fearful that they will overclaim and owe taxes in the future, and that they sometimes prefer a single large payment. See *Earned Income Tax Credit: Advance Payment Option Is Not Widely Known or Understood by the Public* (Washington: U.S. General Accounting Office, February 1992); and *Advance Earned Income Tax Credit: 1994 and 1997 Notice Study, A Report to Congress* (Washington: Internal Revenue Service, U.S. Dept. of the Treasury, August 1999).

86. Nicholas Johnson, Christina Smith FitzPatrick, and Elizabeth C. McNichol, *State Income Tax Burdens on Low-Income Families in 1998: Assessing the Burden and Opportunities for Relief* (Washington: Center on Budget and Policy Priorities, 1999). States with tax thresholds below the poverty line (in ascending order by level of tax threshold) are: Illinois, Alabama, Hawaii, Kentucky, Virginia, Montana New Jersey, Indiana, Michigan, Oklahoma, West Virginia, Ohio, Delaware, Missouri, Louisiana, Georgia, Oregon, Utah, and Arkansas.

87. *Survey of Those Leaving AFDC*, p. 19.

88. For example, New York City did not allow households to apply for Food Stamps at the time they applied for TANF, and did not inform applicants about Food Stamp availability if they were found ineligible for TANF benefits. Michigan denied Food Stamps benefits to entire households rather than individual members who had violated TANF work requirements. Both practices have been deemed illegal by federal courts. Practices restricting households' access to Food Stamps have also been investigated by the Food and Nutrition Service in Portland and Milwaukee. See U.S. General Accounting Office, *Food Stamp Program: Various Factors Have Led to Declining Participation* (Washington: U.S. Government Printing Office, July 1999), pp. 2,12.

89. *State Approaches to Human Services Future Investment Funds* (Washington: American Public Human Services Association, March 1999).

90. On March 16, 1999, a letter to state governors from Rep. Nancy Johnson (R-CT), Chairman of the House of Representatives Subcommittee on Human Resources warned "Unless states begin spending more of this money, we will eventually lose the battle to protect it here in Washington." The current unspent balance is estimated to grow to $25.2 billion by 2004; see Paul Cullinan, *Statement on CBO's Spending Projections for the TANF Program and Federal Child Care Programs before the Subcommittee on Human Resources, Committee on Ways and Means, U.S. House of Representatives* (March 16, 1999), Table 1.

91. Donald J. Boyd and Elizabeth I. Davis, "How Would a Recession Affect Welfare Spending?" *Rockefeller Institute Bulletin* (1999), p. 48.

92. To tap the federal fund, a state must experience one of two circumstances: (1) in the most recent 3 months, its average unemployment rates must have been at least 6.5 percent and have increased at least 10 percent from the corresponding rate in one of the two preceding years, or (2) its average monthly Food Stamp caseload for the most recent 3 months must have increased at least 10 percent compared with the corresponding period in 1994 or 1995. A state must also spend at least 100 percent of its AFDC expenditures prior to welfare reform. Finally, states must match any funds received from the fund at the matching rate under the Medicaid program; see U.S. General Accounting Office, *Welfare Reform: Early Fiscal Effects of the TANF Block Grant* (Washington: U.S. Government Printing Office, August 1998), pp. 23-5.

93. Pamela Loprest and Gregory Acs, *Profile of Disability Among AFDC Families* (Washington: The Urban Institute, 1996).

94. Marie Cohen, *Work Experience and Publicly-Funded Jobs for TANF Recipients* (Washington: Welfare Information Network, 1998).

95. Larry Orr, et al., *Does Training for the Disadvantaged Work? Evidence from the National JTPA Study* (Washington: The Urban Institute, 1996); and Clifford Johnson and Ana Carricchi Lopez, *Shattering the Myth of Failure: Promising Findings from Ten Public Job Creation Initiatives* (Washington: Center on Budget and Policy Priorities, 1997).

96. Programs consistent with this recommendation generally have four characteristics:

• *To make the created jobs less attractive than other alternatives, wages should be lower than for regular employment.* For example, in Wisconsin, community service jobs pay the equivalent of $3.91 per hour, substantially below the $5.15 per hour federal minimum wage.

• *Work experience should build participants' work readiness.* Through close attention from supervisors as well as mentoring and other forms of peer support, participants should be assisted to develop behavior and attitudes appropriate to the workplace. As rapidly as they can adapt, they should become subject to the same work requirements, production expectations, and discipline as regular employees.

• *Participants with barriers to employment should receive services to remove these barriers.* Among the issues commonly arising among TANF recipients are health problems (include substance abuse) and unstable home situations (including domestic violence).

• *Participation should be time-limited.* For example, in Wisconsin, a welfare recipient may hold a community service job for no more than nine months.

97. Maria L. Buck, *Tulsa's IndEx Program: A Business-Led Initiative for Welfare Reform and Economic Development* (New York: Manpower Demonstration Research Corporation, 1997).

98. U.S. Department of Labor, *A Dialogue: Unemployment Insurance and Employment Service Programs* (Washington: U.S. Government Printing Office, 1998), p. 5. In 1998, the proportion of the unemployed who received unemployment insurance payments ranged from 67 percent in Alaska to 17 percent in Oklahoma.

99. Wayne Vroman, *Effects of Welfare Reform on Unemployment Insurance* (Washington: The Urban Institute, 1998).

100. Advisory Council on Unemployment Compensation, *Collected Findings and Recommendations: 1994-1996* (Washington: U.S. Government Printing Office, 1996), pp. 18-20.

101. Unpublished data from the Unemployment Insurance Service, U.S. Department of Labor. Estimates are for implementation of an alternative base period, inclusion of part-time workers, and inclusion of low-wage workers.

102. *EBRI Databook on Employee Benefits* (Washington: Employee Benefit Research Institute, 1996), p. 227, data refer to 1995; and *Medicaid and Title XXI Eligibility of Uninsured Children Under Age 19, 1998 — Legislated Eligibility* (Washington: American Academy of Pediatrics, December 1997).

103. *The Economics of Child Care*, p. 1; and Long and Clark, Table 3.

104. Helen Blank, *Child Care Falling Short for Low-Income Working Families* (Washington: Children's Defense Fund, 1998), p. 5.

105. Wisconsin Department of Health and Family Services, *Badgercare Program Summary* (www.dhfs.state.wi.us/badgercare, 11/99); and Len Nichols, Leighton Ku, Stephen Norton, and Susan Wall, *Health Policy for Low-Income People in Washington* (Washington: The Urban Institute, 1997).

106. Illinois Department of Children and Family Services (www.state.il.us/dcfs, 10/99). Data for median income is for a 4 person family, Fiscal Year 1997, *Federal Register*, Vol. 61, No. 54, p. 11213; The number of children served is calculated from data in *Statistical Abstract of the United States 1995* (Washington: U.S. Government Printing Office, 1995), Table 34.

107. This box is adapted from *American Workers and Economic Change* (New York: Committee for Economic Development, 1996), p. 12. Other CED policy statements on education include *The Employer's Role in Linking School and Work* (1998), *Why Child Care Matters* (1994), *Putting Learning First: Governing and Managing the Schools for High Achievement* (1994), T*he Unfinished Agenda: A Vision for Child Development and Education* (1991), and *Children in Need: Investment Strategies for the Educationally Disadvantaged* (1987).

108. U.S. Department of Education, *Digest of Education Statistics 1997* (Washington: U.S. Government Printing Office, 1997), p. 417; U.S. Bureau of the Census, *Educational Attainment in the United States: March 1997* (Washington: U.S. Government Printing Office, 1997), Table 9; David Boesel, Nabeel Alsalam, and Thomas M. Smith, *Educational and Labor Market Performance of GED Recipients* (Washington: U.S. Government Printing Office, 1998); and Marc Bendick, Jr. and Mary Lou Egan, *Jobs: Employment Opportunities in the Greater Washington Area for People Without High School Diplomas* (Washington: Greater Washington Research Center, 1986).

109. U.S. Department of Education, *Forty Percent of Adults Participate in Adult Education Activities: 1994-95* (Washington: U.S. Government Printing Office, 1995), p. 2.

110. U.S. Department of Education, *Adult Education for Limited English Proficient Adults, Fact Sheet 3* (Washington: U.S. Government Printing Office, 1995).

111. "Education Opportunities in Correctional Settings," *Corrections Compendium* (September 1997), p. 4; U.S. Department of Education, *Literacy Behind Prison Walls* (Washington: U.S. Government Printing Office, 1998); U.S. Department of Education, *Fact Sheet...Correctional Education* (Washington: U.S. Government Printing Office, 1998). Data are for 1996. See also Jamie Lillis, "Prison Education Programs Reduced," *Corrections Compendium* (March 1994), p. 2.

112. Data are for FY 1995, calculated from data in *Appendix, Budget of the U.S. Government, Fiscal Year 1997*, (Washington: U.S. Government Printing Office, 1996), p. 405; U.S. Department of Education, *Adult Secondary Education Program* (Washington: U.S. Government Printing Office, 1996); and U.S. Department of Education, *Digest of Education Statistics 1997*, pp. 11, 161. The quotation is from the Office of Technology Assessment, U.S. Congress, *Adult Literacy and New Technologies: Tools for a Lifetime* (Washington: U.S. Government Printing Office, 1993), p. 12.

113. Richard L. Venezky and Daniel A. Wagner, *Supply and Demand for Literacy Instruction in the United States* (Philadelphia: National Center on Adult Literacy, University of Pennsylvania, 1994), p. 4; and Hal Beder, *The Infrastructure of Adult Literacy Education: Implications for Policy* (Philadelphia: National Center on Adult Literacy, University of Pennsylvania, 1996), p. 6.

114. *Fiscal Year 1997 Annual Report, Building a Better Way to Work: Year III of the Massachusetts One-Stop Career Center Implementation* (www.masscareers.state.ma.us/scripts/runisa.dll?CCIApp:1997:457239, 1/99); see also *Survey Results: One-Stop States and National Learning Laboratories Best Practices to Meet Employer Needs* (Washington: National Alliance of Business, 1998).

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116. *1998 State of the Industry Report: Training Expenditures* (Alexandria, VA: American Society for Training and Development, 1998); U.S. Department of Labor, *1995 Survey of Employer Pro-*

vided Training-Employee Results (Washington: U.S. Government Printing Office, 1996), Table 3; and Levy and Murnane.

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120. Susan Jackson, et al., *Diversity in the Workforce* (New York: Guilford, 1992); and Roosevelt Thomas, *Beyond Race and Gender, Unleashing the Power of Your Total Workforce by Managing Diversity* (New York: American Management Association, 1991).

121. For examples of productivity-enhancing diversity initiatives, see Marc Bendick, Jr., Mary Lou Egan, and Suzanne Lofhjelm, *The Documentation and Evaluation of Anti-Discrimination Training in the United States* (Geneva: International Labor Office, 1998), pp. 73-6, and *American Workers and Economic Change*, pp. 50-1.

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Memoranda of Comment, Reservation, or Dissent

Page 3, COLETTE MAHONEY, with which JOHN DIEBOLD has asked to be associated

This report is impressive, and its research and analysis will be most useful to those in the public and private sectors who continue efforts to make work work.

Although work may offer a realistic alternative for many welfare families, it does not do so for all, especially in the short run. Eager to declare welfare reform a success, the nation tends to applaud heartening stories of families that succeed under the new rules without balancing concern for families that do not. Between 1995 and 1997, the poorest 10 percent of single mothers with young children saw their already-meager incomes decline by 14 percent, and the number of children living below *half* the poverty threshold rose by 9 percent. The most extreme cases are found doubled up with family or friends who are themselves poor and severely stressed, or in growing numbers in homeless shelters and feeding programs.

This report properly identifies *part* of the appropriate response to these unacceptable developments: more extensive and effective work-supportive services, especially by states currently ignoring this obligation; aggressive outreach to ensure that needy families receive all the public assistance to which they are currently entitled; and review of programs such as Disability Insurance to ensure that they actually meet the needs of those they are supposed to serve. But beyond that, the nation should reconsider the provisions in PRWORA that ended entitlement to support for single parents with young children and imposed severe, arbitrary time limits. Some families simply require more time and more help. Their very real needs should not be sacrificed in subservience to abstract principles, even worthy ones such as work.

Page 8, PRES KABACOFF and STEFFEN E. PALKO with which ALAN BELZER and PETER A. BENOLIEL have asked to be associated

Individuals who work full time, year round at jobs that pay slightly above the minimum wage can move their families toward the official federal poverty threshold, roughly $13,000 per year for a typical welfare household. But that income still leaves families struggling to meet essential expenses, including rent in decent housing, three meals a day, basic health care, and work-related costs such as child care and transportation. A more realistic measure of *livable* income is half the median household income, now averaging $19,500 per year. The corresponding hourly wage, up to twice the minimum wage, often exceeds what employers can justify paying low-skill workers based on productivity.

The federal Earned Income Tax Credit (EITC) already plays an essential role in bridging this income gap. Its current cap of $3,816 urgently needs to be raised so that it can move low-skill working families well beyond the poverty threshold to a livable income. This raise should be shaped to provide incentives to work full time or stay continuously employed, encouraging low-wage workers to work in ways that will speed them toward eventual self support. The nation must make substantial expansion of the EITC its highest anti-poverty priority.

Above all, we must not forget that the households on welfare are primarily single mothers with young children. Research has found (as CED also noted in its 1993 report, *Why Child Care Matters)* that high-quality child care can have significant immediate benefits for children in terms of improved cognitive ability, early school achievement, and social adjustment, and there is increasing evidence of longer term educational gains as well. In addition, participation in such programs generates physical health, nutrition, and family benefits. We therefore believe that our society will eventually realize sizable returns from investments in quality child care in the form of more productive adults, who will also pay taxes, and lower costs for welfare, criminal justice, and remedial education. A substantial increase in the EITC is the best way to assist working poor families to afford the $5,000 or more per year that quality child care typically costs.

On the report as a whole, JOSH S. WESTON with which PETER A. BENOLIEL AND JOHN DIEBOLD have asked to be associated

I enthusiastically endorse this CED policy statement. However, I do wish to call attention to three issues that the statement either does not address or that require further comment:

1. I believe that Congress should again increase the minimum wage as a means of both encouraging more welfare recipients to work and helping them to become more self-sufficient. Relatively few workers are currently at today's minimum wage of $5.15 per hour, and the last increase in the minimum wage does not appear to have reduced the demand for low-skill labor significantly, either for the economy as a whole or for a noticeable number of employers.

2. (Page 41) The policy statement recommends extending Unemployment Insurance (UI) to seasonal, temporary, and part-time workers, some of whom are currently covered in some states. I believe that the states, in implementing this recommendation, must pay careful attention to the many non-full-time employees who choose voluntarily to work part time. It would be inappropriate for them to receive UI benefits during their self-imposed unemployment.

3. (Page 23) The policy statement notes that the official federal poverty thresholds, which are used as the reference point for defining poverty, are now out of date and in many respects inappropriate. It points out that the current measure excludes important sources of non-cash income and taxes, neglects differences between the needs of workers and non-workers, takes no account of differences in health status and insurance coverage, and ignores large geographic differences in the cost of living. Without endorsing the specific recommendations of the 1995 National Research Council panel, I agree with its recommendation that immediate action should be taken to update and improve the poverty measure.

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Transnational Corporations and Developing Countries: New Policies for a Changing World Economy *(1981)*
Stimulating Technological Progress *(1980)*
Redefining Government's Role in the Market System *(1979)*
Jobs for the Hard-to-Employ: New Directions for a Public-Private Partnership *(1978)*

CED COUNTERPART ORGANIZATIONS

Close relations exist between the Committee for Economic Development and independent, nonpolitical research organizations in other countries. Such counterpart groups are composed of business executives and scholars and have objectives similar to those of CED, which they pursue by similarly objective methods. CED cooperates with these organizations on research and study projects of common interest to the various countries concerned. This program has resulted in a number of joint policy statements involving such international matters as energy, East-West trade, assistance to developing countries, and the reduction of nontariff barriers to trade.

CE	Circulo de Empresarios Madrid, Spain
CEDA	Committee for Economic Development of Australia Sydney, Australia
EVA	Centre for Finnish Business and Policy Studies Helsinki, Finland
FAE	Forum de Administradores de Empresas Lisbon, Portugal
FDE	Belgian Enterprise Foundation Brussels, Belgium
IDEP	Institut de l'Entreprise Paris, France
IW	Institut der Deutschen Wirtschaft Cologne, Germany
経済同友会	Keizai Doyukai Tokyo, Japan
SMO	Stichting Maatschappij en Onderneming The Netherlands
SNS	Studieförbundet Naringsliv och Samhälle Stockholm, Sweden