ADVOCASEY

DOCUMENTING PROGRAMS THAT WORK FOR KIDS AND FAMILIES

A PUBLICATION OF THE ANNIE E. CASEY FOUNDATION | SUMMER 1999 | VOLUME ONE | NUMBER TWO

"ABOVE AVERAGE" WELFARE REFORM

THE MINNESOTA FAMILY INVESTMENT PROGRAM

NEW HOPE FOR LOW-INCOME WORKERS

IMPROVING ECONOMIC AND CHILD OUTCOMES IN MILWAUKEE

CANADIAN DOUBLES

EMPLOYMENT, INCOME, AND OTHER IMPACTS OF THE SELF-SUFFICIENCY PROJECT

TAX RELIEF FOR WORKING POOR FAMILIES

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PAGE 2: REWARDING WORK, REDUCING POVERTY

By Douglas W. Nelson

The Casey Foundation has been an advocate for reforming welfare for a long time now. Like many others, we recognized that Aid to Families With Dependent Children did not work for many, if not most, welfare families. It left too many children in deep poverty, it stigmatized too many young parents, it exacerbated tensions between the working poor and the welfare poor, and, for some, it fostered an intergenerational acceptance of dependence.

Knowing that something is broken and fixing it are, of course, two different things. Three years ago the federal government ended "welfare as we know it." And throughout the 1990s states have been crafting a variety of work-based alternatives aimed at making access to earnings a substitute for long-term reliance on entitlement assistance. Aided by a robust economy and a strong demand for workers, we have managed to reduce caseloads and move significant numbers of families from welfare to work.

While these early results should be viewed with optimism, they should not obscure the looming challenges that still face policymakers at the state and federal levels. The central reform challenge continues to revolve around the question of whether we can make "working" truly serve the best interests of low-skilled parents, their children, the economy, and taxpayers. More plainly, can we make job holding an affordable way of enabling more poor families to raise their children well?

It is this core question that imparts such significance to a host of program and policy experiments that seek to encourage, subsidize, and support work effort. By combining earnings and publicly funded supplements, these financial incentives are designed to motivate job holding, enhance earnings, and improve the material well-being of low-income families. As of this writing, there is growing evidence that such financial incentives really can deliver on their hoped-for goals of stimulating work effort, reducing poverty, and enhancing family well-being.

The encouraging data on the impact of financial incentives have prompted us to devote the entire Summer 1999 issue of ADVOCASEY to this subject. The first three stories, which are based on the latest evaluations and interviews with policymakers, researchers, and program operators, profile different approaches to providing work incentives: the Minnesota Family Investment Program, the New Hope Project in Milwaukee, and the Self-Sufficiency Project in Canada. The results from these projects are particularly noteworthy because of their rigorous random-assignment evaluations.

The fourth story examines an emerging trend to enact or expand state-level Earned Income Tax Credits, which increase the net income of working poor families. These credits complement the federal Earned Income Tax Credit (EITC), a financial incentive that was enacted in the 1970s and expanded by the Reagan, Bush, and Clinton administrations. Like the national EITC, state earned income credits have received support from across the political spectrum.

> THERE IS GROWING EVIDENCE THAT FINANCIAL INCENTIVES CAN DELIVER ON THEIR HOPED-FOR GOALS OF STIMULATING WORK EFFORT, REDUCING POVERTY, AND ENHANCING FAMILY WELL-BEING.

This issue of ADVOCASEY concludes with a summary of recent welfare-reform research from the Assessing the New Federalism project. Well before the enactment of federal welfare-reform legislation, states were experimenting with new ways of providing assistance

to disadvantaged children and families. Moreover, the responsibility for the social safety net was shifting from the federal government to the states. In response to these developments, the Casey Foundation asked the Urban Institute, a nonpartisan policy research organization in Washington, D.C., to develop the Assessing the New Federalism project. The intent of this multifaceted research initiative is to help policymakers and others distinguish effective state innovations from those less likely to improve outcomes for children and families.

In calling attention to financial incentives, we do not mean to suggest that they are the only determinant of welfare reform's ultimate success or failure. Serious questions remain about whether we can find meaningful work opportunities for the least job ready of welfare recipients — many of whom are still on the rolls. Similarly, we don't yet know the best approaches for maximizing job retention and earnings continuity for new labor-force entrants, especially if labor demand slackens in future years.

But, in our view, these longer-term challenges will only be worth addressing if we first assure that job holding and work effort actually provide under-skilled young parents a bona fide opportunity to do better by their children. The exciting suggestion in the approaches profiled in this issue is that we just might be able to secure that opportunity.

As always, I welcome your comments and suggestions.

Douglas W. Nelson is the president of the Annie E. Casey Foundation.

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ADVOCASEY is published by the Annie E. Casey Foundation's Office of External Affairs. Material may be reprinted with appropriate acknowledgment. Articles are also available online at www.aecf.org.

The Annie E. Casey Foundation is a private charitable organization dedicated to helping build better futures for disadvantaged children in the United States. The primary mission of the Foundation is to foster public policies, human-service reforms, and community supports that more effectively meet the needs of today's vulnerable children and families. In pursuit of this goal, the Foundation makes grants that help states, cities, and neighborhoods fashion more innovative, cost-effective responses to these needs.

The Annie E. Casey Foundation was established in 1948 by Jim Casey, one of the founders of United Parcel Service, and his siblings, who named the Foundation in honor of their mother.

"ABOVE AVERAGE" WELFARE

By Bill Rust

A proposal for deep reductions in welfare benefits to poor families paralyzed the Minnesota legislature in 1986. A majority in the state House of Representatives, charging that low-income people migrated to Minnesota because of its relatively generous public-assistance programs, wanted to slash welfare benefits by 30 percent. The state Senate flatly rejected such steep cuts.

To help resolve the deadlock, then Gov. Rudy Perpich established the Minnesota Commission on Welfare Reform to examine benefit levels and other aspects of state public assistance. The first meeting of this bipartisan commission, which included government officials and nonprofit leaders, began inauspiciously, with divergent political views and conflicting opinions surfacing quickly. "People were kind of talking past each other," recalls Joel Kvamme, then a staffer to the commission from the Minnesota Department of Human Services. "It was very ideological."

Determined to reach a consensus, the commission members agreed to table their preconceptions and immerse themselves in the facts about welfare in Minnesota. Why do families apply for public assistance? How long do they stay on welfare? How do families manage to leave the program?

Embodying a traditional Midwestern faith in reliable information informing enlightened social policy, the commission conducted a six-month inquiry that included testimony from experts, service providers, and welfare recipients; public hearings throughout the state; and an examination of reform options as well as the data and values that supported them. On Dec. 1, 1986, the commission submitted a report to the governor that transformed a narrow, partisan debate about appropriate benefit levels into a thoughtful consensus on comprehensive welfare reform. Foreshadowing the federal legislation enacted a decade later, the commission unanimously concluded: "THE OLD AFDC INCOME-MAINTENANCE PROGRAM MUST END [emphasis in original]."

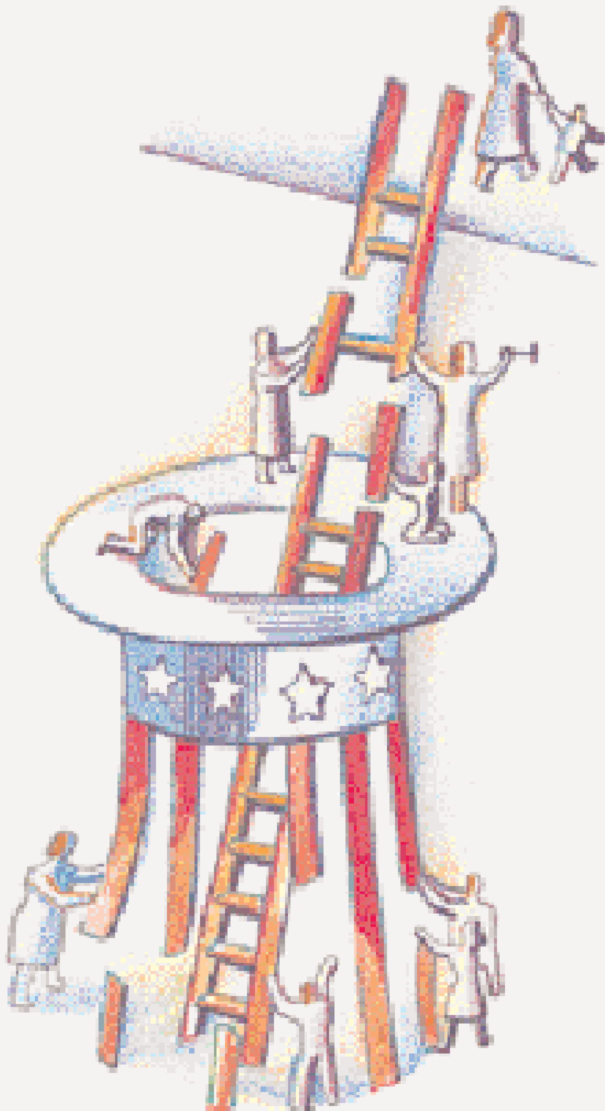
Although many social programs might accurately be characterized as "welfare," the federal-state cash-assistance program called "Aid to Families With Dependent Children" had been at the heart of all efforts to reform public assistance. Created by the Social Security Act of 1935, AFDC evolved from a New Deal initiative designed primarily to support the children of widowed mothers, who were not expected to work, to a program that served divorced mothers, never-married mothers, and other clients. As increasing numbers of women and mothers began working outside the home, the program sought to achieve multiple — often conflicting — goals that included reducing poverty, dependency, and costs. By the 1980s most policymakers, citizens, and welfare recipients themselves believed that AFDC was doing a poor job in one or more of these areas.

A key finding of the Minnesota welfare commission was that about 60 percent of the state's AFDC recipients used public assistance in a way that most people would deem appropriate — a temporary boost to help families in trouble return to the economic mainstream. On the other hand, about 40 percent of welfare families were long-term users. Within this group, the majority were able bodied but appeared to lack either the education, experience, or motivation to be self-sufficient. In the view of the welfare commission, it was this group of long-term recipients who should be the focus of welfare reform.

The commission also voiced concerns about the federal AFDC rule requiring that each dollar earned by a welfare recipient be matched by an equivalent reduction in benefits. When combined with child-care costs, transportation, and other employment expenses, these benefit reductions meant that many recipients found themselves financially worse off by working than if they remained on welfare. The commission urged that "incentives to exit the system should always be greater than those to remain on welfare."

The Minnesota welfare commission's pragmatic approach to reforming welfare was accompanied by an

THE GOAL: MOVING WELFARE RECIPIENTS OFF OF PUBLIC ASSISTANCE AND OUT OF POVERTY.



equally realistic, if politically less palatable, corollary: It would take "substantial expenditures 'up front'" to reform AFDC totally, and it would be years before savings from such reform could be recovered.

Although hailed in Minnesota as a "philosophical breakthrough," the recommendations of the welfare commission were, for the most part, not acted upon immediately. Some required waivers from federal regulations, and others were deemed too expensive for a state then facing a substantial budget deficit.

On the other hand, the analysis of the Minnesota welfare commission had a profound long-range impact on the state's thinking about welfare reform. Its recommendations provided the philosophical foundation of one of the most ambitious and successful welfare-reform initiatives of the 1990s — one that "expects, supports, and rewards work" and that has the explicit goal of moving recipients off of public assistance and out of poverty — the Minnesota Family Investment Program (MFIP).

"Reliable Evidence"

MFIP, pronounced "M-fip" by state officials, researchers, and others, is one of a new generation of public policies and programs called "financial incentives." Intended to "make work pay," financial incentives seek to reduce poverty by supplementing the earnings of low-income people who work. MFIP, which reverses a "perverse incentive" of AFDC, rewards welfare recipients more for working than not working.

Using both "carrots" and "sticks" to encourage work, MFIP enables recipients to mix earnings and public assistance and requires participation in job-related and training activities. The program has had particular success in boosting the employment and earnings of long-term welfare recipients in urban areas. Eighteen months after entering the program, according to an evaluation by the Manpower Demonstration Research Corporation (MDRC), the employment rate for these MFIP participants was

nearly 40 percent higher than a comparison group that received traditional welfare services.

"[The] employment and earnings impacts are among the largest produced by previously studied welfare-to-work programs," wrote the authors of *Making Welfare Work and Work Pay*, MDRC's interim evaluation of MFIP. "The impacts are also notable given that long-term recipients represent the most disadvantaged segment of the welfare population."

Although MDRC's final report will not be available until early next year, the evidence from MFIP and other financial-incentive programs indicates that it is possible to balance the competing goals of reducing dependency, raising living standards, and controlling costs. "We don't know whether this encouraging information from MFIP, SSP [the Canadian Self-Sufficiency Project, see page 17], and other incentive programs will hold up over time," says Gordon L. Berlin, a senior vice president at MDRC and author of a forthcoming monograph on financial incentives.[1] "But if it does, we will have very reliable evidence that policies can help long-term welfare recipients work more, increase their income, and even get out of poverty."

Marketing Work

Following years of planning and discussion by policymakers, researchers, and advocates, MFIP finally began on April 1, 1994, as a major "waiver" demonstration in seven Minnesota counties. In the 1990s many states received waivers from federal AFDC rules and regulations to experiment with new forms of public assistance. As part of the waiver agreements with the federal government, the state demonstration programs were rigorously evaluated to determine their effectiveness.

To assess the impact of MFIP, the state of Minnesota hired MDRC, a nonpartisan research organization established in 1974, to help design and manage the evaluation. Some 9,000 people were randomly assigned by computer to either an experimental group that received MFIP benefits or to a control group that enrolled in the traditional AFDC program. Researchers further divided caseloads into new applicants who received financial incentives only and long-term recipients who received incentives and participated in mandatory job-related activities.

Comparing these groups enabled researchers to measure not only the impact of MFIP compared with AFDC, but also the relative effects of just financial incentives and the incentives plus mandatory work requirements. "The Minnesota evaluation is the only one to date that lets you break the pieces apart," says Rebecca M. Blank, who recently concluded a two-year term as a member of the President's Council of Economic Advisers and is now dean of the School of Public Policy at the University of Michigan.

USING BOTH "CARROTS" AND "STICKS" TO ENCOURAGE WORK, MFIP ENABLES RECIPIENTS TO MIX EARNINGS AND PUBLIC ASSISTANCE AND REQUIRES PARTICIPATION IN JOB-RELATED AND TRAINING ACTIVITIES.

MFIP's financial incentives included a 20 percent increase in the basic welfare grant for recipients who were employed. Moreover, welfare benefits were reduced by only 62 cents for every dollar earned, instead of the nearly dollar-for-dollar reduction under AFDC. "The objective," in the words of the MDRC evaluation, "is to increase the incentive recipients

[1] *Encouraging Work, Reducing Poverty: The Impact of Work Incentive Programs*, Manpower Demonstration Research Corporation, Fall 1999.

have to work and to make those who work better off."

To reduce poverty, participants in the MFIP demonstration mixed earnings and declining amounts of welfare until their income reached 140 percent of the federal poverty standard — a total in 1997 of $22,960 per year for a family of four. At this point, their welfare grant was eliminated. Other features of MFIP that facilitated the transition to work were the direct payment of child-care expenses to providers and the consolidation of other state and federal assistance programs into a single cash grant.

Long-term welfare recipients in the MFIP experimental group who worked less than 30 hours per week were required to participate in employment and training services. These recipients, under penalty of a 10 percent loss of welfare benefits, had to attend meetings with job counselors, document job-search or training efforts, and turn in check stubs from part-time work.

MFIP's financial incentives and work requirements were reinforced by a deliberate effort to "market" the program to welfare recipients. At eligibility-verification meetings with caseworkers and monthly meetings with employment trainers, as well as by mail and by phone, recipients received a consistent message that they would be financially better off by working rather than remaining on public assistance.

The MFIP marketing efforts also increased case-workers' enthusiasm for the program and their efforts to promote work to clients. "In MFIP, welfare case-workers were able to sell work in way they were never really able to before," says Virginia Knox, MDRC's principal investigator for the demonstration. "The staff now could look you in the eye and honestly say that you would be better off if you went to work, something they could seldom say before."

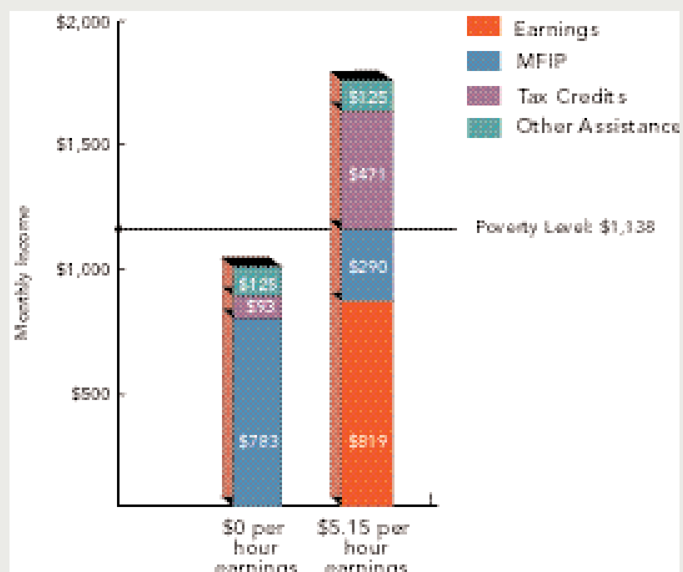
Increasing Employment, Reducing Poverty

At the end of the 18-month follow-up period, MFIP helped long-term welfare recipients living in Minneapolis and surrounding counties post a nearly 40 percent increase in employment over the AFDC control group. Over that same period, the MFIP group had a 27 percent increase in earnings. The

Making Work Pay in Minnesota

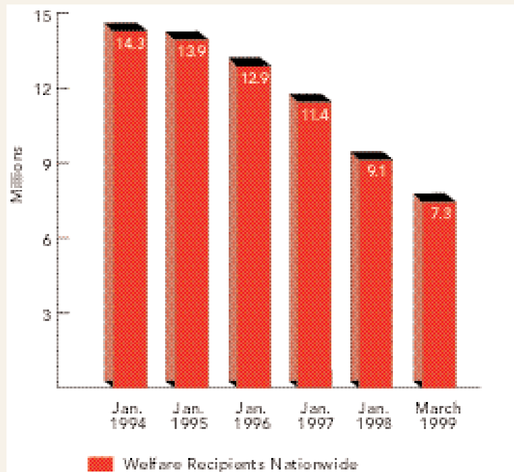
This chart compares the monthly income of two hypothetical Minnesota families (one adult, two children in each). The income of the family on the left, which is derived solely from the Minnesota Family Investment Program and other public assistance, is 88 percent of the poverty level. The income of the working family, which combines earnings and public assistance, is 150 percent of the poverty level.

Source: Minnesota Department of Human Services



BY THE NUMBERS:

DECLINING WELFARE ROLLS



NEW FEDERAL AND STATE POLICIES — combined with an economic expansion of unusual strength and duration — have contributed to dramatic reductions in public-assistance caseloads. According to the U.S. Department of Health and Human Services, welfare rolls nationwide are at their lowest level since 1969, and the number of recipients has fallen by 49 percent since 1994.

The sharp reductions in welfare caseloads, some analysts say, have demonstrated the effectiveness of tough financial sanctions for recipients who do not comply with work, job-search, and related requirements. A recent report by the Heritage Foundation found that "differences in state welfare policies — specifically stringent sanctions and immediate work requirements — are highly associated with rapid rates of caseload decline."

Many other researchers, however, consider such reasoning a circular analysis of a single dimension of welfare reform. All a state has to do to reduce caseloads, they say, is immediately drop people from welfare rolls for noncompliance with required activities or make it difficult for eligible beneficiaries to qualify for public assistance. "It's not hard to reduce your caseload," says David Ellwood of Harvard University's Kennedy School of Government. "The real challenge is can you replace welfare and reduce poverty."

higher earnings and welfare benefits contributed to substantial poverty reductions, with almost twice as many of these recipients having incomes at or above the poverty line than the comparison group. MDRC evaluators concluded that it was "MFIP's combination of financial incentives and mandatory employment-focused activities — delivered with a reinforced incentive message — that achieved the goals of increased employment and reduced poverty."

Somewhat less impressive were the results for the welfare applicants — a group that received incentives only and were not yet required to participate in employment-related activities. Although MFIP produced increases in income and reductions in poverty, these gains "came entirely from increased welfare payments," according to MDRC. There was only "a modest increase in employment and no increase in earnings." Researchers concluded that for applicants — who often have recent work experience, are generally more employable than long-term recipients, and tend to receive welfare for a short time then return to work — the financial incentives alone provided little additional encouragement for employment.

MFIP was least successful in rural areas. For long-term recipients, "MFIP produced no sustained increase in employment or earnings," evaluators concluded. MDRC researchers speculated that differences between urban and rural labor markets, combined with increased child-care and transportation challenges in rural areas, "may have influenced MFIP's effectiveness."

MDRC's final report on MFIP is scheduled for publication in early 2000. In addition to documenting whether the encouraging initial findings hold up over time, the new report will provide a comprehensive analysis of MFIP's costs and benefits. "The short-term results," says Gordon Berlin, "show that the financial incentives increased welfare caseloads and costs somewhat because MFIP allowed recipients to mix work and welfare, some of

> "THE OBJECTIVE IS TO INCREASE THE INCENTIVE RECIPIENTS HAVE TO WORK AND TO MAKE THOSE WHO WORK BETTER OFF."

whom would have left the rolls for low-wage jobs."

The final evaluation, which is funded by a variety of private and public donors,[2] will also measure the impact of MFIP on child and family outcomes. Says Virginia Knox: "If it turns out that this program not only reduces poverty but also improves maternal mental health, family formation, and other measures of family well-being, there is certainly an argument that these effects might improve long-term outcomes for children and save society money."

MFIP Statewide

The landmark federal welfare law of 1996, officially called the Personal Responsibility and Work Opportunity Reconciliation Act, ended the 60-year federal guarantee of cash assistance for poor children. The much maligned AFDC program was replaced by Temporary Assistance for Needy Families (TANF), which provides states with a fixed amount of federal funding in exchange for more flexibility in designing their own public-assistance programs. A key feature of the law is a five-year lifetime limit on federal assistance to most families.

Minnesota responded to the federal legislation by using the MFIP waiver demonstration as the basis for a new statewide welfare program. Drawing on MDRC's preliminary research, the state legislature made a number of changes in the program. One finding suggested that it might be possible to increase the employment and earnings of welfare applicants by earlier exposure to the full MFIP strategy of financial incentives and mandatory participation in job-related and training activities. In the statewide program, the mandate for participating in such activities was moved up to no later than six months after the start of assistance. "Most counties do it about the third month of assistance," says Joel Kvamme.

Another change in the statewide MFIP program was a toughening of the sanctions for not complying with work requirements. The 10 percent benefit reduction in the demonstration escalated to 30 percent in the statewide initiative. According to Virginia Knox, caseworkers and DHS staff involved in the demonstration concluded that "for some families, a 10 percent sanction just wasn't serious enough to affect their behavior."

In addition to emphasizing immediate job placement and strengthening sanctions, Minnesota made other modifications to the demonstration, which reduced the cost of implementing MFIP statewide:

- welfare benefits are reduced by 64 cents for every dollar earned instead of 62 cents;
- employed recipients receive 110 percent of the basic welfare grant instead of 120 percent; and
- recipients "exit" the program when their incomes reach 120 percent of the federal poverty standard instead of 140 percent.

Perhaps the biggest difference between the MFIP demonstration and the statewide program is that the former had no "time limit" for program eligibility and the latter is operating under a five-year lifetime limit on assistance. In the demonstration, the message was unconditional: Do the right thing, go to work, and we

[2] In addition to the Annie E. Casey Foundation, funders for this evaluation are: the Minnesota Department of Human Services, the Ford Foundation, the U.S. Department of Health and Human Services, the U.S. Department of Agriculture, the McKnight Foundation, the Northwest Area Foundation, and the Charles Stewart Mott Foundation.

will help you escape poverty. The new statewide program qualifies this guarantee with a time limit.

"It's conceivable that families could work for years and years and not have enough earned income to escape poverty," says Dave Hage, an editorial writer for the Twin Cities *Star-Tribune* who has covered welfare reform for many years. "If the MFIP money is cut off after five years, they could fall back into very hard straits, even though they were doing everything the state asked them to do."

In 1997 the statewide MFIP program received a significant boost from the McKnight Foundation, a private philanthropic organization based in Minneapolis. Convinced that welfare reform was a community-wide responsibility, the foundation committed $20 million over two years, the great majority of which funded private-public partnerships to help families succeed in the work force. Serving virtually every county in Minnesota, the McKnight-sponsored partnerships included representatives from county government, business, nonprofit organizations, and other community institutions.

Using flexible foundation funds, the partnerships have been developing local strategies to fill gaps in such areas as child care, transportation, and mentoring. By working collaboratively, the partners have sought to reduce duplication and blend their services more effectively. "In some counties," says Michael O'Keefe, commissioner of the Department of Human Services and former president of the McKnight Foundation, "these partnerships have created extraordinary cooperation among social-service agencies, which is often difficult to get."

Without a Net?

Minnesota's statewide MFIP program, which went into effect on Jan. 1, 1998, is off to a promising start. During the last half of 1998, the proportion of families receiving welfare declined by about 1 percent per month. Over the same time period, there was an 8 percent increase in welfare families that were working.

As with national welfare reform, it is difficult to assess confidently the relative impact of the state's robust economy and its public-assistance policies. In April 1999 the seasonally adjusted unemployment rate in Minnesota was only 2.1 percent, the lowest ever recorded in the state. This figure is all the more remarkable when one recalls that economists recently considered an unemployment rate of 5 percent as "full employment."

Financially healthy, Minnesota has taken additional steps to strengthen its supports for working families. Although the Minnesota legislature recently defeated a bill to "stop the clock" on time limits for working welfare recipients by substituting state money for federal support, the state doubled the amount of funding for child-care subsidies for families moving from welfare to work. Minnesota also increased child-care subsidies to help low-income working families stay off welfare, providing assistance to about 3,000 of the 7,000 families on the state's waiting list.

Despite MFIP's success to date, there are looming challenges that concern policymakers, researchers, and advocates. Perhaps the most important question facing Minnesota is the same one that confronts every other state: What will be the impact of an economic recession on low-income families? "County as well as state officials are very concerned about a downturn in the economy, especially if one occurs at the end of the first five-year period, when many recipients will lose benefits," wrote the authors of an Urban Institute study on income support and social services in Minnesota. "This is especially significant in some rural areas, where one plant closing can send a community into economic depression."

And even in a good economy, research shows that workers with low skills and limited education are going to have difficulty making the earnings progress necessary to get out and stay out of poverty. This problem may be compounded by the reduced emphasis in Minnesota and nationwide on education and training for welfare recipients. "In a really strong economy,

when you can get anyone to work by passing them through a two-month job-orientation program, the impetus to training has been very low," says economist Rebecca Blank. "I expect when you see the economy getting rockier and people in these low-skill jobs not getting ahead, we will go back into a cycle of caring about training again."

Another formidable challenge is that as caseloads decline, the remaining families on welfare tend to have chronic problems that are substantial barriers to work. They include substance abuse, learning disabilities, and low literacy levels. Joel Kvamme of the Minnesota Department of Human Services cites the example of a mental-health problem that is not serious enough to qualify as a disability, but is still a formidable obstacle to employment. "One worries about people with agrophobia, who are subject to panic attacks, and just what kind of experience getting out of the home and getting into the workplace represents for them," says Kvamme.

THE MFIP PROGRAM HAS HAD PARTICULAR SUCCESS IN BOOSTING THE EMPLOYMENT AND EARNINGS OF LONG-TERM WELFARE RECIPIENTS IN URBAN AREAS.

The increasing proportion of welfare recipients with multiple problems and disadvantages, says DHS Commissioner O'Keefe, is a reality that is "on a collision course" with policy. Legislators in Minnesota and other states, he says, will eventually have to answer the question: "How do you keep people from being thrown on the street as a result of the 60-month limit, while at the same time keeping a strong incentive for those who can [work] to get into the labor force?"

For David Ellwood, a labor economist at Harvard's Kennedy School of Government and a former assistant secretary of the U.S. Department of Health and Human Services, MFIP and other financial-incentive programs are part of a "good news, bad news" story in U.S. public-assistance policy. "The good news is that we're clearly replacing [welfare] with a strategy of doing more for working folks," says Ellwood. "The bad news is that we have yet to figure out what we're going to do for people who aren't working, who don't qualify for disability assistance. And I think that's a real challenge, and I think that becomes a huge challenge during a recession."

Credible, Thorough Information

And what about the issue that triggered the remarkable 1986 welfare deliberations in Minnesota — the possibility that a relatively generous approach to public assistance would make Minnesota a "welfare magnet" for low-income people. To prevent that, Minnesota's statewide MFIP program initially imposed strict residency requirements on receiving public-assistance benefits. In May 1999, however, the U.S. Supreme Court found that a similar rule in California was unconstitutional. This decision, combined with an absence of any data suggesting that poor people migrated to Minnesota because of its welfare benefits, convinced the state to abandon its residency requirements for public assistance.

Over the long term, it remains an open question whether differences in state benefits might have an impact on welfare caseloads. Should that issue re-emerge, the history of welfare reform in Minnesota suggests that policymakers, researchers, advocates, and citizens of the state will take a hard look at the facts and develop a pragmatic consensus based on the evidence. "Good decisions really are possible," says Joel Kvamme, "but they rely on credible and thorough information. That's been part of our experience so far."

Bill Rust is the editor of ADVOCASEY.

NEW HOPE FOR LOW-INCOME WORKERS

When evaluating programs that "make work pay" for low-income families, researchers and policymakers have traditionally focused on labor-force participation by adults, financial costs and benefits to taxpayers, and other economic outcomes. Less frequently studied have been the effects of such programs on poor children — a somewhat ironic omission because they are the one constituency in policy debates about poverty virtually all Americans want to assist.

One of the few antipoverty programs to have a rigorous evaluation of its impact on children is New Hope, a recently concluded demonstration project in Milwaukee that offered a flexible package of earnings supplements and services to help low-income families succeed in the world of work. An evaluation of New Hope, released in April by the Manpower Demonstration Research Corporation (MDRC), not only found encouraging increases in employment and earnings among program participants, but also showed significant effects on the children — specifically boys — of participating families.

"New Hope produced substantial positive impacts on the behavior and classroom skills of boys, which held up across different age groups and were consistent across different measures," wrote the authors of MDRC's *New Hope for People With Low Incomes: Two-Year Results of a Program to Reduce Poverty and Reform Welfare*. "This is encouraging, because academic failure and problem behavior are predictors of later school failure, dropping out, and delinquency. These risks are high for boys in low-income families and promising policy alternatives to improve child outcomes are scarce."

According to Julie Kerksick, executive director of the New Hope Project, the community-based organization that operated the program, the combination of promising economic and family outcomes "validates what New Hope's originators believed: Low-income people appreciate and benefit from a modest amount of assistance when they are working."

New Hope was conceived in the late 1980s and early 1990s, when a small group of community activists and employment-services workers in Milwaukee designed a program to address many of the realities of life in the low-wage economy — below-poverty incomes, a lack of affordable health insurance, limited child-care options, and few opportunities for low-skill workers to gain job experience. To learn whether a package of economic and other supports could improve the lives of low-income workers and families, the New Hope Project made a straightforward offer to all poor adults living in two distressed neighborhoods: If you are willing to work full time, we will help you lift yourself out of poverty.

THE NEW HOPE PROJECT MADE A STRAIGHTFORWARD OFFER TO ALL POOR ADULTS LIVING IN TWO DISTRESSED NEIGHBORHOODS: IF YOU ARE WILLING TO WORK FULL TIME, WE WILL HELP YOU LIFT YOURSELF OUT OF POVERTY.

By Bill Rust

Seeking credible evidence of the program's effects, the New Hope Project hired MDRC to evaluate its impact. MDRC's traditional, methodologically rigorous approach to the evaluation included a lottery-like process that randomly assigned 1,360 adults to one of two groups: an experimental group that received the New Hope package of services, and a control group that received traditional county and state services. Differences in outcomes between these two statistically identical groups would be, in the words of evaluators, "the observed impacts" of the program.

New Hope became operational in late 1994, with most participants enrolling the following year. In exchange for working 30 or more hours per week, they were eligible for:

"NEW HOPE PRODUCED SUBSTANTIAL POSITIVE IMPACTS ON THE BEHAVIOR AND CLASSROOM SKILLS OF BOYS, WHICH HELD UP ACROSS DIFFERENT AGE GROUPS AND WERE CONSISTENT ACROSS DIFFERENT MEASURES."

- Income supplements, that when combined with federal and state Earned Income Tax Credits, would enable people to work their way out of poverty. As participants' incomes approached 200 percent of the federal poverty level — $32,800 for a family of four in 1997 — the value of the supplements decreased sharply.

- Affordable health insurance, with copayments that reflected income and household size. Most participants who were not covered when they entered New Hope chose the health maintenance organization used by the Milwaukee County Medicaid program.

- Child-care subsidies, payable to state-licensed or county-certified providers. These subsidies, also based on income and family size, were the same level that Milwaukee County provided welfare recipients who were enrolled in work programs.

- Minimum-wage community-service jobs (CSJs). If, after an eight-week job search, participants were unable to find employment, New Hope provided subsidized CSJs that qualified participants for the project's other benefits and that helped establish a work history and increase workplace skills.

More Than "Warm and Fuzzy Encouragement"

Because of its broad eligibility rules, New Hope served a diverse range of low-income people. Almost 30 percent of the sample were men. More than one-third of the participants were not receiving public assistance of any kind. And although virtually all participants had annual earnings of $15,000 or less, about one-third of the sample were employed full time when they entered the program.

"New Hope is designed so that participants can access only those benefits that they want or need," according to MDRC's initial evaluation of the program in 1997. "Participants who are covered by employer health insurance, for example, do not need New Hope's health insurance. Participants who had

been receiving AFDC are encouraged to use transitional Medicaid and child care assistance before using New Hope's benefits. About 30 percent of the sample lived in a household without children and therefore had no need for child care."

New Hope participants who worked full time were immediately eligible for earnings supplements as well as health-insurance and child-care subsidies, if needed. The majority of participants, however, worked either part time or not at all when they entered the program. Before they could qualify for the program's package of benefits, they had to find a full-time job. If they could not find private employment within two months, New Hope provided a community-service job in a local nonprofit agency. Although the CSJs — about two-thirds of which were either office support and data entry, or construction and property maintenance — were subsidized by New Hope, program participants had to interview for jobs, be selected by employers, and meet the same standards as other workers.

A critical ingredient in New Hope's success was the contribution of the project's front-line staff members, called "project reps," many of whom had firsthand experience with life in the low-wage economy. Providing employment services with respect and empathy, the project reps explained the sometimes complicated options of the program and served as "coaches" for people seeking employment. According to MDRC, program participants "consistently rated the support received from project reps as 'what they liked best' about New Hope."

Julie Kerksick emphasizes that it takes more than "warm and fuzzy encouragement" to get New Hope's positive results: "It's the combination of having economic support that really helps people, and being able to deliver that in a humane, efficient, and respectful way."

"Making Work Pay"

On May 27, 1999, Robert C. Granger, the MDRC senior vice president who directed the New Hope evaluation, testified before the U.S. House Subcommittee on Human Resources about the effects of the program. Compared with the control group, he told the subcommittee, New Hope increased the work effort and earnings of program participants who were not working full time. The project, he said, "reduced by half the number of people who were never employed during the two years of the study" — 13 percent for the control group and less than 6 percent for New Hope participants.

Over the two-year study period, program participants had 13 percent higher earnings, or $1,389, a figure that does not include the income supplement. With the earnings supplement, their incomes were $2,645 more than the control group's. For people not employed full time, Granger concluded, New Hope demonstrated that financial incentives and other supports "can increase work by making work pay and offering opportunities where they are needed."

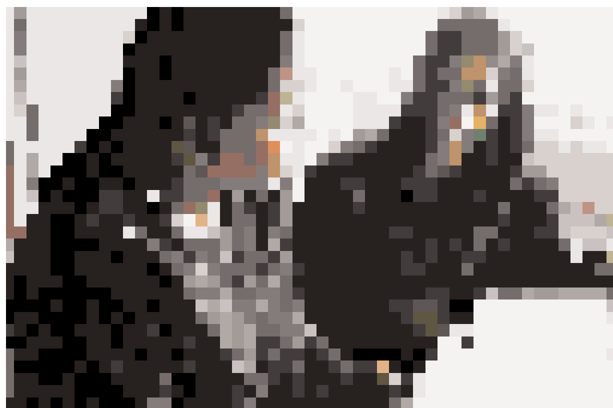
Another measure of New Hope's economic benefits was an increase of 7 percentage points — 52 percent for the program group, 45 percent for controls — in the number of participants with two-year earnings in the $10,000 to $30,000 range. Robinson Hollister, a professor of economics at Swarthmore College and member of the project's advisory board, finds this notable: "When we recall how long it took this lengthy economic expansion to generate any reductions in the national rate of poverty, this project-induced shift in the earnings distribution looks impressive."

New Hope participants who were employed full time when they enrolled in the program had "modest reductions" in total work hours, "mostly by cutting back on overtime and second jobs," according to Granger's congressional testimony. Characterizing this effect as one that "can be minimized, but is likely to occur" in any financial-incentive program for the working poor, Granger testified: "New Hope improved parent-child relations in the families in this group, possibly because these families were better able to balance work and family life."

All in the Family

By making health insurance and child care affordable, New Hope helped reduce material hardship and parental stress. In the two-year follow-up, New Hope participants had fewer "unmet medical needs," particularly among the participants who were not working full time when they enrolled in the program. Moreover, the child-care assistance helped parents send their preschool and school-age children to center-based and other forms of quality child care.

"People who were getting the child-care subsidies were having less out-of-pocket costs," says Aletha C. Huston, a developmental psychologist at the University of Texas who led the evaluation of family behavior and child outcomes. "They were also getting more expensive child care."



A CRITICAL INGREDIENT IN NEW HOPE'S SUCCESS WAS THE CONTRIBUTION OF THE PROJECT'S FRONT-LINE STAFF MEMBERS, CALLED "PROJECT REPS," MANY OF WHOM HAD FIRSTHAND EXPERIENCE WITH LIFE IN THE LOW-WAGE ECONOMY.

New Hope parents were more likely than the control group to enroll preadolescent children in structured out-of-school activities — for example, lessons, organized sports, and youth groups. Researchers speculate that quality child care and after-school programs contributed to New Hope's dramatic impact on boys. A survey of teachers, who were unaware of the program being evaluated or which children were in experimental- or control-group families, found that "boys whose parents were in New Hope had better academic performance, stronger study skills, higher levels of social competence, and fewer behavior problems than control group boys."

When children themselves were surveyed about their educational and occupational aspirations, the boys in New Hope families "expected to attend and finish college in greater numbers and were more likely to aspire to professional and managerial occupations with high social prestige than boys in the control group," according to MDRC.

New Hope produced no comparable effects for girls. Researchers are unsure why, but they suspect that a number of factors may be at work. One hypothesis is that girls started with higher scores in educational measures and had less room for improvement. Another possibility is that inner-city parents, worried about their sons getting into trouble, particularly boys 9 to 12, may have focused additional attention and resources on them. "The parents express the feeling that this is the time they have to hang on to their boys," says Aletha Huston. "Their boys are in danger of getting into gangs and getting into pathways that will make it really difficult for parents to keep any control."

In MDRC's five-year evaluation of New Hope, scheduled for release in 2002, researchers will determine whether the large impacts for boys hold up and which

components of the program might be responsible for them. "It's difficult to pin it down because the program is a package," says Huston. "We are going to reinterview the families and the children next year."

"Cumulative Impacts"

Notwithstanding its well-documented economic and family outcomes, New Hope is not the proverbial "silver bullet" for poverty in America's inner cities. In assessing the strengths and limitations of the program, Robert Granger told Congress: "Most of those who applied to New Hope remain poor two years later and reliant on some public subsidy to make ends meet." The primary reason the majority remained poor, he said, was because "they did not consistently work full time (and could receive New Hope benefits only when they did)."

A related concern of some policymakers is that much of New Hope's work and earnings increases may have been the result of subsidized community-service jobs. What about the harder task of finding private-sector jobs? One reply, says Robert Granger, is that most of the New Hope participants who used community-service jobs "found regular unsubsidized employment afterwards." Julie Kerksick of the New Hope Project also makes no apologies for the CSJs: "They were designed to help people who might have spotty work histories or just have had a hard time putting together a consistent work record."

Some researchers, who acknowledge that New Hope increased employment and earnings and reduced poverty, note that these gains were not as large as those of the Canadian Self-Sufficiency Project (see page 17) or the Minnesota Family Investment Program (see page 4). MDRC evaluators are not sure why this is the case, but they suspect that Milwaukee's "control environment" is a large part of the answer.

Robert Granger explains the methodological issue this way: Random-assignment experiments like New Hope measure the relative difference of outcomes for the control group and the experimental group. The combination of a surging Milwaukee economy, expanding federal and state Earned Income Tax Credits, and a restructuring of the state's welfare system "sets a high hurdle to beat," he says. "I think New Hope's effects might have been more substantial with a less favorable labor market or less state attention to encouraging work."

According to MDRC's two-year evaluation, it is still too soon to make a final cost-benefit analysis of New Hope. Although the financial costs are known — $7,200 over two years per participant (with the majority of funds spent on health-care and child-care subsidies, rather than earnings supplements or community-service jobs) — the long-term economic and social benefits are unknown. Moreover, write evaluators, "the New Hope vision is not easily summarized in any traditional cost-benefit framework, since many of its key goals and achievements cannot be captured in dollar terms."

Perhaps reflecting the differing perspectives of evaluators and program operators, Julie Kerksick easily summarizes the achievements of the project, though not in strictly economic terms. "New Hope helped people make progress in a way that the control group didn't," she says. "It's the number of things you see working in the right direction and the cumulative impacts that are the ultimate judgment of the program for me. They don't show up necessarily as economic impacts, but I think most policymakers would say those are good impacts."

The executive summary of New Hope for People With Low Incomes: Two-Year Results of a Program to Reduce Poverty and Reform Welfare *is available online at www.mdrc.org. In addition to the Annie E. Casey Foundation, funders of this evaluation were: the John D. and Catherine T. MacArthur Foundation, the Helen Bader Foundation, the Ford Foundation, the State of Wisconsin Department of Workforce Development, the W. T. Grant Foundation, the U.S. Department of Health and Human Services, and the National Institute of Child Health and Development.*

CANADIAN DOUBLES EMPLOYMENT, INCOME, AND OTHER IMPACTS OF THE SELF-SUFFICIENCY PROJECT

By Bill Rust

The economic, political, and international-security interests shared by Canada and the United States were aptly summarized by President John F. Kennedy almost four decades ago: "Geography has made us neighbors. History has made us friends. Economics has made us partners. And necessity has made us allies. Those whom nature hath so joined, let no man put asunder."

Today the two countries' marriage of interests and values includes a common concern about the financial and social costs of their respective welfare systems. Like Americans, Canadians do not want large numbers of children living in poverty. Yet, also like most Americans, they are increasingly worried that cash assistance to low-income families discourages work and encourages dependence.

The Canadian cash-assistance program, called "Income Assistance," has many of the same structural flaws as the old American AFDC system. For single parents with limited skills and education, leaving welfare is not necessarily a good choice because entry-level wages are too low to improve the material well-being of their families. After child-care and other job-related expenses, recipients are likely to be financially worse off than if they remain on public assistance.

To test the effectiveness of financial incentives aimed at both encouraging work and reducing family poverty, the Canadian government established the Self-Sufficiency Project (SSP) in 1992. Operating in the provinces of British Columbia and New Brunswick, SSP is a 10-year demonstration-evaluation initiative involving some 9,000 Income Assistance recipients. The project's main study has been examining the impact of a temporary cash earnings supplement for long-term recipients who voluntarily leave welfare to work full time. A second study seeks to determine whether new welfare applicants would stay on welfare longer to qualify for the earnings supplement, and the effects of such a supplement on qualifying applicants' subsequent employment, earnings, income, and welfare receipt. A third is measuring the effects of financial incentives on long-term welfare recipients who also receive assistance in finding a job.

THE SELF-SUFFICIENCY PROJECT HAS ACHIEVED SOME OF THE LARGEST AND MOST CONSISTENT GAINS IN EMPLOYMENT, EARNINGS, AND INCOME OF ANY WELFARE-TO-WORK PROGRAM.

To date, the Self-Sufficiency Project has achieved some of the largest and most consistent gains in employment, earnings, and income of any welfare-to-

work program. Moreover, a new report suggests that SSP could pay for itself through reductions in welfare caseloads and increases in tax revenue from earnings. "Incentives work," says John Greenwood, executive director of the Social Research and Demonstration Corporation (SRDC), which designed and managed the project. "You can actually help people move toward self-sufficiency through employment and help them out of poverty. If we can save the government money, we could have a triple winner here."

Leaving Welfare

All of the participants in the main SSP study were on Income Assistance for at least one year. Seventy-two percent were receiving welfare for two or more years, and nearly one-half for three or more years. As in the United States, long-term welfare recipients in Canada account for a disproportionately large share of public-assistance expenditures.

Instead of operating within the welfare system, the Self-Sufficiency Project was conducted by SRDC, a new nonprofit organization created by the Canadian government. Assisted by and patterned after the Manpower Demonstration Research Corporation (MDRC), SRDC adopted the U.S. organization's rigorous random-assignment approach to designing and evaluating social programs. The establishment of SRDC was a conscious effort by the Canadian government "to raise the standards of evidence used in judging program effectiveness," says Greenwood, a former official of Employment and Immigration Canada (now called Human Resources Development Canada).

Researchers have concluded that operating SSP out of an employment-focused organization — rather than a welfare agency — was a significant factor. "People physically left welfare and were admitted to another program that was designed to support them when they work," says MDRC's Gordon Berlin, who founded SRDC and was its first executive director. "Because the program was built around work, we expected it to have less stigma than welfare."

In the main SSP study, long-term welfare recipients were randomly assigned either to an experimental group that was offered an earnings supplement for leaving welfare within one year, or to a comparison group that received traditional Income Assistance benefits. Participants in the SSP group who accepted this offer and worked 30 or more hours per week received a substantial income supplement for up to three years — as long they worked full time and remained off of public assistance. This supplement effectively doubled the income of people who earned between $9,000 and $11,000 per year.[1]

The financial incentive to work was reinforced by a strong "marketing" effort. Within a month of assignment to the SSP group, participants spent three hours with trained staff who explained the program and its main features. "The central message conveyed was that the supplement could 'make work pay,' even if a minimum-wage job was all that could be found," wrote the authors of the SRDC/MDRC evaluation *When Financial Incentives Encourage Work: Complete 18-Month Findings From the Self-Sufficiency Project.*

The outcomes in the 18-month follow-up study were striking. Thirty-five percent of the SSP group voluntarily left Income Assistance and went to work. Most of the people who were induced to work by SSP took low-wage jobs, and much of their earnings supplement was spent on three basic necessities: food, housing, and children's clothing. Participants were also "able to reduce their dependence on food banks

[1] One Canadian dollar is equal to about 70 cents U.S.

and begin accumulating some assets," according to the evaluation.

When compared with the control group, specific impacts for SSP participants included:

- a doubling of the full-time employment rate;
- a reduction of nearly 14 percentage points in welfare receipt; and
- a decrease of 12 percentage points in incomes below the poverty level.

In the short run, the SSP supplement for long-term welfare recipients increased public costs. The *net* cost of the program was about $55 more per month for each participant. Contrasting SSP's incentives to work with the disincentives of traditional welfare, Gordon Berlin suggests that some provinces — or states — might consider an additional $55 per month something of a bargain. "SSP is not paying people to stay home and not work," he says. "It's supporting a working culture, and it's doing it in a way that lifts children out of poverty. By helping recipients purchase basic necessities and build assets, an additional $600 per year might be a good investment."

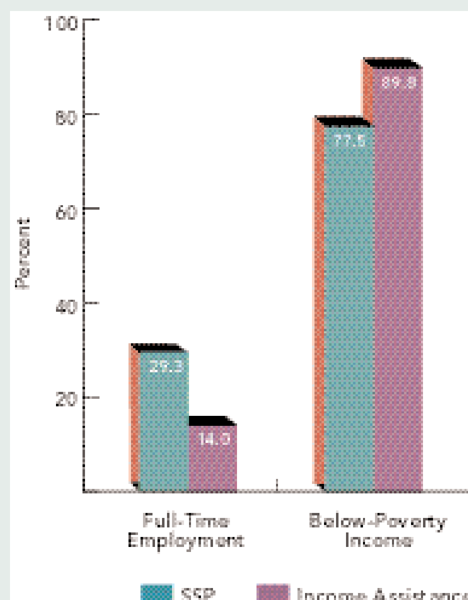
"When Financial Incentives Pay for Themselves"

But what about the long-term benefits and costs of SSP? Researchers say it is too soon to tell whether SSP participants will be able to use their work experience to generate higher earnings and to become economically self-sufficient when the earnings supplement ends. If significant numbers could, all of the costs of SSP would be offset by reductions in welfare payments and increases in tax revenue.

By the Numbers: Increasing Employment, Reducing Poverty

Compared with a control group of long-term recipients of Income Assistance, Canada's cash-benefit program for poor individuals and families, an experimental group of long-term recipients randomly assigned to the main study of the Self-Sufficiency Project (SSP) had higher rates of full-time employment and lower rates of family poverty.

Source: Social Research and Demonstration Corporation



That such a long-term outcome is a realistic possibility was confirmed by a new SRDC/MDRC study released in August 1999. "SSP considerably increased the average income of program group members, *with no increase in transfer program costs* [emphasis in original]," wrote the authors of *When Financial Incentives Pay for Themselves: Early Findings from the Self-Sufficiency Project's Applicant Study.*

The primary purpose of the SSP applicant study was to determine whether new welfare recipients would remain on public assistance longer to qualify for the earnings supplement. The answer, researchers found, was that few did, largely because of the stigma associated with welfare. SRDC's John Greenwood recalls one woman who left welfare for a job after 11 months of receiving Income Assistance: "When we said to her, 'You only had to wait another month, then you could have qualified for SSP if you then went to work.' She said, 'I wouldn't spend an extra day on welfare longer than I had to, let alone a month. And secondly, this is the only job offer I got in 11 months, and I don't know if it would still be here a month from now.' "

The second purpose of the SSP applicant study was to measure employment, earnings, and other impacts of SSP on new welfare recipients who stayed on Income Assistance for a year and qualified for the earnings supplement. As with the SSP main study, the SSP offer to qualifying applicants prompted increases in earnings and reductions in poverty that "are among the largest ever seen in a social experiment designed to encourage welfare recipients to work," according to the evaluation.

Compared with the control group, which received Income Assistance benefits, outcomes for qualifying participants in the applicant study included:

- an increase of 12 percentage points in full-time employment;
- an increase in monthly earnings of $223; and
- a reduction of 11 percentage points in the proportion of families in poverty.

The reason the SSP applicant program paid for itself is that the participants — who because of recent employment tended to be more job ready than the long-term recipients — were able to secure higher-paying jobs. "The more they earn," says SRDC's Greenwood, "the less we pay, so the supplements are cheaper. Plus the tax take for the government more than offsets the costs of the smaller supplements with this group. This is attracting a lot of attention among the provincial governments in Canada that are responsible for paying Income Assistance."

SSP Publications

When Financial Incentives Encourage Work, *When Financial Incentives Pay for Themselves*, and *Does SSP Plus Increase Employment?* are available from the Social Research and Demonstration Corporation, 250 Albert Street, Suite 625, Ottawa, Ontario K1P 6M1, Canada, Tel.: (613) 237-4311, www.srdc.org. They are also available from the Manpower Demonstration Research Corporation, 16 East 34 Street, New York, NY 10016, Tel.: (212) 532-3200, www.mdrc.org.

In 2000, SRDC will release a report on the program's economic impacts 36 months after participants entered the program. This study will also include research on the effects of SSP on children in participating families. A 54-month follow-up is scheduled for release in 2002.

SSP Plus

The third study, involving some 900 long-term welfare recipients in the lower third of New Brunswick, seeks primarily to measure the incremental impacts of adding employment services to SSP's financial incentives. The employment services provided by SRDC included individual employment plans, assistance in producing résumés, job coaching to resolve problems once on the job, and help finding a better job when appropriate. "SSP Plus tested a combination of pre- and post-employment services designed to reach 'deeper' into the eligible caseload to help people who could not find jobs on their own do so," says Gordon Berlin. "Once they found jobs, the goal was to help people to hold on to them."

A NEW REPORT SUGGESTS THAT SSP COULD PAY FOR ITSELF THROUGH REDUCTIONS IN WELFARE CASELOADS AND INCREASES IN TAX REVENUE FROM EARNINGS.

Adding employment services "significantly increased the share of single-parent IA recipients who took advantage of the SSP offer," wrote the authors of *Does SSP Plus Increase Employment? The Effect of Adding Services to the Self-Sufficiency Project's Financial Incentives,* also released in August 1999 by SRDC. The proportion of long-term recipients who accepted the offer of receiving an earnings supplement in exchange for leaving welfare was 52 percent in SSP Plus, compared with 35 percent in the regular SSP program.

Although adding employment services increased the proportion of long-term recipients who left welfare for work, this did not translate into significant long-term employment gains above and beyond the group receiving financial incentives only. The problem was that the part of the caseload that used employment services to take up the SSP offer had difficulty maintaining full-time employment. "These people were less job ready," says John Greenwood. "They were not able to hold on to jobs, they were less able to cope with job loss, and when it occurred, become re-employed."

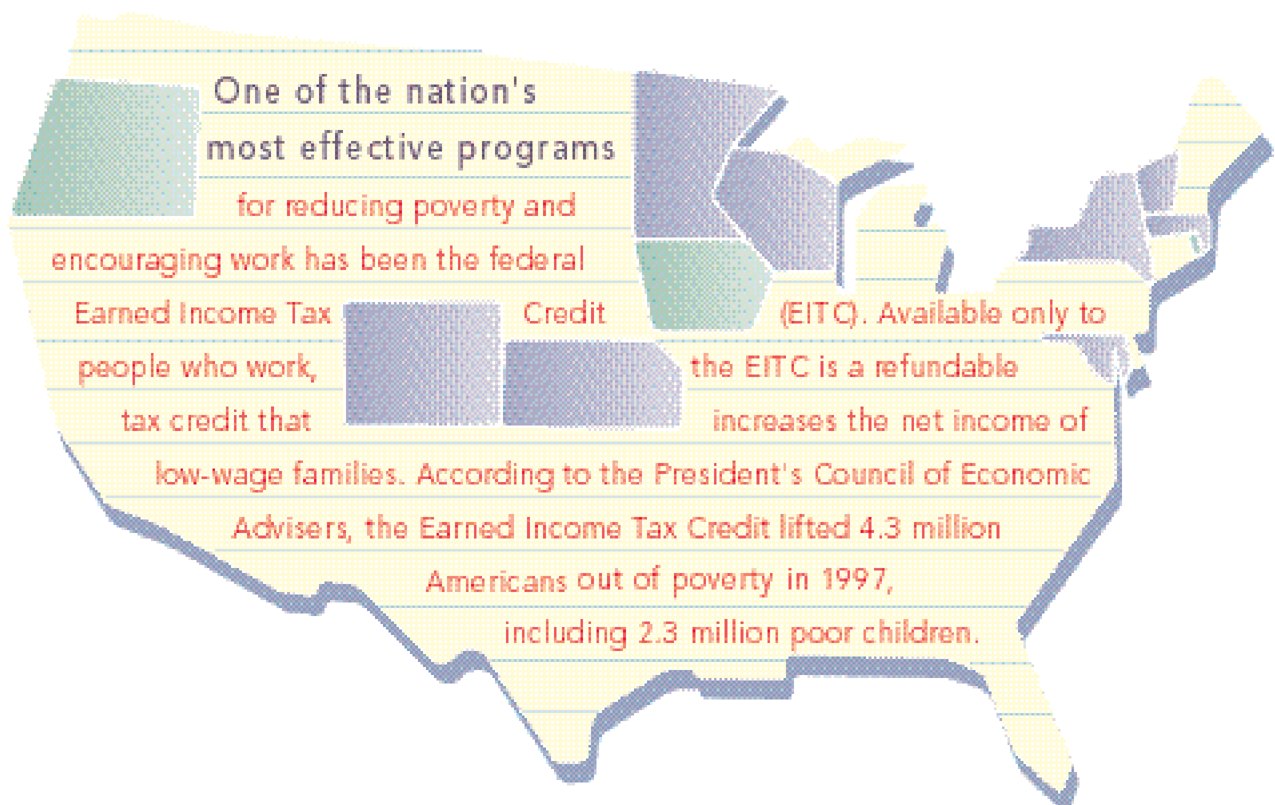
For SRDC/MDRC researchers, the sobering rate of job loss in SSP Plus has confirmed a durable lesson of many welfare-reform initiatives — leaving welfare for work is often a process, not a single event. "[H]elping people leave welfare for work is only the first step," wrote the evaluators. "An important part of the policy challenge is to find effective ways of helping people retain employment."

Although it did not produce significant employment and earnings gains above and beyond the financial incentives alone, SSP Plus posted large increases in employment, earnings, and income when compared with the control group that received Income Assistance. For example, 15 months after entering the program, 33 percent of the SSP Plus group were employed full time, while only 15.6 percent of the control group were employed full time.

"Overall, SSP Plus was a great success," says Gordon Berlin. "It got many more people working full time than SSP alone. And even though the rate of job loss was high for the extra people who were working, SSP Plus always had larger impacts than the regular SSP."

TAX RELIEF FOR WORKING

By Bill Rust



In recent years, several states have adopted or expanded their own versions of the EITC. Of the 41 states (plus the District of Columbia) that have income taxes, 11 now have state EITCs.[1] In Iowa, Oregon, and Rhode Island, the tax credits are non-refundable — i.e., the maximum benefit cannot exceed the family's tax liability. A more effective approach to alleviating poverty and encouraging work is a refundable tax credit, which eight states have adopted.

"Taxes really are very significant in their impact on low-income families," says Nicholas Johnson, a policy analyst at the Center on Budget and Policy Priorities. "The EITC is a tax cut for low-income families, not a welfare payment to the poor."

[1] Colorado, Iowa, Kansas, Maryland, Massachusetts, Minnesota, New York, Oregon, Rhode Island, Wisconsin, and Vermont.

Encouraging Work

Established in 1975, the federal EITC was designed to offset the impact of federal payroll taxes for Social Security and Medicare. Unlike the federal income tax, which has higher rates for higher income groups, the payroll taxes take a larger percentage of income from poor people. Over the years, liberals and conservatives have found the rationale for the EITC persuasive: Taxing low-income working families into poverty, or further into poverty, is not wise public policy.

The federal EITC was expanded during the Reagan, Bush, and Clinton administrations, helping "make work pay" for low-income families. The maximum EITC benefit for a family with one child is currently $2,312; for a family with two or more children, the maximum is $3,816.[2] If the credit exceeds the federal income tax owed, a qualifying family receives a refund check. If there is no tax liability, the family receives the entire amount of the credit.

Complementing welfare reform, the EITC provides low-income single parents with a powerful incentive to work. As the credit phases in, its value for very low-income workers increases with work effort and earnings. Bruce Meyer and Dan T. Rosenbaum, economists at Northwestern University, have calculated that the EITC accounts for about 60 percent of the increase in annual employment of single mothers between 1984 and 1996.

"My evidence suggests that financial incentives, whether they come from welfare or the tax system, have similar effects on people," says Meyer. "If you increase the return on work for a welfare recipient by adding an Earned Income Tax Credit or lowering income disregards, there is a similar effect in encouraging single mothers to work."

Tax Relief

Even with the federal EITC, many families are unable to work their way out of poverty. One barrier to financial self-sufficiency is the impact of state and local taxes. Poor and near-poor working families pay a substantial portion of their income in sales, excise, and other taxes. "State and local taxes are very regressive," says Elizabeth McNichol, director of the State Fiscal Project at the Center on Budget and Policy Priorities. "They place a heavier burden on low-income people than on high-income people. We're getting to the point where state policymakers are recognizing that they need to look at issues of the working poor and that they need to look at tax relief for low-income families."

Although the federal government does not tax the income of poor families,[3] almost half the states tax the earnings of families with incomes below the poverty level. In Kentucky, where two-thirds of poor families with children work, the state's 1998 threshold for taxing family income was $5,000. "A two parent family of four with poverty level income paid $550 in Kentucky income taxes, the highest burden in the

LIBERALS AND CONSERVATIVES HAVE FOUND THE RATIONALE FOR THE EARNED INCOME TAX CREDIT PERSUASIVE: TAXING LOW-INCOME WORKING FAMILIES INTO POVERTY, OR FURTHER INTO POVERTY, IS NOT WISE PUBLIC POLICY.

[2] A small EITC is available to low-income families and individuals without children. The maximum benefit is $347, and this population is responsible for about 3 percent of EITC expenditures.

[3] For a two-parent family of four, the federal government's threshold for taxable income is $18,300 per year.

country," according to *Poverty Despite Work in Kentucky*, a report by the Center on Budget and Policy Priorities and Kentucky Youth Advocates.

Illinois, another state with a very low threshold for taxing the income of working families, recently doubled its personal exemption from $1,000 to $2,000. Despite this encouraging step toward tax equity, the state begins taxing family income when it reaches 49 percent of the poverty level. Brian Matakis, a project director at Voices for Illinois Children, sees an inconsistency between the state's income tax for low-wage families with children and its other policies to encourage work and reduce dependency.

"In Illinois, we have done a laudable job crafting children's health insurance, child-care subsidies, and other work-first, employment-centered supports," says Matakis. "And then we have an income tax that not only doesn't complement these investments, but actually works against them by taxing families deeper into poverty."

A *nonrefundable* state EITC can provide tax relief to working families with incomes near poverty level. But to assist working families with incomes below the poverty line, who owe little or no income tax, a *refundable* EITC is necessary.

In addition to reinforcing the federal tax credit and reducing the adverse impact of state and local taxes, a state EITC has at least one other benefit. It is simple for states to administer and low-income families to claim. Using federal eligibility rules, refundable state EITCs are based on a simple percentage of the federal credit.[4] Depending on the state, this proportion ranges from 8.5 percent to 25 percent of the federal EITC.[5]

COMPLEMENTING WELFARE REFORM, THE EITC PROVIDES LOW-INCOME SINGLE PARENTS WITH A POWERFUL INCENTIVE TO WORK. AS THE CREDIT PHASES IN, ITS VALUE FOR VERY LOW-INCOME WORKERS INCREASES WITH WORK EFFORT AND EARNINGS.

Costs and Benefits

Because state EITCs assist low-income families and advance welfare-reform goals, one might reasonably ask why there aren't such credits in every state with an income tax. Part of the answer involves the traditionally slow pace of policy change, and the inevitable competition among budget priorities. Moreover, tax policy is a complicated and often intimidating topic for legislators and advocates alike. "It's been challenging for us as an organization to ratchet up our understanding the issues," says Debra Miller, executive director of Kentucky Youth Advocates. "It's also very challenging for us to get other child advocates interested in this."

[4] Minnesota, which recently expanded its state EITC for families by about two-thirds, has a slightly different and somewhat more complex benefit structure than the federal government or other states.

[5] In Wisconsin, the percentage of the federal EITC varies with the number of children: one child, 4 percent; two children, 14 percent; and three children, 43 percent.

TODAY STATES ARE "IN THEIR BEST FINANCIAL CONDITIONS IN DECADES," according to a recent survey of 44 states by the National Conference of State Legislatures. Because of a healthy national economy, conservative revenue forecasts, and other factors, the reporting states have an aggregate ending balance of $33.4 billion for fiscal year 1999. Among the questions raised by budget surpluses: Should states save money in rainy-day funds and other reserves? spend on education, infrastructure, and other programs? or cut income, sales, and other taxes?

As policymakers wrestle with these questions, a growing number of state-level organizations concerned with the well-being of disadvantaged children are providing sophisticated research and analysis to inform public debates about tax, revenue, and budget priorities. Since 1993 the Annie E. Casey Foundation has provided support to the State Fiscal Analysis Initiative (SFAI), a network of 22 state-based organizations engaged in research and public education. Funding for SFAI is also provided by the Ford Foundation, Charles Stewart Mott Foundation, Open Society Institute, and several local and regional philanthropies. Promoting equitable tax and budgetary policies that meet the needs of all citizens, the state-based organizations receive technical assistance from the Center on Budget and Policy Priorities, a Washington, D.C.-based organization that conducts national and state-level research on fiscal policy.

For additional information on the State Fiscal Analysis Initiative, contact: Center on Budget and Policy Priorities, 820 First Street, NE, Suite 510, Washington, DC 20002, phone: 202-408-1080, www.cbpp.org. For a copy of the new publication *The State Fiscal Analysis Initiative: Building Organizational Capacity for State Budget and Tax Analysis*, contact: Charles Stewart Mott Foundation, 1200 Mott Foundation Building, Flint, MI 48502-1851, Publications Hot Line: 800-645-1766, www.mott.org.

Eight of the Annie E. Casey Foundation's KIDS COUNT state grantees, which receive support to collect, analyze, and disseminate information on the well-being of children, are participating in SFAI.

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4001 N. 3rd Street, Suite 160
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www.azchildren.org

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www.voices4kids.org

Kentucky
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www.kyyouth.org

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A NONREFUNDABLE STATE EITC CAN PROVIDE TAX RELIEF TO WORKING FAMILIES WITH INCOMES NEAR THE POVERTY LEVEL. BUT TO ASSIST WORKING FAMILIES WITH INCOMES WELL BELOW THE POVERTY LINE, A REFUNDABLE EITC IS NECESSARY.

Perhaps the largest hurdle to more states enacting Earned Income Tax Credits is the discomforting fact that low-income people supply many state treasuries with substantial income-tax revenue. According to an analysis by Voices for Illinois Children, a new state EITC that was 10 percent of the federal tax credit would cost more than $100 million per year. "The reality is that the state of Illinois gets millions of dollars each year from poor folks," says Brian Matakis. "And if you have an Earned Income Tax Credit, we are going to lose those revenues."

One way that many states could partially finance an EITC is by taking advantage of the flexibility built into the 1996 federal welfare-reform law. The final regulations for Temporary Assistance for Needy Families (TANF), issued in April by the U.S. Department of Health and Human Services, allow states to use either federal or state welfare dollars to pay for the refundable portion of a state Earned Income Tax Credit. This option should appeal to some state legislators as declining welfare caseloads create significant TANF surpluses.

Acknowledging that a state Earned Income Tax Credit is expensive, researchers and advocates explain that this is only natural because large numbers of people can benefit from it. In 1998 some 20 million poor and near-poor workers nationwide claimed the federal EITC. "People who aren't reached by most programs for low-income people benefit from these tax credits," says Nicholas Johnson. "A lot of state legislators need to come to grips with the fact that a lot of their constituents could benefit from these credits."

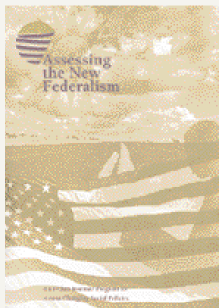
For many, the ultimate justification for a state Earned Income Tax Credit is its value as a long-term investment in children. Study after study has shown the links between poverty and poor developmental, educational, and adult outcomes. And growing numbers of policymakers, researchers, and advocates believe such an investment in working families will benefit children and society as a whole. "An Earned Income Tax Credit is certainly not as direct a benefit to children as quality child care," says Brian Matakis. "But at its most basic level, the EITC gets to the heart of something that's been a hardship for a long time, and that's an absence of family resources. If you can't support a nurturing environment and add to it, then you're really not going to be able to improve children's lives."

ASSESSING WELFARE REFORM

RECENT REPORTS FROM THE URBAN INSTITUTE

By Michael deCourcy Hinds

The 1990s have unquestionably been a decade of profound change in domestic social policy. Responsibility for the social safety net has been shifting from the federal government to the states, and welfare as we had known it for 60 years officially ended in 1996. What remains unanswered is the impact of these changes on low-income families and children. How would millions of young mothers with little education or work experience pull their families through poverty? How would states cope with their new responsibilities? How would employers respond?



On Jan. 30, 1997, the Urban Institute formally announced the establishment of an ambitious research project called "Assessing the New Federalism." The institute, a nonpartisan policy research organization in Washington, D.C., is collaborating on the project with Child Trends, a nonprofit research organization also in Washington. The focus of the project is primarily on health care, income security, job training, and social services.

Assessing the New Federalism was developed at the request of the Annie E. Casey Foundation, with the aim of providing policymakers and others with information about significant developments affecting children and families. The Henry J. Kaiser Family Foundation, W. K. Kellogg Foundation, and John D. and Catherine T. MacArthur Foundation have joined Casey to provide significant support for the project.

At this stage, researchers are still collecting information, not reaching conclusions. This article

presents a glimpse of the work in progress, based on a half-dozen recent studies on aspects of welfare reform.

Moving from AFDC to TANF

The institute's December 1998 report, entitled *Cash Assistance in Transition: The Story of 13 States*, serves as an excellent primer for understanding the landmark shift in welfare policy. The report, written by researchers Sheila R. Zedlewski, Pamela A. Holcomb, and Amy-Ellen Duke, provides the national context for welfare reform and describes policy shifts in 13 representative states, where over half of welfare recipients live.

As the authors note, the most prominent welfare program, Aid to Families With Dependent Children (AFDC), had been widely criticized as ineffective. Among other things, it was believed to foster dependence, as eligible families could receive cash assistance as long as they had a dependent child under age 18. AFDC also discouraged marriage by treating two-parent families far less favorably than single parents. And while AFDC emphasized education and training, it was largely ineffective in moving people into the work force.

To refocus public assistance, Congress passed and the President signed the Personal Responsibility and Work Opportunity Reconciliation Act of 1996. The act created AFDC's successor program, Temporary Assistance for Needy Families (TANF). The act's stated goals were to: "(1) provide assistance to needy families so that children may be cared for in their own homes or relatives'; (2) end the dependence of needy parents on government benefits by promoting job preparation, work, and marriage; (3) prevent and reduce the incidence of out-of-wedlock pregnancies; (4) encourage the formation and maintenance of two-parent families."

THE URBAN INSTITUTE REPORT *CASH ASSISTANCE IN TRANSITION* PROVIDES THE NATIONAL CONTEXT FOR WELFARE REFORM AND DESCRIBES POLICY SHIFTS IN 13 REPRESENTATIVE STATES, WHERE OVER HALF OF WELFARE RECIPIENTS LIVE.

To reach these goals, the federal government mandated rules about eligibility, work, and time limits for public assistance, as outlined:

- *Work:* States must have 50 percent of all families in work or work-prescribed activities by 2002, with intermediate work requirements starting in 1997.
- *Participation:* Parents must participate in work-related activities unless they have a child under one year old.
- *Benefit Time Limits:* Cash assistance is available for no more than five years in a recipient family's lifetime. (States have latitude in setting shorter time limits or in extending benefits past five years using state funds only. States may also exempt 20 percent of their caseload.)

- *Spending:* The use of federal block grants, nominally fixed until 2002, gives states considerable leeway in providing support to low-income, two-parent families. Federal funds can also be saved in case of an economic downturn.

- *Deterrence:* To discourage out-of-wedlock births, unwed teen mothers must live with their parents or other responsible adults and must attend high school or other equivalent training to be eligible for cash assistance.

The authors of *Cash Assistance in Transition* also describe the great variation in the way states have been crafting new systems within the federal framework. Florida, for example, has set a four-year lifetime limit for receiving TANF benefits, while Michigan has set no lifetime limit, as it plans to use state funds for family benefits after the family loses eligibility for federal funds. Generally, states are encouraging work by disregarding portions of a family's earned income in setting family benefit levels. States are also setting tougher sanctions for people who fail to comply with work rules, including the ultimate sanction in some states of eliminating the entire family benefit.

State and local welfare officials told the study's authors that their biggest concern was that families would fall through the cracks during this transitional period of policy overhaul. "Respondents were worried that the TANF time clocks for work participation and benefit termination were ticking away while these reforms were still getting under way, raising the specter that — even in a good economy — some state changes focused on service delivery might come too late for those whose clocks are ticking."

Running an Obstacle Course to Work

From March 1994, the peak of welfare caseloads, to September 1998 the nation's welfare rolls decreased by 43 percent. How are former welfare recipients doing in the labor market, and what are the prospects for those still on welfare? An Urban Institute survey, called the *National Survey of America's Families*, helps answer these questions. The nationwide survey collected economic, health and social characteristics for 44,000 households, with a special emphasis on households in 13 states where the institute is closely monitoring policy changes. The survey was conducted between February and November of 1997 as states were starting to put new welfare programs in place. A 1999 version of the survey is now under way.

First, the report from *current* welfare recipients: Many welfare recipients said they were moving toward independence, but many others report facing an obstacle course of personal and family problems, which make it hard for them to work. "Our results present a good-news, bad-news kind of story for parents receiving TANF in 1997," Sheila R. Zedlewski writes in her June 1999 report entitled, *Work-Related Activities and Limitations of Welfare Recipients.* The survey involved interviews with 1,564 adults on welfare who are likely to be affected by new work participation rules.

The good news:

- *Many are in work-related activities:* A historically high number of welfare recipients were participating in work-related activities: 21 percent held jobs, 10 percent were in school, 24 percent were actively looking for work.

- *Early experiments with work policies are paying off:* States that encouraged work activities prior to the new TANF requirements achieved significantly higher work participation rates than other states.

■ *Welfare-reform targets are in sight:* In the near term, most states will have little trouble meeting the new federal work activity targets for all TANF families — targets that are linked to funding. This is because work participation rates are already high, and recent declines in caseloads also make the targets easier to reach.

The bad news:

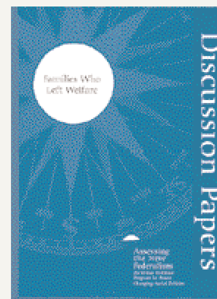
■ *Most face obstacles to work:* Three in four parents on welfare report having at least one significant obstacle to work; nearly one in five parents report having three or more obstacles to work.

■ *Common obstacles are serious:* 48 percent report having either poor physical health or poor mental health; 43 percent haven't worked for three or more years; 41 percent do not have a high school diploma or equivalent; 15 percent have an infant; 10 percent live outside metropolitan areas and don't have a car to drive to work; 7 percent may have limited English language skills; and 4 percent care for a disabled child.

■ *Some are at risk:* Parents who face the greatest risk of remaining on welfare are the 27 percent who have two or more obstacles to work and are not engaged in any kind of work-related activity.

■ *Welfare-reform targets could become harder to hit:* Over time, state caseloads will likely include higher concentrations of severely disadvantaged families, making it more difficult for states to meet federal goals, with the risk of losing funding.

Second, the report from *former* welfare recipients: How are people faring after leaving welfare? What yardstick can be used to measure their progress? Because former welfare recipients are nearly all women entering the bottom tier of the labor market, institute researchers assessed their progress by comparing them with low-income women with children who had not been on welfare. The institute's June 1999 study, entitled *Families Who Left Welfare: Who Are They and How Are They Doing?* and written by Pamela J. Loprest, also draws on the institute's 1997 national household survey.



The study compares responses of low-income mothers to responses of 1,289 former welfare recipients who left welfare between 1995 and 1997 and remained off welfare in 1997. Nationally, nearly four out of ten mothers with children under 18 in 1996 were classified as low-income, meaning that their incomes fell below 200 percent of the federal poverty level (about $26,000 for a three-person family with two dependent children).

Former welfare recipients and low-income women are similar in many ways: they have similar numbers of children, with two being the median number. Most are poorly educated (only one in three has a high school diploma or equivalent), and most are white (although former welfare recipients include a disproportionately low percentage of Hispanics and a disproportionately high percentage of African Americans).

In both groups, most women are working and have similar jobs, mainly in service and retail industries. (Almost half of non-working, former welfare recipients say they received child support payments, Social Security benefits, or Supplemental Security Income; how other unemployed women get by is unknown.)

Former welfare recipients tend to earn a bit more than low-income mothers: the median hourly wages were $6.61 versus $6.06. Nearly one in ten women in both groups hold two jobs. Perhaps due to their longer time in the work force, 36 percent of low-income women have employer-provided health insurance compared to 23 percent of former welfare recipients.

There are also big differences. Former welfare recipients are younger, on average, as almost one in three is under 25. They also have younger children, with one in four moms having a child under the age of one. The biggest difference of all is marital status: 61 percent of former welfare recipients are single parents without partners compared with 32 percent of low-income mothers.

Many low-income women report hardships, but many more former welfare recipients experience the same problems. For example, one in three low-income mothers sometimes or often didn't have enough food for their families, compared with one in two former welfare recipients. Similarly, 28 percent of low-income mothers had trouble with housing costs in the prior year, but 39 percent of former welfare recipients reported this problem.

Given these hardships, it is unclear why so many mothers do not receive food stamps and Medicaid benefits. Among former welfare recipients, only 31 percent receive food stamps, only 34 percent of the adults are covered by Medicaid, and only 47 percent of their children are covered by Medicaid. Former welfare recipients are eligible for food stamps, based on their income; they are generally eligible for Medicaid for one to two years after leaving welfare, depending on the state; and children under the age of 15 in low-income families are eligible for Medicaid.

Among those who leave welfare and food stamp programs, 60 percent leave both programs at the same time. Explanations range from people not understanding the eligibility rules to their sense of the hassle and stigma associated with receiving public assistance. "We seem to be observing a cultural change, a shift away from using government assistance toward making it on your own," says Sheila R. Zedlewski, director of the institute's Income and Benefits Policy Center.

The number of low-income families receiving public benefits are even lower: 13 percent receive food stamps, 12 percent of the adults are covered by Medicaid, and 24 percent of their children are covered by Medicaid. "We cannot sort out whether higher rates of use among former welfare recipients reflect greater need than other low-income families or merely less stigma or greater knowledge of benefit programs," writes Loprest, a senior research associate at the institute, in *Families Who Left Welfare.*

All in all, most former welfare recipients are fitting into the low-income labor market. "The fact that 75 percent of former welfare recipients are working themselves or have a spouse or partner who is working is positive," Loprest says. "Also that welfare recipients

HOW ARE FORMER WELFARE RECIPIENTS DOING IN THE LABOR MARKET, AND WHAT ARE THE PROSPECTS FOR THOSE STILL ON WELFARE? AN URBAN INSTITUTE SURVEY, CALLED THE *NATIONAL SURVEY OF AMERICA'S FAMILIES*, HELPS ANSWER THESE QUESTIONS.

who work are doing as well as other non-recipient moms is telling."

But some are not doing so well. During the study period, 29 percent of those who left welfare returned. In noting that single parents face the most difficulties, Loprest writes, "This suggests that policies to encourage and support work might benefit from focusing on how to support single-parent families generally rather than necessarily targeting former welfare recipients."

There are rays of sunshine in the statistics. In a few state surveys, for example, most former welfare recipients report hardship, but still say their lives improved after leaving welfare, according to Sarah Brauner and Pamela J. Loprest's May 1999 study entitled *Where Are They Now? What States' Studies of People Who Left Welfare Tell Us.* In a Wisconsin survey, for example, 69 percent of former welfare recipients reported that "life is better now" and 60 percent don't anticipate returning to welfare. At the same time, the same percentage, 69, also say they're "barely making it," and more than one in three have trouble providing their family with enough food, paying the rent, and utility bills.

Plenty of Jobs, Few Good Ones

Early fears that the whole welfare-to-work initiative might sink in an unreceptive job market are minimized in an August 1998 institute-sponsored study, entitled *Job Prospects for Welfare Recipients: Employers Speak Out*, by Marsha Regenstein, Jack A. Meyer, and Jennifer Dickemper Hicks. The survey was based on interviews with 700 employers in industries with large numbers of entry-level jobs. "Employers have a very open mind about hiring welfare recipients even if they have limited education and training — provided that they have the personal characteristics they find important: reliability and positive attitudes towards work," says Meyer, president of the Economic and Social Research Institute in Washington, D.C.

Only 12 percent of employers rated prior work experience as a "most important" qualification for work and only 4 percent put adequate training in this category. By comparison, 66 percent said reliability and positive work attitude were most important, 39 percent listed strong work ethic, 31 percent cited punctuality, and 16 percent said being friendly and following through on assigned tasks were the most important characteristics.

With the strong economy, economists forecast that the flow of welfare recipients into the work force will not cause problems like raising unemployment rates

or displacing low-income workers in many metropolitan areas, according to a June 1999 institute study, *How Well Can Urban Labor Markets Absorb Welfare Recipients?* by Robert I. Lerman, Pamela Loprest, and Caroline Ratcliffe. "On average," the authors write, "our projections show that the 20 metropolitan areas studied will experience decreases in unemployment rates, even with the entry of welfare recipients into the labor force, largely because of growth in low-skill employment." However, this varies across the country. Some labor markets — including Baltimore, New York City, St. Louis, and the District of Columbia — have high initial unemployment rates and will encounter problems.

In the study *Job Prospects*, employers voiced concerns about welfare recipients' reliability and work attitudes, but were willing to hire them. In all, 62 percent of

BECAUSE FORMER WELFARE RECIPIENTS ARE NEARLY ALL WOMEN ENTERING THE BOTTOM TIER OF THE LABOR MARKET, URBAN INSTITUTE RESEARCHERS ASSESSED THEIR PROGRESS BY COMPARING THEM WITH LOW-INCOME WOMEN WITH CHILDREN WHO HAD NOT BEEN ON WELFARE.

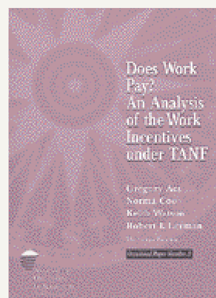
employers have hired a former welfare recipient, and 94 percent of those said they would be willing to hire one again. Among those without experience with welfare recipients as employees, 82 percent said they would likely hire one in the next year.

The jobs available, though, are often part time with very low wages and minimal, if any, benefits: The median entry-level wage paid by surveyed employers was $5.50. Nearly half the jobs are part time. A quarter of the employers offer no benefits, only 17 percent offer paid sick leave, and only 1 percent offer child-care benefits. While nearly half of the businesses provide health-care insurance, the premiums can be costly to employees and coverage may not start for months — or over a year, in nearly a third of the employers surveyed. On top of all this, a staggering 39 percent of employers said their jobs are not accessible by public transportation (even in Los Angeles, nearly 20 percent of employers said their jobs were inaccessible by public transit).

Jobs for former welfare recipients, then, are at the very bottom rung of the labor market. "These sort of jobs aren't bad if they are quite temporary, and people can move up to better jobs," says Meyer. "My own sense is that some workers will go that path, but a lot of people in this country are mired in these jobs. It's kind of a yellow light on welfare reform."

Public Incentives Make Work Attractive

But minimum-wage jobs, in combination with food stamps and low-income tax credits, can lift families out of poverty, concludes a December 1998 institute study, entitled *Does Work Pay? A Summary of the Work Incentives under TANF*, by Norma B. Coe, Gregory Acs, Robert I. Lerman, and Keith Watson. "The central finding is that low-income, single mothers are significantly better off working, even at minimum wage, than relying solely on welfare," the authors say. "Indeed, work pays mainly because of the continued federal financial commitment to working families," primarily through the Earned Income Tax Credit. By 1997, the credit provided up to 40 percent of earnings up to $9,100, or up to $3,640. Without the credit, a person working 35 hours a week 50 weeks a year at the minimum wage of $5.15 in 1997 would have a yearly income of about $9,000 — considerably below the $12,931 poverty level for a family of three. With the credit, the family income approaches the poverty line.



The study uses Colorado, a state that was close to the median of 12 states examined, to demonstrate how a typical mother with two children would fare as she leaves welfare for work. The example below

reflects after-tax income from all sources, including TANF benefits, the cash value of food stamps, and tax credits for low-income workers:

- With just public assistance, a mother with two children has a monthly income of $674, which is equal to 68 percent of the federal poverty level.
- With a part-time, minimum-wage job, the mother's monthly income would rise to $1,041, which is equal to 97 percent of the poverty level.

"THE CENTRAL FINDING IS THAT LOW-INCOME, SINGLE MOTHERS ARE SIGNIFICANTLY BETTER OFF WORKING, EVEN AT MINIMUM WAGE, THAN RELYING SOLELY ON WELFARE. INDEED, WORK PAYS MAINLY BECAUSE OF THE CONTINUED FEDERAL FINANCIAL COMMITMENT TO WORKING FAMILIES."

- With a full-time, minimum-wage job, her monthly income would rise to $1,241, which is equal to 115 percent of the poverty level.

As pay increases, though, income tax credits and food stamp benefits are phased out — creating a situation where a substantial pay hike produces only a minimal net pay raise. For example, a full-time, minimum-wage worker who receives a 75 percent increase in pay, to $9 per hour, would only receive a 16 percent increase in net pay, to $1,478, on average.

Co-author Gregory Acs, a senior research associate at the institute, says that the disincentive to find good-paying jobs also varied with state rules for phasing out benefits. "Oregon adapted our methodology, and found out that in one county a mother with two kids who needed child care would be no better off working at a $12 an hour job with no public assistance than she would be at a $6 an hour job and still receiving the Earned Income Tax Credit, some TANF, and child-care assistance. It was the most glaring example of any I've seen," he says. "As an analyst, I'm not sure what to do about it besides pointing it out."

It's not an easy problem, he says. Government encourages people to take entry-level jobs, even part time at minimum wages, by showing them that it helps them get ahead financially. But how should government phase out benefits in a nation where half the work force earns under $12 an hour? "It's hard to phase out benefits gradually without providing benefits to 50 percent of all workers," Acs says.

For some former welfare recipients, the benefits will start them climbing up a career ladder to jobs with high wages, good benefits, and a future. But for others in poor health or who lack the education, skills, or motivation to climb the career ladder, the benefit structure gives them no incentive to seek better full-time jobs. "It's a trade-off," says Acs.

About the Research Project

Midway through the Assessing the New Federalism project, highlights include:

- A 1997 national survey of 44,000 households and a second one under way in 1999.

IN ADDITION TO SUPPORTING the Assessing the New Federalism project, the Annie E. Casey Foundation assists several other organizations that provide reliable and timely information about welfare reform and related topics. These organizations include:

The **Welfare Information Network**, a comprehensive clearinghouse for information on welfare policies and programs at both the state and federal level, 1000 Vermont Avenue, NW, Suite 600, Washington, DC 20005, phone: (202) 628-5790, fax: (202) 628-4206, www.welfareinfo.org.

The **Welfare Reform Academy,** which educates state and local officials, private service providers, and other interested individuals about welfare reform, Maryland School of Public Affairs, 2101 Van Munching Hall, College Park, MD 20742, phone: (202) 862-5904, www.welfare-reform-academy.org.

The web site of the **Research Forum for Children, Families, and the New Federalism,** a clearinghouse of information on welfare research projects, which includes an online database of project summaries, National Center for Children in Poverty, 154 Haven Avenue, New York, NY 10032, phone: (212) 304-7150, fax: (212) 544-4200 or 4201, www.researchforum.org.

The **Center for Law and Social Policy,** which uses education, policy research and advocacy to improve the economic security of low-income families, 1616 P Street, NW, Suite 150, Washington, DC 20036, phone: (202) 328-5140, fax: (202) 328-5195, www.clasp.org.

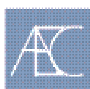
- A data bank, accessible on the Internet, that provides 900 types of social service information for each of 50 states and the District of Columbia. Almost 20,000 researchers, state officials, and advocacy organizations have already used the data bank to compare program designs, expenditures, or indicators of family well-being among states.

- Twenty-six case studies of health, social service, and income support policies in 13 states. For these states, these are the only comprehensive reviews of safety net program design, implementation, and delivery of service.

- Thirty-three policy briefs, designed to quickly brief policymakers on the implications of policy changes, and 26 papers comparing safety net policies across states.

Alan Weil, director of the project and a former director of the Colorado Department of Health Care Policy and Financing, says Assessing the New Federalism fills a vacuum: "Folks concerned about the well-being of families and children realized that we, as a country, really don't have a systematic way of gathering information about state policies and the effects of them. Without this new initiative, it would be very hard to speak with any confidence about what it means for states to define the safety net."

Michael deCourcy Hinds, a former reporter for the New York Times, *is a vice president at the Public Agenda Foundation.*



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Illustrations: David Suter
Photography:
Tony Stone Images (cover & p. 27)
Lorin Klaris (pp. 12–15)