Welfare Reform: Behind the Headlines

Using Work to Reform Welfare

Work can't end dependency, but it can make welfare a less attractive option.

By Douglas J. Besharov

ashington is in the midst of yet another of its periodic bouts with welfare reform. Since John F. Kennedy, every president except George Bush has tried to reform welfare. None of their plans succeeded because they did not face up to the realities of welfare dependency and the limited ability of job training programs to raise the earnings of poorly educated mothers. They sought to eradicate dependency, neglecting the more manageable task of reforming welfare. The difference is not a mere quibble about words, but rather will decide the ultimate success or failure of this latest round of "reform."

In essence, there are two groups of mothers on Aid to Families with Dependent Children (AFDC), the nation's basic welfare program:

- short-term recipients—mothers who go on welfare and get off relatively soon, and
- long-term recipients—mothers who go on and stay on for a long time.

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The first group is quite large. In fact, about half of the mothers who go on welfare in any particular year leave within two years. For them, welfare works relatively well as a temporary helping hand. But if one looks at the composition of current welfare caseloads, a picture of much greater dependency emerges: About 82 percent of all mothers now on welfare are in the midst of spells that will last five years or more, and about 65 percent are caught up in spells of eight or more years. It is these long-term recipients who give welfare its bad reputation and generate repeated calls for reform.

Analyzing the differences between short- and long-term recipients offers the best way to understand the problems with the current welfare system—and what needs to be done to correct them. Short-term recipients tend to be women who go on welfare after having finished their schooling, worked at least for a while, gotten married, and had children, and who then see their families break up. Long-term recipients, on the other hand, go on welfare at much younger ages, without having finished school, and usually after having had children



born out of wedlock. According to the House Ways and Means Committee, unwed mothers average almost 10 years on welfare, twice as long as divorced mothers.²

The Welfare Trap

he essential difference between the two groups is earning capacity. Those mothers who can earn enough to "make work pay" tend to work. Those who cannot, tend to stay on welfare. Of course, there is a whole spectrum of capabilities; and the women in the middle of the spectrum tend to cycle on and off welfare as they find what they think are good jobs, only to lose them—or to discover that their earnings are smaller than their welfare benefits.

Table 1. Welfare vs. Work for Female High-School Dropouts

Benefits, U.S. earnings in 1993 dollars Welfare Age 18-24 Age 25-34 earners earners **AFDC** 4,949 0 0 2,970 1,837 Food stamps 2,425 Medicaid 4,307 0 0 WIC 405 405 405 4,803 3,202 2,727 Housing **Earnings** 12,857 14,836 Federal income tax 0 0 -237 0 -197State income tax **FICA** 0 -977 -1,128Childcare 0 -2,571-2,967 Other work expenses 0 -1,000-1,000 1,144 0 Current EITC 1,419 Expanded EITC 0 2,979 2,562 Welfare total 17,434 Medicaid adjustment -4,30715,617 Under current EITC 13,127 15,583 1.38 Net hourly wage 1.35 (after subtracting lost welfare benefits and costs of working) 17,022 16,948 Under expanded EITC 13,127 Net hourly wage 2.16 2.12 (after subtracting lost welfare benefits and costs of working)

Source: U.S. Bureau of the Census and the author's computations.

LaDonna Pavetti, formerly of Harvard University and now at the Urban Institute, documented the problem: "Several women I interviewed reported going to work and then returning to welfare as soon as they realized they were no better off financially when they were working than when they were on welfare. For these women, the return to welfare was extremely rapid. It took them very little time to realize that they had less money left after all their bills were paid when they were working than they had when they were on welfare."³

Table 1 illustrates how the financial arithmetic of the situation leads almost inexorably to long-term dependency. Consider unwed mothers who have dropped out of school: Average annual earnings for such female high-school dropouts are extremely low. In 1992, 18- to 24-year-old dropouts working full time earned about \$12,900 a year; 25- to 34-year-olds earned about \$14,800. Note that, in 1992, the poverty line for a family of three was \$11,186.4

A welfare mother without any work experience probably could not match even these earnings records, as the Greater Avenues for Independence (GAIN) program results, described below, indicate. Even assuming that she could, it would still not "pay" for her to work. With two children—the national average for welfare families-earners at these levels of education net only \$15,563 and \$15,617, respectively. These figures take into account payroll and state taxes and work expenses, including childcare, which lower the return for work, as well as the earned income tax credit (EITC) and other means-tested programs that raise it. Thus, a welfare mother's current benefits—even ignoring the average \$4,307 in Medicaid for which a welfare recipient with two children is eligible—leave her only some \$2,436 worse off than the lower-salaried mother and \$2,490 worse off than the higher-earning mother.

In other words, should she be lucky enough to get the kind of job held by others with her education level, she would be working for a net wage of only about \$1.35 an hour. And to get this wage, she would have to sacrifice not only leisure time but also the chance to hold down a job in the informal economy, in which unreported income is earned through anything from handiwork to il-

legal activities.⁵
The major expansion in the EITC that President Clinton pushed through Congress will, when fully implemented in 1996, raise the work-earnings numbers significantly—to \$17,022 and \$16,948.⁶ But even this increase will not be enough to break the hold of welfare. Now the same welfare mother would be \$3,895 worse off than the lower-salaried mother and \$3,821 worse off than the higher-earning mother. After deducting the costs of benefits and of going to work, her net hourly wage would be only about \$2.16. If a young parent were to go to work under these circumstances, it still would not be for the money.

The forces shaping the behavior of these young mothers are undeniably more complicated than those por-

trayed in these relatively simple examples. And, certainly, conditions differ widely from community to community and from state to state. Moreover, some of the assumptions in the examples can be questioned. Nevertheless, even if the final calculations are off by 25 percent and Medicaid benefits were deliberately excluded, the point is still beyond challenge: Because of the current level of welfare benefits, work does not "pay" for poorly educated women and children. That is why they are "trapped" on welfare.

The Limits of Job Training

hanging this job-earnings-versus-welfare-benefits calculus is the central challenge of modern welfare reform. Since the late 1960s, the federal government and many state and local agencies have tried to reduce long-term welfare dependency. Most efforts to reform welfare have sought to use job training programs to raise the earnings of long-term recipients high enough to "make work pay." Unfortunately, even richly funded demonstration programs find it exceedingly difficult to improve the ability of young, unwed women to care for their children, let alone to become economically self-sufficient. Earnings improvements in the realm of 6 percent are considered successes. Most programs do not even try to do something with the young fathers.

The best known of these efforts are the job training and education demonstrations funded in the early 1980s and evaluated by the Manpower Demonstration Research Corporation (MDRC). California's welfare-towork program, GAIN, is a case in point. [See "Work Programs and Welfare Reform," page 7.] MDRC's evaluation found that, over two years, average earnings for single parents increased by 20 percent-\$266 in the first year of the study and \$519 in the second—three or four times the usual experience for such programs; but total earnings reached only \$4,620. The county with the greatest improvement, Riverside, was able to increase earnings by \$2,099, although average total earnings over two years were still less than \$6,000—not nearly enough to lift these single mothers off welfare. The welfare rolls declined by only 5 percent in Riverside and by a statistically insignificant amount across all of the counties.⁷

Comparing these results with the earnings of highschool graduates—and high-school dropouts—who work full time reveals the small social impact of these results.

Mandatory Work

n response to these realities, House and Senate welfare reform legislation proposes the complete termination of welfare benefits after five years. Although this position has gained adherents, it is still unacceptable to most people. There is, however, a less drastic way to make welfare more inconvenient for unwed mothers: impose an unequivocal requirement to finish high school and then go to work.

It would be enough if the mandated work merely raised the inconvenience level of being on welfare by requiring these young women to be someplace—doing something constructive—every day.

From almost the first day that a young, unwed mother goes on welfare, she should be engaged in mandatory skill-building activities. The first priority should be that she finish high school, or at least demonstrate basic proficiency in math and reading. After that, if she is unable to find work, she should be assigned to a public-service job or she could face an automatic reduction in benefits if she does not find work on her own.

The political pressure, from unions in particular, will be for these public-service positions to be "real jobs" at "decent wages." This would raise costs to prohibitive levels and make recipients even less likely to leave the welfare rolls. Instead, the focus should be on activities that are appropriate for inexperienced young women—that is, on tasks that offer the discipline of job attendance and the boost to self-esteem that comes with work.

Examples of such activities were described by MDRC's Thomas Brock, who studied the four mandatory work programs mentioned above as well as six others. The activities "did not teach new skills, but neither were they 'make work.' Most were entry-level clerical positions or janitorial/maintenance jobs," such as office aides and receptionists for community nonprofit agencies; mail clerks for city agencies; assistants in daycare programs for children or disabled adults; and helpers in public works departments, sweeping and repairing streets and gardening in city parks. And, although the work requirement did not immediately reduce caseloads, in three of the four sites the value of the services rendered, together with other savings, exceeded the program's cost to taxpayers.⁸

Such activities probably also increase the self-discipline, social contacts, and skills of participants, and, therefore, their employability. This is all positive. It would be quite enough, however, if the mandated work merely raised the inconvenience level of being on welfare by requiring these young women to be someplace—doing something constructive—every day. The object would be to discourage their younger sisters and friends from thinking that a life on welfare is an attractive option.

These requirements should not be considered punitive or vindictive, nor should they be implemented in a way that makes them so. Inactivity is bad for everyone. If young people know that the welfare agency is serious about mandating work, they will be less likely to view AFDC-dependency as an attractive life option.

For young mothers on welfare, it can be even more dispiriting, spiraling some toward immobilizing depression. Child abuse, drug abuse, and a host of social problems are associated with long-term welfare dependency. A work requirement will help to reduce social isolation.

In addition, the welfare mother's parental responsibilities should be respected. A key argument in the debate about requiring welfare mothers to work is that, since so many middle-class mothers are now working, there is nothing wrong with expecting welfare mothers to work. And, in keeping with the careless way that the statistics are often used, the assumption is that welfare mothers should work full time. But most middle-class mothers are not working full time, with the exception of divorced mothers, who often are forced to do so because of failings in the alimony and child support systems. Also, divorced mothers and their children tend to be older than the average unwed welfare mother and her children. Training and work requirements for young welfare mothers, therefore, should vary depending on the age and any special needs of their children.

Thinking Long-Term

t least in the short run, such a "work-to-welfare" program would be much more expensive than the current system because of the added costs for administration to establish and monitor job placements and childcare (to free mothers who work). Congressional Budget Office estimates indicate that monitoring each job would cost \$3,300 annually, and daycare would cost \$3,000 per participant per year—perhaps much more. That means the cost of a mandatory work program would average an additional \$6,300 per participant per year. Since the average AFDC grant is about \$5,000 per year, welfare costs for those in the work program would more than double—without recipients themselves receiving any increase in payments.

Moreover, the available evidence strongly suggests that the immediate effect of such mandatory work programs on caseloads will be small, at best. One of the few systematic evaluations of workfare programs was conducted in Ohio. Welfare mothers in eight counties were subject to a 12-hour-per-week work requirement. Of those on the welfare program for two-parent households—AFDC-UP (for "unemployed parent")—at least one adult was required to work up to 40 hours a week.

An initial evaluation reported an impressive 34 percent reduction in caseloads for two-parent welfare households, and a more modest but still promising 11 percent reduction among female-headed households.⁹

These results, however, were based on a comparison with trends in other counties in the state and have been called into question by subsequent analysis. Less encouraging are the findings of an MDRC report reviewing the impacts of mandatory work programs in West Virginia; in Cook County, Illinois; and in two sites in San Diego, California. In none of the sites were welfare payments reduced because of work requirements.

The long-term impact of such a work requirement, however, could be much greater. A decade-long commitment to such a "workfare" program could change the behavior of disadvantaged teens as the implications of the new regime begin to sink in. If young people know that the welfare agency is serious about mandating work, they will be less likely to view AFDC-dependency as an attractive life option.

It will take some time, however, before new expectations take root and behavior begins to change. Hence, it is important to adopt a 5- or even 10-year perspective on the effort. Moreover, to have this effect, half measures will not do: The work mandate would have to be applied to all recipients. Since the community as a whole tends to establish and enforce behavioral norms, to achieve a change in expectations—and hence in behavior—all young women would have to feel that if they went on welfare they would be subject to school and work requirements.

This could make the program very expensive. But because of the prophylactic purpose of these requirements, they could be imposed prospectively—that is, applied to new applicants only. This would result in a long phase-in period that would sharply lower initial costs. It would also allow modifications in program rules and administration based on what is learned during the first stages of implementation.

Over time, linking welfare to mandatory skill-building activities could reduce caseloads substantially—if disadvantaged young people adjusted their behavior accordingly and stopped having so many babies out of wedlock, instead finishing their schooling and going to work. But even if caseloads do not decline, at least those on welfare might be helped to lead more productive lives. That would be reason enough to reform the system.

Douglas J. Besharov is a resident scholar at the American Enterprise Institute for Public Policy Research, Washington, D.C., and a visiting professor at the School of Public Affairs, University of Maryland, College Park. An earlier version of this article appeared in Jobs & Capital, published by the Milkin Institute for Job and Capital Formation.

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 - 2. Ibid.
- 3. LaDonna A. Pavetti, "Welfare to Work: Breaking the Cycle of Dependency" (Paper presented at the APPAM Annual Research . Conference, Denver, Colorado, October 29, 1992), 18.
- 4. Economics and Statistics Administration, Money Income of Households, Families, and Persons in the United States: 1992 (Washington, D.C., U.S. Census Bureau, 1992): 147, table 30; Ways and Means Committee, 1994 Green Book, 1155.
- 5. A study by Kathryn Edin and Christopher Jencks of 152 welfare recipients in Chicago, Ill.; Charleston, S.C.; and Cambridge, Mass., found that AFDC and food stamps accounted for only 57 percent of their incomes. The rest came from friends, relatives, and absent fathers (21 percent); unreported work (10 percent); Supplemental Security Income and foster care (6 percent); illegal activities (3 percent); and other (3 percent). See Christopher Jencks and Kathryn Edin, "The Real Welfare Problem," The American Prospect (Spring 1990): 31.
- 6. Anomalously, under the Clinton EITC, the lower-earning mother will actually take home more money than the higher earner because of the way benefits decline with additional earnings.
- 7. Daniel, Friedlander et al., GAIN: Two-Year Impacts in Six Counties: California's Greater Avenues for Independence Program (New York: Manpower Demonstration Research Corporation, 1993): xviii.
- 8. Thomas Brock, "Implementation and Impact of Community Work Experience Programs" (Paper presented at The American Enterprise Institute conference "Linking Welfare to Work," Washington, D.C., December 15, 1993), 27.
- 9. Bradley Schiller and C. Nielsen Brasher. "Effects of Workfare Saturation on AFDC Caseloads," Contemporary Policy Issues 11, (April 1993): 40, 45, table 2.