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From welfare to work: Prospects for transition

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Welfare reform is at the top of the agenda for many members of the new Congress. But, as John Dorrer observes in the following article addressing this increasingly important topic, no silver bullet for solving our welfare problems has been found. He urges welfare reformers to attempt to understand the social and economic contexts in which our welfare system operates and to move cautiously in making changes.

By John Dorrer

Introduction

Steadily rising welfare costs and widespread perceptions that benefits are going to the undeserving have resulted in ambitious welfare reform proposals. Policy makers at the local, state and federal level have attempted to curtail and reshape welfare programs ever since their inception. Strategies have been focused on limiting benefits and on providing employment development services to put recipients to work. There is little concrete evidence, however, that piecemeal reforms over the years have been successful. Expenditures for welfare and caseloads have continued to grow. From politicians to talk show hosts, criticism of the welfare system remains a favorite subject. A new round of proposals for changing the face of welfare will be debated in the 104th Congress and reforms will continue to be enacted in state houses across the country. Once again, common to these proposals will be strong assertions that welfare benefits should be limited in duration and that recipients should go to work. The proposed solutions for America's welfare problems need to be examined more closely before we embrace simple formulations as the panacea.

Welfare reformers are advancing two types of solutions. First, by limiting benefits to a specified number of years, welfare recipients would be forced to find employment or some other means of support as benefits are exhausted. A second solution recognizes that welfare recipients often lack the education and skills to compete in the job market. This approach provides for employability development, education and training programs. Both approaches assume that job opportunities are accessible and available when benefits are withdrawn or new skills are gained.

The terms and conditions set by the job market today and in the future will play an integral part, if welfare reforms are to succeed. Over the last 25 years, the number of stable, entry level jobs with good wages and benefits has rapidly been eroding. The combined forces of business restructuring, foreign competition and the application of technology have taken their toll. These trends will continue to impact the availability and quality of jobs. At one end of the market, the entry level, low wage, low skill jobs with limited benefits provide access to those even with minimum skills. These jobs are vulnerable to automation and redefinition as we seek to increase productivity in all sectors of our economy. At the upper end, jobs demanding high levels of education and experience continue to be generated and are available to those able to meet competitive hiring criteria. The job base, consisting of jobs with low skill levels, good pay and

adequate benefits that occupy the middle of the skill and earnings spectrum, is disappearing. The restructuring of the economy is also creating vast displacements of experienced workers who are competing for the available jobs. Many experienced workers are suffering economic hardship by losing tenured jobs and watching their incomes decline rapidly. Welfare recipients will find a very competitive labor market where educational preparation and advanced skill levels will increasingly matter for the determination of economic well-being.

Our country has experimented with a number of remedies for helping welfare recipients enter the job market. One approach has sought to place recipients in subsidized, public service jobs. This option has not generated much enthusiasm from politicians who are seeking to pair down budgets and reduce deficits. Other employability development strategies call for simple job search assistance to encourage quick movement from welfare to a job. More intensive approaches that prescribe investments in education and training have also been attempted to prepare welfare recipients for better jobs in the economy.

Alternative approaches seek to apply incentives for welfare recipients and others with low incomes by offering tax credits. The Earned Income Tax Credit (EITC) provides income subsidies to those whose earnings keep them at the poverty level. This measure is designed to make low wage jobs more attractive. On a limited scale, experiments have been launched whereby welfare recipients retain certain benefits, such as medical insurance coverage and child care, while in an unsubsidized job. No single solution has emerged thus far as the "silver bullet" for solving our welfare problems. The quick fix has been elusive. If we fail to examine our welfare system in the broader context of the social and economic change occurring in our society, it will not matter which political philosophy is in the lead; the results of the next round of reforms could be disappointing.

The evolution of welfare programs

Welfare programs are for those in our society who are simply no longer able to provide for themselves. The sick, the indigent and those caught in the crossfire of economic change are assumed to be victims in need of help. In an earlier time, the existence of established communities, where neighbors looked out for each other, served in place of what we now call the safety net of public programs and benefits. Then, through private charities and religious institutions, our society assumed a responsibility for those unable to cope. Assistance was offered when needed to help those in transition. There was limited controversy because government had virtually no role.

With the onslaught of the "Great Depression" in the 1930s, traditional approaches to assisting the poor were deemed inadequate. The flight of the principal breadwinner from hundreds of thousands of families forced the federal government to create the Aid to Dependent Children (now called Aid to Families with Dependent Children or AFDC) Program. Under this program, women with children who had no other means of support were provided monthly income support as a temporary measure until steady income was restored to the household. Those who advanced the program saw it as a transition measure and never intended it to become a way of life. As America moved to become a dynamic industrial economy and its population became more mobile, women and children became more vulnerable and in need of government protection.

By the 1960s, the "culture of poverty" was recognized by policymakers and became the object of new attempts at social engineering to change the plight of our poor. The "War on Poverty" with its "Great Society" programs set out to "eliminate poverty in our lifetime." Renewed commitments were made to provide opportunity for those in need so that they could participate as active contributors and become beneficiaries of a growing economy. Experiments offering educational remedies, job training, and advocacy through the courts sought to lift large numbers from low incomes and idleness to become active participants in our society and economy. Many of the tools and techniques we are using today for reforming welfare programs have their origins in this period.

The Work Incentive Program (WIN), introduced during the 1970s, sought to provide welfare recipients with education, training and support services to support moves to self-sufficiency. In 1988, the Family Support Act was passed and with it, the Job Opportunities and Basic Skills Program (JOBS). Championed at the time as a major reform and with broad-based political support, the program offered education, training, and job placement services through a state/federal partnership and cost sharing. Participation is voluntary, for the most part, and has yielded limited numbers of enrollments in employment, education, or training programs. Dilemmas have emerged about how best to invest limited program resources. On one hand, more expensive education and training strategies result in fewer individuals able to participate in the program. Alternatively, low cost approaches consisting of job search assistance exclusively yield higher participation numbers. These low cost approaches fail to remedy educational deficits or build the skills needed by participants to access good jobs. The struggle, between what are perceived as punitive measures versus those that are developmental, will continue to occupy the welfare debate.

Labor market conditions matter

The move from welfare to a job figures prominently in any welfare reform strategy. Labor market conditions are paramount determinants of success for such reforms. Research by Isaac Shapiro and Robert Greenstein (1993) of the Center on Budget and Policy Priorities reports that in 60 percent of the poor families with children (15 million people), a worker was present in the household. For at least a third of these families, the worker was employed year-round and full-time. Research, by Heidi Hartman and Roberta Spalter-Roth (1993) of the Institute for Women's Policy Research, shows that among single mothers on welfare over a two-year period, about 50 percent also reported income from paid work generating about one third of their family incomes, with the balance coming from welfare payments and child support. Their research indicates that women on welfare are three times as likely as other women to work as maids, cashiers, nursing aides, child care workers, and waitresses. These are among the lowest paying jobs in our society and typically offer no or very limited benefits. Income from work is often inadequate to make ends meet.

Rapid change is occurring in our labor markets. Over 20 million new jobs are expected to be added to our work force over the next 10 years (U.S. Department of Labor 1993). This represents a labor force increase of 20 percent to about 150 million people by the year 2005. Along with the creation of new jobs, many more jobs will be affected by changing technologies, new products and techniques, foreign trade, and other factors. Between 1992 and 2005, jobs requiring

education after high school will grow faster than those requiring only high school education. Less education also means less compensation. Table 1 reports median annual earnings by occupation and level of education in 1987. The earnings gaps indicated will accelerate in the years ahead.

The differential between those who have less than a high school education and those who have completed high school is \$3,654 or 24 percent, for all occupations. For those who have a high school education in comparison with those who have completed four or more years of college, the differential is \$12,127 or 64 percent. Among the 50 fastest growing occupations between 1990 and 2005, we find nearly all require training or education beyond the high school level. Competition for low-skill jobs is increasing as they continue to shrink in absolute numbers. While Homemaker-Home Health Aides are projected to be the fastest growing occupation with an increase of 88 percent between 1990 and 2005, pay is generally low, benefits are limited and entry requirements are going up as even these occupations are being transformed. By the year 2005, projections indicate that nearly four out of five job openings will be in industries that provide services. It is generally assumed that the service economy is dominated by retail sales workers, restaurant workers, and cashiers. In reality, the fastest growing occupations will be those that require the most educational preparation. To be competitive, considerable investments in education and skill development will be required for welfare recipients, who often lack a high school diploma or other basic labor market credentials needed to successfully move into jobs with good incomes.

Evaluations of welfare employment programs e

Evaluation findings from state-level experiments with welfare employment and training programs offer some insight as to what may be in store. Project Independence has operated as Florida's statewide welfare-to-work program since 1987. It aims to increase the employment and foster the self-sufficiency of applicants for, and recipients of, Aid to Families with Dependent Children (AFDC), the major federal/state cash welfare program. A report from an evaluation by the Manpower Demonstration and Research Corporation (MDRC), which included a research sample of 18,000 single parents (most of them mothers), found that short term effects on labor market and AFDC outcomes were positive (Kemple and Haimson 1994). Project Independence increased first year employment rates and earnings and reduced first-year AFDC receipt rates and payments. After the first year, 64 percent of those referred to the program were receiving AFDC compared with 69 percent of a control group that did not have access to the program. The program produced first year earning gains averaging \$157 per referred person over the control group. The report indicated that earning gains were concentrated among two groups: (1) individuals defined by the program as "job-ready" and who were therefore targeted to participate in individual job search as their first program activity, and (2) single parents whose youngest child was age six or older. While these results appear positive, they are not significant in terms of making a difference in living standards for individual participants. Follow-up studies are not yet available and little is known about the long-term consequences of these interventions.

The Greater Avenues for Independence Program (GAIN) in California is another welfare employment and training program where limited evaluations have been conducted. More in-depth analysis of the results of the GAIN program by Betsy Reed (1994) generally supports the

evaluation studies completed by the Manpower Demonstration Research Corporation in Florida. In one particular county, Riverside, an emphasis was placed upon immediate job search and acceptance of any job. Results showed that for every dollar invested by the government in job search programs, \$2.84 was returned. The earnings of participants rose by 49 percent and their welfare costs were 15 percent lower. Reed points out that the earnings of most Riverside participants did not go up. Instead, the 49 percent figure merely reflects that a greater number got jobs. In comparison to an Alameda County program, where the emphasis was placed on intensive education and training investments, the Riverside results raise some fundamental questions. In Alameda, the program encouraged intensive education and training along with the pursuit of good jobs. Earnings rose 21 percent with half of that coming from participants getting better jobs rather than greater numbers finding lower paying positions. With a focus on job search as the sole intervention, questions remain relative to how long these gains will hold up. Data shows that 70 percent of welfare recipients leave welfare programs within two years and that most will fall back within five years. Absent new skills and credentials, welfare recipients and those pushing for immediate labor market entry may find that gains are short-lived. Our public policies may be sponsoring false economies. A cycle from welfare to work and back again may be perpetuated.

Workfare is another option designed to put welfare recipients to work in public service projects. Workfare programs require welfare recipients to work off their checks through community service. There is little evidence that workfare increases earnings and employment of participants. The program is expensive and does little to build skills and establish credentials that are transferable to the private economy.

The general labor market evidence is clear. Investments in education and training pay off. While the earnings differential between high school and college graduates is 64 percent, the differential for those with high school educations and those with some post-secondary training is still over \$3,000 annually or 16 percent. Like for the rest of us, the more welfare recipients invest in education and training, the more likely they will access better jobs, achieve a standard of living above the poverty level, and remain off welfare. The current emphasis on job search and quick job placement may yield a short-term solution that looks good. The signals from the labor market suggest that easy-entry jobs will not offer the more durable solution that welfare recipients need to break out of poverty and gain independence.

Adding the earned income tax credit

To encourage labor market-based solutions, policymakers have sought out various incentives to favor choosing work over welfare. Among the more recent strategies is the Earned Income Tax Credit (EITC). The Earned Income Tax Credit is a tax benefit for working families with at least one child and an income of less than \$23,050 in tax year 1993. The concept has its origins in the 1960s, when Milton Friedman and others proposed the negative income tax as a countermeasure to the proliferating programs and interventions in the "War on Poverty." Eligible families qualify for a tax credit of as much as \$2,364 and access it by simply filing a Federal Income Tax Return. The credit is also available to families who are not required to file income taxes because of low income.

There are three parts to the Earned Income Tax Credit (U.S. Department of Labor 1994). The first part is the basic credit for families with one child and was worth a maximum \$1,434 in 1993. For families with more than one child, the basic tax credit was worth up to \$1,511. The amount of credit varies according to family income level. The second part stipulates that families with a child born in 1993 can receive an extra benefit of up to \$388. In the third part, families who pay at least part of the premium for a health insurance policy that includes coverage for a child may receive an extra benefit of up to \$465. Families that qualify for both the basic and extra credit could receive up to \$2,364 in 1993. Changes enacted in August of 1993 will expand and simplify EITC. Benefits will become larger and, for the first time, low income workers with no children will become eligible. There is also a provision whereby workers can receive advance payments. By filing a W-5 Form, employees would then receive up to 60 percent of their tax credit through weekly paychecks.

In practical terms, the Earned Income Tax Credit will give low income workers a raise and thus create incentives to work. Table 2 examines the effect of the EITC upon varying levels of hourly wages assuming EITC changes are fully enacted for 1994.

When food stamp benefits, along with housing subsidies, are added to incomes for qualifying families, the effects become even more pronounced. The availability of the Earned Income Tax Credit offers significant incentive for choosing work over welfare. In spite of the income effects of the EITC, the availability of health insurance for welfare recipients will likely remain a significant factor in choosing work over welfare. Absent universal health insurance coverage, the continuation of some form of medical insurance during the transition to a job must be considered by reformers.

The content of current reform proposals

The contemporary view of what welfare programs should be can be found in the Clinton Administration's Work And Responsibility Act of 1994. This legislative proposal provided the follow through on President Clinton's campaign promise to "end welfare as we know it." While competing proposals exist, and others will surely be introduced with the recent shift in political power in the Congress, it captures the new thinking. It states in its opening:

"The current welfare system is at odds with the core American values: work, family, opportunity, responsibility. Instead of rewarding and encouraging work, it does little to help people find work, and punishes those who go to work. Instead of strengthening families and instilling personal responsibility, the system penalizes two-parent families, and lets too many absent parents who owe child support off the hook. Instead of promoting self-sufficiency, the culture of welfare offices seems to create an expectation of dependence rather than independence. The people who hate the welfare system the most are the people who are trapped by it. It is a time to end welfare as we know it, and replace it with a system that is based upon work and responsibility designed to help people help themselves."

Key features of the Act (White House, 1994) include the following:

- **A Personal Employability Plan.** From the outset, self-sufficiency will be the goal. Each recipient will be required to sign a personal responsibility agreement and to develop, with the caseworker, an employability plan identifying the education, training, and job placement services needed to move into the workforce. Most plans will aim for employment within two years based upon existing data, which shows that 70 percent of welfare recipients leave the rolls within 24 months.
- **A Two-Year Time Limit.** Provides for a lifetime maximum of 24 months of cash assistance.
- **Job Search First.** Job-ready participants will be immediately oriented to the workplace and any one offered a job will be required to take it.
- **Program Integration.** Welfare job training will be integrated with existing programs such as the Job Training Partnership Act, Pell Grants, and other mainstream programs.
- **Sanctions.** Parents who refuse to stay in school, to look for work, or to attend job training programs will be sanctioned by losing their share of the AFDC grant.
- **Limited Exemptions and Deferrals.** Mothers with disabilities and those caring for disabled children will initially be deferred from the two-year limit, but will be required to develop employability plans that lead to work. Mothers of infants will receive short-term deferrals (12 months for first child, three months for the second).
- **Rewards Work.** Provides for the reinforcement of work by setting higher earned income and child support disregards. In addition, proposes new rules and demonstration projects to support savings and self-employment.
- **Flexibility.** Gives states more flexibility to innovate and to learn from new approaches by providing state options.
- **Additional Federal Funding.** Provides additional federal funding through an overall increase as well as raising the current federal match. States with high unemployment would qualify for even greater federal matches.

The Work and Responsibility Act of 1994 is based upon three major incentives to support a choice of work over welfare:

- **The Earned Income Tax Credit (EITC).** Already enacted by Congress, the EITC will effectively make any minimum wage job pay \$6.00 per hour for a typical family with two children.
- **Health Care Reform.** Assumes universal health care provided through the workplace.
- **Child Care.** The plan guarantees child care during education, training, and work programs and for one year after participants leave welfare for employment.

As welfare reform is debated by a more conservative Congress in the next session, calls for even more stringent limits on length of qualification for welfare benefits will be introduced. Other proposals that will be debated would shift the AFDC program fully to states. In return, the federal government would assume full responsibility for the Medicaid program. Whether welfare programs are fully administered at the state level or whether periods for benefits collection are cut shorter, welfare reforms will count on labor market-based solutions to reduce caseloads and costs.

Summary and conclusion

As the 104th Congress begins the next round of the welfare reform debate and new public policies are created to shape contemporary, cost effective public assistance programs, critics and proponents alike need to examine the assumptions and the context upon which we are building our strategies. For those who view welfare as a transitional system of benefits, expenses will be reduced by simply limiting the period of qualification. When benefits are exhausted, recipients will be forced to take jobs or to find some other means of support. Others argue that if we are to limit benefits, we also have an obligation to prepare recipients for self-sufficiency. They call for additional investments in education and training to effectively prepare welfare recipients for work. Millions of Americans, however, in spite of working full-time and year-round, continue to find themselves in poverty. This phenomena is even more pronounced for women, who tend to suffer from wage discrimination and disproportionate representation in jobs at the bottom rung of the earnings ladder. While job search strategies alone have shown positive results in the short run, there is little evidence available that supports their prescription as a permanent solution to reducing welfare caseloads. Easy-entry, low-wage jobs may look attractive as an alternative to welfare programs for those seeking to reduce welfare expenditures. They do not provide adequate incomes or benefits to support a basic living standard. That 70 percent of welfare recipients collect benefits for less than two years while the majority also return to welfare dependence within five years, suggests that they lack preparation and abilities to compete for better paying jobs.

Additional education and training is rewarded by the labor market. Evidence points to significant earnings differentials between those who lack a high school education and those who have credentials beyond high school. The demands of the job market will continue to favor those with more education and training. As the data clearly demonstrate, greater investments in education and training propel individuals away from poverty. At the same time, we create a more competitive human resource base for our economy. Millions of Americans have historically benefited from public education and training subsidies to enhance their earnings potential. We should not deny these opportunities to those on welfare. Vast improvements are needed in how we make education and training benefits and subsidies available to those who need them. The bewildering array of education and training programs, each with their own set of eligibility and participation rules, needs desperate streamlining and simplification. The granting of welfare benefits and enrollment in education and training should go hand-in-hand. Incentives for performance and achievement in the classroom need to be encouraged. Large processing bureaucracies that add little value but absorb massive costs are no longer necessary. The GI Bill managed to provide large-scale education and training subsidies through a simple, low-cost delivery system. Fresh approaches are needed in how we dispense benefits while retaining full accountability.

Work with adequate earnings and dignity is preferable over welfare. The introduction of the Earned Income Tax Credit will surely create greater incentives to choose work over welfare. The program will prove costly as more Americans discover its benefits, and questions remain as to whether we are willing to make such increasing commitments. There still remains a large hole for welfare recipients who need the protection of health insurance. Even with increases in earnings subsidized through tax credits, health insurance remains very costly when not provided

through the employer. The Clinton Administration's welfare reform proposal assumed that their health care reform proposals would be accepted. That prospect is now very unlikely. Furthermore, child care subsidies, during participation in education and training and up to one year after recipients leave welfare for employment, were provided for in the plan. A more fiscally conservative Congress likely will not grant such benefits.

In the final analysis, welfare recipients will continue to make rational choices. When the combined earnings and benefits of a job outweigh those of welfare, they will go to work. It is a choice that can be greatly influenced by the intensity of investments that are made in education and training. The Clinton proposal has structured this choice in the most comprehensive and rational fashion yet. Proposals less comprehensive and more limiting in benefits will likely gain favor in months ahead. We should proceed with great caution before we embrace the adoption of simple solutions to complex problems.

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