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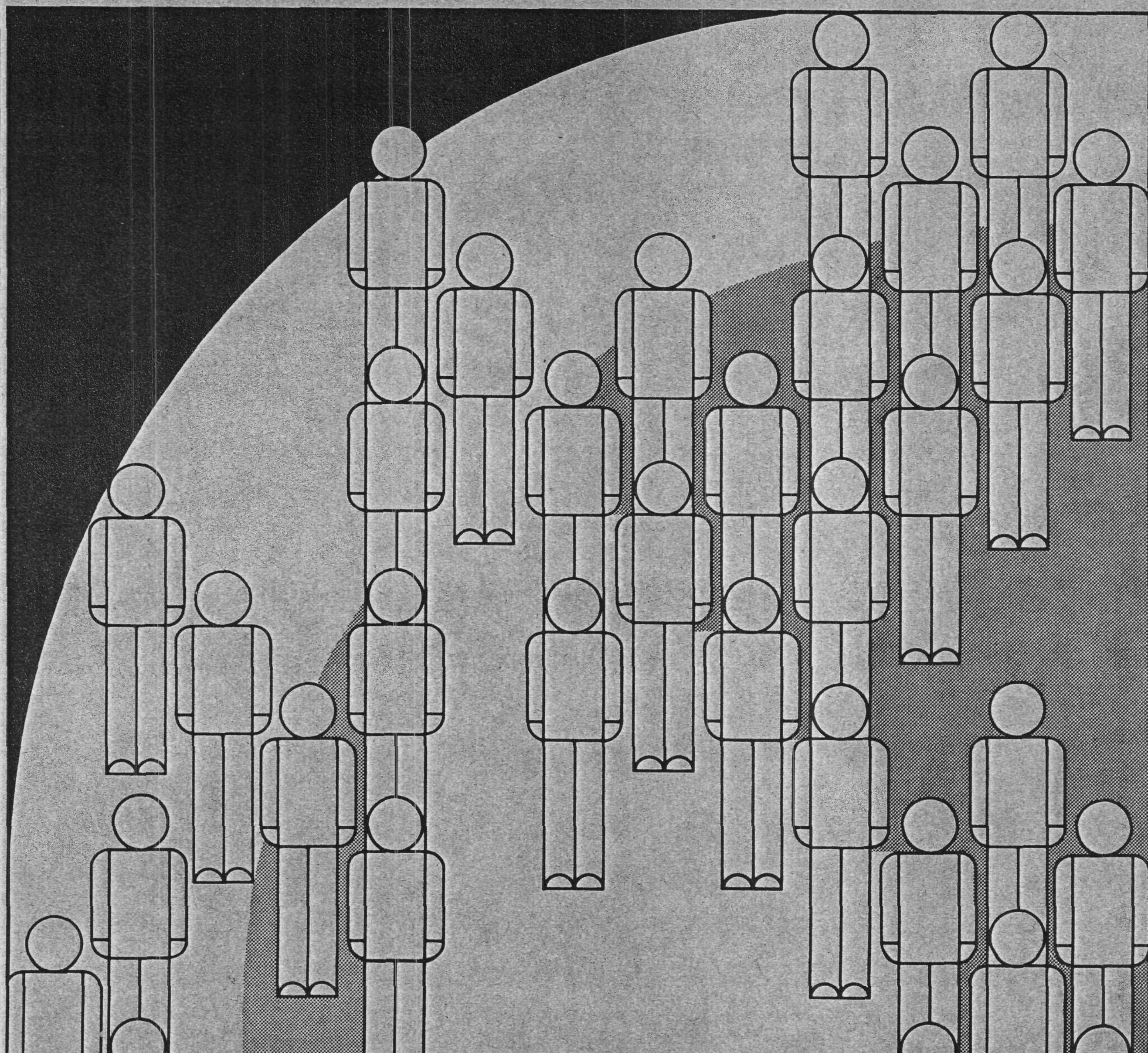
Work-Related Programs for Welfare Recipients



CBO STUDY

WORK-RELATED PROGRAMS

FOR WELFARE RECIPIENTS

The Congress of the United States
Congressional Budget Office

PREFACE

Proposals to help recipients of welfare benefits become self-sufficient through work-related activities have been the subject of considerable legislative interest in recent years. This paper, prepared by the Congressional Budget Office (CBO) at the request of the Senate Budget Committee, examines work-related programs for recipients of benefits from the Aid to Families with Dependent Children (AFDC) program, reviews the evidence regarding their effectiveness, and considers a range of legislative options. In accordance with CBO's mandate to provide objective and impartial analysis, this paper contains no recommendations.

Ralph E. Smith of CBO's Human Resources and Community Development Division wrote the report, under the direction of Nancy M. Gordon and Martin D. Levine. Janice Peskin of CBO's Budget Analysis Division made major contributions throughout the project. The cooperation of Judith Gueron and the staff of the Manpower Demonstration Research Corporation is especially appreciated. In addition, many people provided valuable comments on earlier drafts, including Gina Adams, Douglas Besharov, Vee Burke, Michael Carozza, Alan Cohen, Robert Greenstein, Leslie Lenkowsky, Maureen McLaughlin, Demetra Smith Nightingale, Kathryn Porter, Steven Sandell, Joel Slackman, and John Weicher. Sherry Snyder edited the manuscript. Norma A. Leake typed the several drafts and prepared the paper for publication.

Edward M. Gramlich
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SUMMARY

Each month, about 3.7 million families receive benefits through the Aid to Families with Dependent Children (AFDC) program, the major source of government cash assistance to low-income children and their families. Nine out of ten recipient families are headed by women. When the program was created in 1935, one of the purposes of providing assistance to fatherless families was to enable the mothers to devote full time to rearing their children, rather than working outside the home. More recently, however, increasing attention has focused on how to help mothers receiving AFDC become self-sufficient through paid employment.

Work-related programs for AFDC recipients--including job search assistance, training and education, and unpaid work experience (known as workfare)--have been a subject of particular interest in recent years. The sometimes overlapping objectives of such efforts include:

- Raising the living standards of recipients and their families;
- Reducing welfare costs; and
- Requiring recipients to contribute to society in whatever ways they can.

Several proposals to promote these goals are being considered by the 100th Congress.

CURRENT WORK-RELATED PROGRAMS FOR WELFARE RECIPIENTS

Legislation involving work-related programs for welfare recipients has developed along two tracks. Since the early 1960s, the Congress has enacted a series of employment and training programs for low-income people, many of whom are also beneficiaries of income transfer programs. Participation in these employment and training programs is voluntary. The Job Training Partnership Act of 1982 (JTPA) is the most recent such effort. State and local governments are largely responsible for operating JTPA programs, but are not required to provide any funding of their own.

The other set of programs has been explicitly designed for recipients of income transfer programs. The Work Incentive Program (WIN), enacted as part of the Social Security Amendments of 1967, provides AFDC recipients with activities intended to help them become self-sufficient. Unless exempt, recipients must register for work and training as a condition of eligibility. The most common reason for adults being exempted is that they are caring for dependent children under six years of age. The federal government provides 90 percent of the funds for WIN, and states pay the remaining 10 percent.

Legislation enacted in 1981 and 1982 authorized states to establish alternatives to WIN and to require, at each state's option, that certain registrants participate in job search assistance, workfare, or other activities. As with other AFDC administrative costs, the federal government reimburses states for half of the costs of these activities. In response to this legislation, many states have experimented with new ways of providing work-related activities to AFDC recipients. Half of the states reorganized their WIN programs, and many established new programs to provide job search assistance, training, and work experience, partly funded by federal AFDC matching grants.

EVIDENCE REGARDING THE EFFECTIVENESS OF WORK-RELATED PROGRAMS

Much is being learned from the recent state initiatives that could be useful in formulating future federal policy on work and welfare. Evaluations by the Manpower Demonstration Research Corporation (MDRC) of experiments in Arkansas, California, Maryland, Virginia, and West Virginia, together with studies of earlier programs, indicate that carefully designed work-related programs for AFDC recipients can be moderately successful in achieving many of the goals sought by their proponents. Desired outcomes are not always realized, however, and the best available information is not always good enough to predict the circumstances under which they will occur.

Effects on Participants' Incomes

Work-related programs, such as job search assistance and training, usually increase the average earnings of economically disadvantaged female participants. Gains in earnings are typically larger for participants who have no recent work experience than for those who do. Most evaluations of previous training programs, WIN, and the recent demonstration projects reached these conclusions. For example, a program in San Diego, California, involving job search assistance and short-term workfare, was estimated to increase participants' average quarterly earnings by about $140 during the period for which data were available; among those who had not worked during the year before entering the program, the average quarterly gain was $210, compared with $70 for participants who had worked during that year.

A participant whose earnings increase does not necessarily attain a higher standard of living, at least in the short run, because transfer payments and other benefits such as Medicaid could fall and child care costs and other work-related expenses could rise. For example, the average gain in earnings of the participants in the San Diego demonstration cited above was more than double the average reduction in AFDC benefits; in a demonstration in Arkansas, however, the estimated gains in earnings were similar to the reduction in participants' AFDC receipts. Many of the individuals who stopped receiving AFDC benefits would probably also lose their eligibility for Medicaid some months later.

Effects on Government Costs

The costs to governments of operating work-related programs for welfare recipients are offset to some extent by savings generated from reduced outlays for AFDC, Medicaid, and other transfer programs for the participants. The federal government receives the majority of the savings, because it finances the majority of the benefits. Whether the net result is to save taxpayers money in the long run is uncertain. The answer depends, in part, on the effects of the work-related programs beyond the short post-participation period for which data are generally available, and on the extent to which the jobs obtained by program participants would have been held by other individuals who then become eligible for AFDC or other benefits.

Effects on Recipients' Contributions to Society

Recent experience in several locations suggests that it is feasible to engage a larger share of AFDC recipients in work-related activities. Most states, however, have not given this goal a high priority. Participation in job search assistance programs usually is the most that has been required. Requiring greater participation in work-related programs could help assure that recipients contribute to society. It might also discourage individuals from becoming dependent on public assistance, although whether it does so is not known.

Workfare programs appear to have been carried out in ways that are generally considered equitable by participants and productive by their employers. Surveys of workfare participants suggest that the majority of them accepted participation in the program as a reasonable requirement in return for their benefits. In West Virginia, program planners promoted workfare partly as a way of providing worthwhile public services that the state government could not otherwise afford. Surveys of worksite supervisors there and elsewhere indicate that the workfare participants were, on average, about as productive as regular employees.

ISSUES AND APPROACHES

If the Congress decided to change the current work-related programs for AFDC recipients or to develop new ones, several issues would need to be resolved, including whom to serve, what activities to provide, and how to pay for them. The Congress would also need to determine how prescriptive the federal government should be in designing the programs, and how much flexibility should be given to states.

Whatever specific choices might be made, an important lesson from studies of earlier efforts is the need to be moderate in one's expectations about what the programs are likely to accomplish. For example, the estimated gains in earnings of the participants in several of the recent demonstrations were significant, but generally did not bring their earnings up to very high levels.

Eligibility Criteria

One issue in the design of work-related programs is eligibility. Under current law, only about one-third of women receiving AFDC are required to participate in WIN or other work-related activities. Because the most common basis for exempting adult recipients is that they are caring for children under age six, whether to change this rule is an especially important matter.

Requiring recipients with pre-school-age children to work or to participate in programs that would prepare them for paid employment, at least on a part-time basis, might be considered more reasonable today than would have been the case even two decades ago, when staying home with young children was the norm. Moreover, women who begin receiving AFDC when their youngest child is under age six stay on welfare for more years, on average, than do other women. Participating in work-related programs might help them find jobs and lessen their reliance on public assistance sooner. On the other hand, child care costs would probably be higher for this group.

Minimum Participation Rates and Performance Standards

Another important issue is whether the federal government should enact incentives or requirements for states to enroll specific percentages of their nonexempt AFDC recipients in work-related activities or to achieve specific outcomes.

Setting targets for participation rates and specifying performance standards would provide a means of holding states accountable for meeting national objectives. A recent survey of state programs by the General Accounting Office indicates that, under current rules, most states are not opting to engage large percentages of eligible AFDC recipients in activities other than registration and job search assistance. Proponents of giving work-related requirements a higher priority argue that targets for participation rates are needed. Similarly, those who want to emphasize raising recipients' incomes or cutting welfare costs contend that specifying standards, such as minimum employment rates following participation in the program or a certain degree of reduced dependence on AFDC, is a necessary step.

Opponents of minimum participation rates argue that the various goals of work-related programs are, to some extent, in conflict and that targets would deny states the flexibility to give priority to the other objectives. They are also concerned that states might be penalized unfairly because, as indicated by the recent demonstration programs, achieving high rates of participation can be difficult. In West Virginia's workfare program, for example, the average monthly participation rate for eligible mothers was only about 20 percent. Achieving greater participation would require more rigorous enforcement than states have generally chosen to undertake, as well as higher operating costs.

Some people argue that the technical difficulties in specifying performance standards are so serious that such standards could be counterproductive. For example, the findings presented in this report indicate that standards would need to take into account the normal movement of many AFDC recipients off welfare and into jobs even when they do not participate in special programs. Otherwise, specified standards could inadvertently give states an incentive to enroll the recipients who were most likely to find jobs on their own, thus minimizing the actual gains from the program.

Priorities Among Recipients and Activities

Work-related programs could be designed so as to encourage states to serve individuals with specific characteristics or to provide particular types of activities. Which approaches should be taken depends, in part, on the primary objective of work-related programs. If it is to increase participants' earnings, the evidence on effectiveness strongly supports giving priority for job search assistance and training to women with little or no recent work experience, although this approach would exclude some people who would also gain from the program. If the goal is to assure that recipients contribute to society, then workfare--either alone or in combination with other work-related programs--might be used, even if participation did not increase recipients' earnings or reduce welfare costs.

Whether priorities should be specified in the legislation also depends on the extent to which the federal government should tell states what to do. An advantage of having the federal government specify which groups and which activities should be given priority is that doing so would help to assure that the federal funds would be used to achieve the program's intended goals. A disadvantage is that states might be in a better position to determine what would work best for whom within their own environments.

Funding Arrangements

Another issue is whether to change the share of work-related program costs paid by the federal government. Proponents of increased federal funding for work-related programs point out that, because it pays for a large share of the costs of AFDC and other transfer payments, the federal government receives the majority of the budgetary savings attributed to these programs. They argue that it would be appropriate for the federal government to pay a larger share of the costs as well. Such an arrangement would give states a greater incentive to operate programs, especially relatively intensive ones.

On the other hand, the evaluation studies show that work-related programs achieve other goals as well, including ones for which the federal interest might not be as strong--having workfare participants perform services for state and local governments, for example. Moreover, substantially increasing the rate at which the federal government matches state outlays could increase expenditures by unknown amounts, a particular concern during a period of high federal budgetary deficits.

CHAPTER I

INTRODUCTION

Work-related programs for recipients of public assistance--including job search assistance, training and education, and unpaid work experience (known as workfare)--have received considerable attention in recent years. Partly as a result of legislation enacted by the Congress in 1981 and 1982, many states have implemented programs to help welfare recipients attain the skills and work experience they need to become self-sufficient. The President, in his 1986 State of the Union Address, declared that the "success of welfare should be judged by how many of its recipients become independent of welfare" and called for the development of new approaches to achieve this objective. During the 99th Congress, several bills were introduced, and the topic is being addressed by various committees in the 100th Congress as well.

This report examines the issues surrounding the design, implementation, and evaluation of programs to provide work-related aid to recipients of public assistance, with an emphasis on federal programs for recipients of Aid to Families with Dependent Children (AFDC). As background, this chapter provides an overview of the AFDC program, the characteristics of AFDC recipients, and the history and goals of work-related programs for welfare recipients. Later chapters review current programs and evidence regarding their effectiveness, and examine a range of federal policy options.

BACKGROUND

Requirements and expectations regarding work by recipients of public assistance have changed substantially during the history of such programs. When AFDC--the major source of government cash assistance to low-income children and their families--was created a half-century ago, recipients were neither required nor expected to seek work outside the home. More recently, however, much attention has been focused on how to help recipients become self-sufficient through unsubsidized employment.

The AFDC Program in Brief

The program now known as Aid to Families with Dependent Children was established by Title IV of the Social Security Act of 1935. It authorized matching grants to states to help them provide financial assistance to needy children in families in which a parent had died, was absent from the home, or was incapacitated. 1/

Under current law, each state determines its own program eligibility criteria and benefit levels, subject to a number of federal requirements. In general, AFDC benefits are available to single-parent families with children under 18 years of age and with incomes and assets that are below specified amounts. States are permitted to extend eligibility until a child's nineteenth birthday if the child is a full-time student in a secondary or technical school. Since 1961, states also have been allowed to provide benefits to families in which both parents are present if certain conditions are met, one being that the principal earner is unemployed or works fewer than 100 hours a month. About half of the states have taken up this unemployed parent option (known today as AFDC-UP). AFDC-UP families account for less than one-tenth of all AFDC families and outlays.

Unless exempt, able-bodied recipients age 16 and over must register for work and training as a condition of eligibility. Every state operates a Work Incentive Program (WIN) that is used, in part, to enforce this requirement. 2/ The most common reason for exempting adults is that they are caring for children under six years of age. 3/ Children who are full-time students in secondary or vocational school are also exempt. If recipients fail to register for, or refuse without good cause to participate in, work-related activities to which they have been assigned by the welfare agency, they can lose some or all of their benefits. 4/

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1. The program was called Aid to Dependent Children (ADC) until 1962. Two-parent families in which one parent is incapacitated are treated as one-parent families in this report.

2. States are permitted to operate alternative WIN Demonstration programs, as well as other work-related programs to which AFDC recipients and applicants may be assigned. These programs are described in Chapter II.

3. States may request temporary waivers from the Secretary of Health and Human Services to enable them to require mothers of children under age six to fulfill work requirements.

4. The principal earner in an AFDC-UP family must comply with this requirement or benefits for the entire family can be lost. If a single parent in other AFDC families fails to comply, the parent may lose his or her benefits, and payments on behalf of the children may be made to a third party instead of to the parent.

Each state establishes a standard of need and determines what percentage of this standard AFDC will provide for a family. Within each jurisdiction, a family's monthly benefit level is determined primarily by family size and the amount and sources of other income. For example, in January 1987 the median state had a need standard of $428, and a maximum AFDC grant of $354, for a one-parent family of three. 5/ In addition, receipt of AFDC benefits automatically establishes eligibility for Medicaid, the major federal/state program that provides health benefits for some low-income people.

Federal law requires states to disregard certain earned income in determining the amount of a family's benefits and prohibits states from paying AFDC benefits to a family whose total income exceeds 185 percent of its standard of need. Amounts ordinarily not counted as income during each of the first four months of a recipient's job include the first $105 of the individual's earnings, child care expenses of up to $160 a month per child, and one-third of the remaining earnings. After four months, the one-third "disregard" cannot be used. After 12 months, the initial disregard of $105 is lowered to $75. States are required to retain families on Medicaid for at least four months after they become ineligible for AFDC, if the reason for ineligibility is increased earnings. 6/

One result of these rules is that a recipient who takes a job would not have to earn very much before she (or he) would lose AFDC benefits entirely, particularly if she is in a state with low benefits. For example, for a mother in the median state with two children and no child care deductions, the break-even point--that is, the amount of monthly earnings that would raise her countable income to the level at which she would no longer receive AFDC

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5. In most jurisdictions, AFDC benefits, together with food stamps, provide families with incomes well below the poverty threshold. For example, the maximum AFDC benefit, combined with food stamps, in the median state for a family of three would equal about three-quarters of the 1986 poverty threshold for a family of this size. House Committee on Ways and Means, *Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means*, WMCP: 100-4, 100:1 (March 6, 1987), p. 407. The assumed amount of food stamps is based on the maximum food stamp allotment in most states of $214 for a family of three, after adjustments for receipt of AFDC benefits and for allowable deductions.

6. States are required to continue Medicaid eligibility for nine months if loss of AFDC is the result of removing the one-third disregard. At their option, states may continue Medicaid coverage for these families for an additional six months. In addition, three-quarters of the states extend Medicaid coverage to "medically needy" families with dependent children. Under this option, families whose incomes--net of incurred medical expenses--are below a state's need standard are covered, even though they are not receiving AFDC.

payments--is about $640 during the first four months, $460 during the next eight months, and $430 thereafter. 7/ A person working full time in a job paying about $3.70 an hour would earn $640.

AFDC benefits totaled an estimated $15.8 billion in fiscal year 1986, of which the federal government paid $8.5 billion. The federal share of the funding averaged about 54 percent for the nation as a whole and varied between a floor of 50 percent and about 78 percent, depending on each state's per capita income. The federal government also pays 50 percent of the costs of administering the program in every state, including the costs of certain work-related activities. 8/ Combined federal and state administrative costs amounted to an estimated $2 billion in 1986.

Profile of AFDC Recipients

In an average month in 1986, 11 million people in 3.7 million families were estimated to be receiving AFDC benefits. The average monthly payment was $120 per person, or $352 per family. Two-thirds of the recipients were children; the rest were their mothers or other caretaker relatives. In most cases, the child's father was absent from the home. 9/

Large numbers of families move onto and off AFDC each year, even though the average monthly number of families receiving AFDC has not fluctuated very much during the past decade. 10/ For some families, AFDC provides short-term assistance during a crisis; for others, it provides long-term aid. Much attention has been focused on identifying which recipients are most likely to be in the latter group.

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7. Child care expenses, up to the allowable limit of $160 per child, would raise the break-even point on a dollar-for-dollar basis. The rules for disregarding certain earnings, and the changes that were made to them in 1967, 1981, and 1984, are described in "Costs and Effects of Expanding AFDC," Part III of House Committee on Ways and Means, *Children in Poverty*, WMCP: 99-8, 99:1 (May 22, 1985), pp. 414-417.

8. Although the federal government reimburses states for half of most covered administrative costs, it provides 90 percent of certain costs for automated data processing.

9. House Committee on Ways and Means, *Background Material* (1987), p. 429.

10. Ibid. Between 1976 and 1980, the average monthly number of families on AFDC remained between 3.5 million and 3.6 million. It rose to 3.9 million families in 1981 and then decreased to 3.6 million in the following year. Since then, it has stayed between 3.6 million and 3.7 million families.

Data from a sample of AFDC administrative records in 1985 provide a profile of mothers receiving AFDC and their families (see Table 1). The typical case consisted of a mother in her twenties, with one or two minor children (see the first column). About 60 percent of the mothers had at least one child under the age of six. Only 30 percent had to comply with WIN registration requirements; the remainder were exempted mainly because they were caring for young children (although some chose to register anyway).

Of the 3.3 million recipients in fiscal year 1985 represented in this sample, about 30 percent had been receiving AFDC for one year or less (see the second column), although some may also have received benefits in earlier periods. Another 30 percent had been receiving AFDC for 13 to 36 months, and the remaining 40 percent, for more than three years.

The "new" recipients were, not surprisingly, younger on average than the recipients already on the rolls, had fewer and younger children, and were less likely to be required to register with WIN (see the second column). For example, 25 percent of the new recipients were under age 22, compared with just 15 percent of all recipients.

The number of months since a case was opened, however, can seriously understate the extent to which mothers are dependent on AFDC for many years. These administrative statistics depict spells of receiving AFDC that are still in progress, not ones that have ended, so they cannot indicate total durations. Further, because previous and future spells are not included in the data, it is impossible to determine the extent to which these recipients were dependent up to the time of their current spell and the extent to which they may become dependent again in subsequent years. Thus, even though only about 40 percent of the recipients had been receiving AFDC for three years or more, the percentage who were or will be dependent for this length of time is much higher.

Data from the Panel Study of Income Dynamics (PSID), a nationwide survey that has tracked the experiences of members of about 5,000 households for over 15 years, provide important insights about long-term receipt of AFDC. An analysis of the PSID data for the years 1968 through 1982, conducted by David Ellwood, indicates that, of all mothers on AFDC for the first time, about half receive benefits for at least five years and about one-quarter do so for a total of nine years or more, though not necessarily in one continuous spell. 11/ Precisely because the latter group receives payments for so many years, it

11. David T. Ellwood, "Targeting 'Would-Be' Long-Term Recipients of AFDC" (Mathematica Policy Research, Inc., Princeton, N.J., January 1986).

TABLE 1. CHARACTERISTICS OF MOTHERS RECEIVING AFDC IN FISCAL YEAR 1985, BY TIME SINCE CASE WAS OPENED (In percent)

Characteristic	Total	Months Since Case Was Opened		
		12 or Fewer	13 to 36	Over 36
Average Number of AFDC Mothers				
In thousands	3,310 [a]	990	980	1,340
As a percent of total	100	30	30	40
Current Age				
Under 20	6	13	7	1
20 - 21	9	12	13	4
22 - 30	45	45	47	44
Over 30	40	30	33	52
Age of Youngest Child				
Under 3	38	51	48	22
3 - 5	24	20	23	28
Over 5	38	29	29	50
Number of Children				
One	42	51	45	32
Two	31	29	31	34
Three	17	13	15	20
Four or more	10	7	9	14
Registration in Work Incentive Program				
Mandatory	30	24	25	38
Voluntary	3	3	3	3
Nonregistrant	67	73	72	59

SOURCE: Congressional Budget Office tabulations of information from the AFDC quality control case sample for 1985.

NOTE: These data may include a small number of adult women who receive AFDC and are the caretakers of the children, but are not their mothers.

a. Excludes 74,000 mothers for whom the number of months since case was opened is not available.

accounts for the majority of the women receiving AFDC at any point in time and is the most costly group.

Further analysis by Ellwood suggests some of the characteristics of new recipients that are related to long-term receipt of AFDC, although the estimates are subject to a number of uncertainties. 12/ In particular, he estimated that women who were young, who had young children, who were single when starting to receive benefits, or who had not worked recently before first going onto AFDC would be more likely to continue in the program for many years than other women (see Figure 1). For example, women who had not worked during the two years before initially receiving AFDC were predicted to receive benefits, on average, for eight years, though not necessarily in a continuous spell. Women who had recent work experience, in contrast, were predicted to continue for six and a half years.

Work and Welfare

Perspectives on the proper relationship between work and welfare have changed substantially over time. Title IV of the Social Security Act of 1935 contained no mention of work. A premise of the original Aid to Dependent Children program was that the well-being of children raised in fatherless homes was closely linked to their mothers' not having to work outside the home. The Report of the Committee on Economic Security, submitted to President Roosevelt in 1935, spoke of

> ...aid to release from the wage-earning role the person whose natural function is to give her children the physical and affectionate guardianship necessary not alone to keep them from falling into social misfortune, but more affirmatively to rear them into citizens capable of contributing to society. 13/

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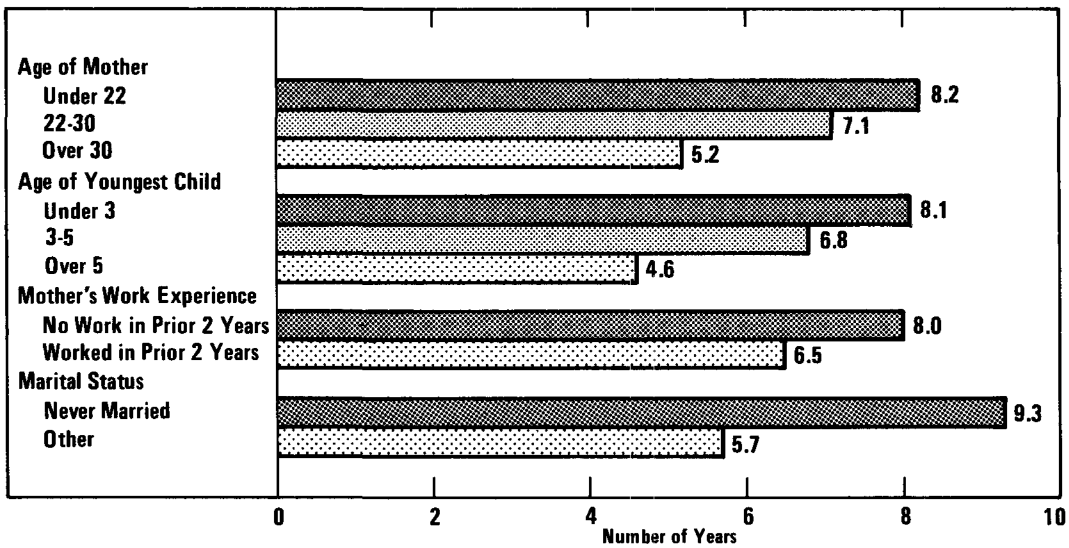
12. Several limitations of the data should be kept in mind. First, the data were collected over a 15-year period ending in 1982 and therefore mostly reflect the AFDC system as it was before major changes in the rules for disregarding certain earnings were made in 1981. Second, the number of AFDC recipients in the sample is small and may not be representative of the national AFDC population. Ellwood's results were based on analysis of only about 500 spells of receipt of AFDC during the 15-year period. AFDC mothers who did not head their own households--including young AFDC mothers living in their parents' home--and households that could not be found or refused to be interviewed were not included. Third, duration of the spells is measured by the number of years in which payments were received, even if only for part of a year. Therefore, estimates of movements on and off AFDC based on the PSID do not correspond to administrative data, which provide monthly information.

13. Report reprinted in Project on the Federal Social Role, *50th Anniversary Edition, The Report of the Committee on Economic Security of 1935* (Washington, D.C.: National Conference on Social Welfare, 1985), p. 56.

Figure 1.
Estimated Number of Years of AFDC Receipt, by Characteristics of Mother at Time of First Payment



SOURCE: Congressional Budget Office using estimates from David T. Ellwood, "Targeting 'Would-Be' Long-Term Recipients of AFDC" (Mathematica Policy Research, Inc., Princeton, N. J., January 1986) p. 42. Ellwood's estimates are based on analysis of the Panel Study of Income Dynamics, 1968-1982.

Three decades later, however, the Congress established the Work Incentive Program (Public Law 90-248) to foster

> ...a sense of dignity, self-worth, and confidence which will flow from being recognized as a wage-earning member of society and...[in the belief that] the example of a working adult in these families will have beneficial effects on the children in such families.

What happened? Several factors may account for the change. One factor was the enactment of the unemployed parent option in 1961, which permitted states to offer benefits to two-parent families in which the principal wage earner was unemployed. The assumption that welfare mothers were needed at home apparently did not extend to the fathers. The inclusion of able-bodied men in the program contributed to an interest in helping recipients prepare for, and find, jobs.

Another factor was the tremendous growth in the number of families receiving AFDC during the 1960s and in the program's cost. Between 1960 and 1970, for example, the number of families receiving AFDC each month almost tripled--from 800,000 to 2.2 million. Total payments increased from about $1 billion to almost $5 billion during that decade (an almost fourfold increase after adjusting for inflation), reflecting increases both in the average value of benefits during this period and in the number of recipients. 14/

The third factor--and perhaps the most germane to the current debate on work and welfare--was the dramatic change in the role of women in American society since the program was originally developed. In 1935, the expectation was that mothers would stay home to rear their children. By the mid-1960s this was no longer the case, at least for mothers of school-age children. For example, as recently as 1948 only 26 percent of married women with children between the ages of 6 and 17, and 11 percent of married women with younger children, were in the paid labor force; by 1965, these rates of participation in the labor force had risen to 43 percent and 23 percent, respectively. During 1985, two-thirds of all mothers of children under age 18 worked for pay sometime during the year; almost half of these women worked year-round full-time. 15/ (About 60 percent of mothers with children under age six worked sometime during that year, although only about one-third of these women worked year-round full-time.)

One consequence of the changing role of women is that some nonrecipients who are in families in which mothers work outside the home consider it unfair for recipients not to work too, at least on a part-time basis. Another consequence is that paid employment is increasingly seen as a viable option for raising the living standards of recipients.

This changing view about the relationship between work and welfare is reflected in much of the welfare reform debate that has taken place since the 1960s. Should certain recipients be required to participate in work-related programs? How would such a requirement be enforced? What rewards or

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14. Calculated from Social Security Administration, *Social Security Bulletin, Annual Statistical Supplement, 1984-85*, p. 254, and *Economic Report of the President*, House Doc. No. 99-142, 99:2 (February 1986), p. 315.

15. Congressional Budget Office tabulations of the March 1986 Current Population Survey indicate that about 22 million of the 33 million mothers of children under age 18 worked for pay sometime during 1985. About 15 million of these workers indicated that, when they work, they primarily worked on full-time schedules (that is, at least 35 hours per week). About 10 million reported that they worked at least 50 weeks during 1985 primarily on full-time schedules; this group (almost half of mothers who worked anytime during the year and 30 percent of all mothers) are classified as "year-round full-time workers."

penalties should be provided to encourage recipients to choose work over welfare? How can a welfare system be designed that simultaneously provides adequate resources for people who cannot work and work incentives for those who can? These questions arose during the debates over the Family Assistance Plan of the Nixon Administration and the Better Jobs and Income Act proposed by the Carter Administration; they are still being discussed today. 16/

GOALS OF WORK-RELATED PROGRAMS FOR RECIPIENTS

The arguments in favor of work/welfare programs reflect several different goals, including:

- o Raising the immediate or future living standards of recipients and their families;
- o Reducing welfare costs; and
- o Requiring recipients to contribute to society in whatever ways they can.

The design of work-related programs for welfare recipients depends, in part, on which goals are emphasized. These goals may also overlap, in that success in achieving one could also help to achieve another. Increasing a recipient's long-term earnings potential, for example, could increase her (or his) future living standard, as well as reduce future welfare costs. Similarly, requiring recipients to participate in work-related activities could encourage more of them to search actively for paid employment, thereby raising their earnings.

Some participants in the work/welfare debate argue that one or more of these goals could be accomplished best by policies other than work-related programs--for example, that living standards could be raised by providing higher

16. See *Work and Welfare,* prepared by Margaret Malone for the Subcommittee on Employment and Productivity of the Committee on Labor and Human Resources and the Subcommittee on Social Security and Income Maintenance of the Committee on Finance, U.S. Senate, S. Prt. 99-177, 99:2 (August 1986).

    Issues concerning the relationships between welfare and work are not confined to the AFDC program. In the Food Stamp program, for example, certain recipients are required to search for work and accept suitable employment. The Food Security Act of 1985 requires all states to implement work-related programs for food stamp recipients in 1987. The Congressional Budget Office is preparing a report on the characteristics of work registrants in the Food Stamp program and on programs to help them become self-sufficient.

benefits or increasing the amount of child support provided by absent fathers, and that dependency could be reduced by tightening eligibility criteria or replacing cash assistance programs with guaranteed jobs. These approaches are beyond the scope of this paper, however, which focuses on options that explicitly involve work-related programs for recipients. Some of these other options--such as establishing nationwide minimum benefits or changing the extent to which benefits are reduced as earnings increase--have been discussed in earlier CBO reports. 17/ The remainder of this section reviews these major goals and discusses some of their implications for the design and assessment of work/welfare programs.

Raising Living Standards

People who meet the eligibility criteria for AFDC usually have incomes that provide a low standard of living relative to that of the general population. One major goal of work-related programs for welfare recipients would be to raise the living standards of their families, primarily by increasing their immediate or future earnings. Programs designed with this goal in mind would be akin to many other programs intended to increase the earnings of their participants. For example, for many years the federal government has sponsored job training programs for economically disadvantaged people, including welfare recipients.

Whether increased earnings of recipients would result in higher living standards would depend, however, on the extent to which increased earnings would be offset by reductions in cash welfare and related benefits or by increases in work-related expenses. Moreover, the increased employment of program participants would not necessarily reflect higher total employment nationwide. One result of a work-related program could be that employers substituted the participants for other workers. On the other hand, even if total employment were not increased, it might be desirable to redistribute job opportunities to AFDC recipients as a means of preventing or ending long-term dependence on welfare.

Reducing Welfare Costs

Another major goal of work-related programs for welfare recipients is to reduce government costs for public assistance. Work/welfare options could achieve this goal by reducing the number of people on welfare or decreasing their monthly benefits.

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17. *Welfare Reform: Issues, Objectives, and Approaches* (July 1977); and *Reducing Poverty Among Children* (May 1985).

The mechanisms for reducing government costs could be the same as those for meeting the goal of raising living standards, because one way of cutting welfare costs is to help recipients increase their earnings. Under such a program, however, a participant whose earnings increased might then become ineligible for welfare--a success in terms of this goal, even though the participant's standard of living declined because of lost AFDC and related benefits. The opposite also could occur; for example, the program might help someone who would have gone off welfare anyway attain a higher-paying job than she could have found without the program. In this case, there might be no savings to the government, even though the program participant was able to attain a higher standard of living. Another way in which work-related programs might reduce welfare costs is by deterring people from applying for or continuing to receive benefits. In this case, costs would fall without necessarily being accompanied by higher earnings for recipients, whose standards of living would be lower.

Success in achieving this goal can be measured by whether a work-related program reduces outlays for welfare and other benefits such as Medicaid. Another, more demanding standard is whether the program reduces outlays by at least as much as it costs--that is, does the program pay for itself? If welfare costs were cut by less than the cost of the work-related program, then evaluations of the program would focus on whether the other benefits of the program were sufficient to warrant its net cost.

Requiring Recipients to Contribute to Society

A third major goal of work/welfare programs is to help assure that all members of society contribute to it in whatever ways they can. From this perspective, the recipient of welfare benefits has an obligation to do something in return for income support--for example, participate in designated activities such as job search assistance programs, training, or unpaid work. As articulated by the previously cited Committee on Economic Security in 1935, mothers receiving public assistance could best fulfill their obligation to society by raising their children to be useful citizens. Today, some proponents of modifying the AFDC program argue that recipients should be asked or required to do more.

Proponents of enforcing a work-related obligation on recipients offer various rationales for this view, but all conclude that more recipients should be required to participate in work-related programs in order to obtain benefits. Some advocates believe that certain recipients who could get jobs are choosing not to do so. Stricter enforcement of work requirements would, in effect, be a means of policing the welfare system. They argue that the current system provides little, if any, incentive for some recipients to seek paid employment or to acquire job skills, because the rate at which benefits are reduced to offset earnings is very high. 18/ Obligating recipients to participate in some kind of activity, even if it does not produce something of value, would provide a means of discouraging individuals from becoming dependent on public assistance.

Others who want to require recipients to contribute to society believe that popular support for AFDC would be greater--and, hence, benefit levels might be raised--if the recipients were seen to be doing something in return. Likewise, "earning" their benefits would give recipients a greater sense of self-worth and would provide a better example for their children.

On the other hand, some advocates of work-related programs for welfare recipients believe it is neither necessary nor desirable to require participation. They argue that most recipients would rather be self-sufficient but lack good opportunities, and that work requirements are demeaning. Instead of requiring participation, they would prefer to develop programs that would be of sufficiently high quality that recipients would volunteer to participate.

COSTS OF WORK-RELATED PROGRAMS

Work-related programs for AFDC recipients cost money to operate, regardless of their goals. Last year, for example, about $200 million was spent on WIN. The enforcement of a work-related obligation involves administrative costs for registering and assessing individuals, keeping track of their activities, and, if necessary, penalizing individuals who do not comply. Job search assistance, training and education, and workfare programs require expenditures for staff to develop and operate the programs. Costs for child care, transportation, and other supportive services for the participants may also be required, depending on the nature of the program and the needs of the participants.

A general issue, then, is whether the benefits of a program (or the expected benefits of a proposed program) are large enough to warrant the costs. This report examines both the extent to which past or current programs achieve the three goals described above and the costs to governments of implementing such activities. Conclusions about whether the benefits exceed the costs are not given, however, because they would depend on judgments about the value of achieving these goals and about competing uses for the funds expended.

18. In addition to the loss of cash benefits, recipients might be discouraged from actively seeking work by the potential loss of other means-tested benefits such as Medicaid, Food Stamps, and subsidized housing.

CHAPTER II

CURRENT WORK-RELATED PROGRAMS AND THEIR PREDECESSORS

For about a quarter of a century, the federal government has sponsored programs that provide job search assistance, training, work experience, or other job-related assistance to AFDC recipients. Although the methods of providing this assistance have been similar, legislation creating work-related programs for welfare recipients has developed along two tracks:

- Employment and training programs serving low-income people, many of whom are also recipients of public assistance; and

- Programs explicitly designed for recipients of public assistance, and in which participation may be a condition of continued receipt of welfare.

Though the two sets of programs differ in certain ways, they have some common goals. Both types of programs are intended to raise the living standards of their participants and reduce welfare costs, though only programs explicitly designed for recipients have been used to enforce a work-related obligation. Both have also used intergovernmental arrangements in which the federal government relies heavily on state and local governments to assume responsibility for operating the programs, rather than directly running them itself.

The Department of Labor has been the lead federal agency for overseeing most of the work-related programs that serve low-income people in general. The Manpower Development and Training Act of 1962 established the first major federal job training program. It was replaced by the Comprehensive Employment and Training Act of 1973, which was in turn replaced by the Job Training Partnership Act of 1982. Participation in these programs has been voluntary.

The Department of Health and Human Services (HHS), alone or together with the Department of Labor, has had the major federal responsibility for programs specifically for welfare recipients. The Work Incentive

Program (WIN), established in 1967, provides AFDC recipients with activities intended to help them become self-sufficient. The Omnibus Budget Reconciliation Act of 1981 and the Tax Equity and Fiscal Responsibility Act of 1982 permit states to establish alternatives to WIN and to require, at each state's option, that certain individuals participate in job search assistance, unpaid work experience (workfare), or other activities.

Although each work-related program has different financial arrangements, the federal government typically provides all the funding for general employment and training programs, but shares with states the cost of programs tied specifically to public assistance. Funding for Job Training Partnership Act (JTPA) programs for disadvantaged groups (JTPA Title II-A) is provided by the federal government to the states, who are not required to add any money of their own. States receive federal funds for WIN under a matching formula in which the states pay 10 percent of total costs in cash or in kind. The cost of most of the other work-related activities authorized for AFDC recipients is evenly shared by the federal government and the states under the rules governing AFDC administrative costs (known as "IV-A funding," after the title of the Social Security Act that authorizes AFDC). Under the rules for IV-A funding, the federal government agrees to match all expenditures by the state government that conform with the terms of the program; this type of funding arrangement is referred to as an "open-ended match" because no limit is specified in advance.

Federal outlays for general employment and training programs have been much larger than for the programs designed specifically for welfare recipients. In 1986, the federal government provided states with $1.9 billion for training and related activities authorized by JTPA Title II-A, compared with about $200 million for WIN and less than $50 million for the IV-A work-related programs. 1/ In fact, because many of the participants in JTPA activities are welfare recipients, it is likely that more federal money is being provided for job-related assistance to recipients through JTPA than through the programs specifically designed for them.

In addition to funding these work-related programs, the federal government acts in other ways that prepare recipients of public assistance for work and help prevent individuals from needing public assistance. The

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1. The total amount spent for work-related programs for AFDC recipients is larger, because money is also provided by nonfederal sources. The General Accounting Office (GAO) estimates that, in 1985, the federal government provided states with about $30 million for AFDC work-related programs other than WIN. State, local, and other nonfederal sources supplied about $75 million. See GAO, *Work and Welfare: Current AFDC Work Programs and Implications for Federal Policy*, GAO/HRD-87-34 (January 1987), p. 40.

federal government provides states with grants that can be used to fund social services (including child care) and vocational and compensatory education, for example. Other federal policies, such as the Earned Income Tax Credit (EITC), the tax rates on earnings in the personal income tax and the Social Security payroll tax, and the rates at which benefits are reduced in AFDC and other transfer programs as earnings go up are all likely to influence the extent to which recipients are encouraged to, or discouraged from, work.

GENERAL EMPLOYMENT AND TRAINING PROGRAMS

After briefly describing its predecessors, this section examines the Job Training Partnership Act and its implementation.

MDTA and CETA

Although the first major federal employment and training program--the Manpower Development and Training Act of 1962 (MDTA)--was not originally intended to focus on low-income job-seekers, within a few years it became a part of the War on Poverty. The target group shifted from adult family heads with substantial work experience to low-income people who lacked basic skills. The main activities supported by MDTA were classroom training and on-the-job training. Other programs begun in the 1960s provided remedial education, training, and other work-related assistance to young people from low-income families. Some of these programs, such as the Job Corps and the summer jobs program for young people from economically disadvantaged families, continue today under the Job Training Partnership Act.

The Comprehensive Employment and Training Act of 1973 (CETA) consolidated MDTA and several smaller employment and training programs. Throughout their 10-year life, CETA training programs were targeted primarily toward economically disadvantaged people, including welfare recipients. In 1979, for example, 90 percent of the 1.2 million participants in the programs authorized by the major training components of CETA (titles I, II-B, and II-C) were economically disadvantaged and 71 percent were in poor families; 18 percent were AFDC recipients. 2/

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2. Janet Johnston, "An Overview of Federal Employment and Training Programs," in National Commission for Employment Policy, *Sixth Annual Report to the President and the Congress* (1980), pp. 112-113. The term "economically disadvantaged" was defined in the legislation as being in a family whose income is below the higher of the appropriate poverty threshold established by the Office of Management and Budget or 70 percent of the Bureau of Labor Statistics' lower living standard.

The programs authorized by CETA to create jobs, known as public service employment, originally placed much less emphasis on serving disadvantaged job-seekers than did the training programs. But by 1979, following changes in the eligibility criteria, large numbers of low-income participants were in these programs as well. 3/

Job Training Partnership Act

In 1982, CETA was replaced by the Job Training Partnership Act. Title II-A of JTPA provides block grants to states to fund training and related services for economically disadvantaged people, defined to include members of families receiving cash welfare payments or food stamps. It stipulates that AFDC recipients are to be served at least in proportion to their share of the eligible population. 4/ Most of the training and related activities are provided locally, with little federal oversight. No state or local funds are required, although state and local governments and private organizations may choose to provide additional funding.

The aid is intended to increase participants' employability and future earnings, and the program is evaluated based on its effects on these outcomes and on reducing welfare dependency. In fiscal year 1987, JTPA II-A grants are expected to total $1.8 billion, providing about 1 million disadvantaged participants with job search assistance, training, or other job-related services.

Many state and local program officials appear to be strongly committed to using JTPA to help recipients of public assistance become self-sufficient. In fact, AFDC recipients may be especially appealing to program operators, because recipients could continue to receive AFDC payments and possibly child care and transportation allowances funded by other programs. 5/ Although

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3. Ibid. For example, of the 1.3 million participants in public service employment in 1979, 86 percent were economically disadvantaged and 12 percent were AFDC recipients.

4. A major debate over the objectives and terms of the legislation to succeed CETA considered the extent to which the new program would be targeted toward welfare recipients. The Administration's original proposal would have required that at least 85 percent of the funds granted to states for the program be used for members of AFDC families and for economically disadvantaged youth who were out of school.

5. Katherine Solow and Gary Walker, *The Job Training Partnership Act Service to Women*, (New York: Grinker, Walker and Associates, 1986). Their conclusions are based on case studies of the implementation of JTPA in 25 of the approximately 600 service delivery areas and on telephone interviews with JTPA officials in 32 additional service delivery areas.

the JTPA legislation limits expenditures for such supportive services, these restrictions do not apply to services paid by other sources. Thus, recipients of AFDC or other income transfers may be in a better position to participate in JTPA activities than are other eligible individuals.

In each year since the program was implemented, about one-fifth of the participants in activities authorized by Title II-A have been from families receiving AFDC benefits at the time they enrolled. In program year 1984 (July 1984-June 1985), for example, 120,000 (21 percent) of the 580,000 participants who completed or dropped out of JTPA programs were in families that were receiving AFDC. 6/ Included among these recipients were about 74,000 mothers who left JTPA projects during that year; about half of the other AFDC recipients participating in JTPA activities were other family members under age 22. 7/

Recent survey data from the Department of Labor on mothers who were receiving AFDC when they entered JTPA programs indicate that they typically participated in training activities that lasted about 17 weeks (see Table 2). Unlike the participants in WIN, two-thirds of the AFDC mothers in JTPA programs had children under the age of six. Based on their educational attainment, the AFDC mothers appear to be somewhat better prepared for the labor market than the average recipient registered for WIN--two-thirds had at least a high school diploma, compared with only about half of WIN registrants. 8/

Upon leaving the program, the majority of the AFDC mothers found jobs, with an average wage for the job-holders of about $4.40 per hour (as shown in the last two columns of Table 2). Better-educated and older women, who normally would be expected to do better in the labor market, in fact did have slightly higher employment and wage rates than did other AFDC mothers who received JTPA services. Unfortunately, there is no way to tell from these statistics whether the program itself had a greater or lesser impact on these groups than on the less well-educated and younger women. Evaluations of

6. Department of Labor, "Summary of JTLS Data for JTPA Title IIA Enrollments and Terminations During Program Year 1984 (July 1984-June 1985)" (November 1985), Tables AA-1 and BB-1.

7. Department of Labor, "JTPA Title IIA Participants Who Were Receiving Public Assistance at Program Application: New Enrollees and Terminees During PY 1984 (July 1984-June 1985)," *JTLS Special Paper* No. 4 (December 1986), Tables 4 and 6.

8. Thirty-eight percent of WIN registrants in fiscal year 1985 completed exactly 12 years of school, and 10 percent completed more than 12 years. House Committee on Ways and Means, *Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means*, WMCP: 99-14, 99:2 (March 3, 1986), p. 359.

TABLE 2. CHARACTERISTICS AND ACTIVITIES OF AFDC MOTHERS WHO LEFT JTPA PROGRAMS BETWEEN JULY 1984 AND JUNE 1985

Characteristic	Percent Distribution	Median Weeks in Program	Employed at Termination (In percent)	Hourly Wage (In dollars) a/
Total (74,300 recipients)	100	17	56	4.39
Program Activity				
Classroom training	59	19	49	4.51
On-the-job training	13	15	70	4.07
Job search assistance	15	8	67	4.34
Work experience	3	b/	b/	b/
Other services	10	15	66	4.37
At Least One Dependent Under Age 6	65	17	56	4.34
Educational Status				
Student	2	b/	b/	b/
Less than high school graduate	31	14	47	4.06
High school graduate	49	17	61	4.42
Some post-high school	17	19	62	4.79
Minority Status				
White c/	44	18	58	4.43
Black c/	44	16	54	4.32
Hispanic	9	14	57	4.47
Other	3	b/	b/	b/
Age at Enrollment				
Under 22	21	15	55	4.17
22 - 29	44	18	55	4.45
30 - 44	32	16	60	4.49
45 and over	2	b/	b/	b/

SOURCE: Department of Labor, "JTPA Title IIA Participants Who Were Receiving Public Assistance at Program Application: New Enrollees and Terminees During PY 1984 (July 1984-June 1985)," *JTLS Special Paper No. 4* (December 1986). Data are from the Job Training Longitudinal Survey (JTLS), which provided information on about 9,000 randomly selected participants who had terminated JTPA Title II-A activities during program year 1984. Because only about 1,200 individuals in the sample were AFDC mothers, particular care should be taken in interpreting the data for small groups.

a. Average wage rate of individuals who were employed at termination.
b. Not reported here because of the small number of participants in the sample.
c. Excludes Hispanic individuals.

CETA and other work-related programs, however, which are discussed in Chapter IV, indicate that such programs often have their largest effects on the earnings of the least employable participants.

Operators of JTPA II-A programs have been criticized for selecting the most employable among the eligible population. This tendency is fostered by the widespread use of performance-based contracts, in which the amount paid to private trainers of JTPA participants depends on the number of participants placed in jobs. Thus, the program provides an incentive for the contractors to screen out eligible applicants who might be difficult to place without expensive assistance.

The strongest evidence of this selection phenomenon, based on national statistics, is in the educational attainment of program participants, including the AFDC recipients. 9/ The higher educational attainment of participants, however, could be caused by eligible individuals with more education being more likely to apply, rather than (or in addition to) the decisions of program operators. Data to clarify this are not available.

WORK-RELATED PROGRAMS SPECIFICALLY FOR WELFARE RECIPIENTS

Work-related programs earmarked for welfare recipients developed on a separate track from the ones for economically disadvantaged people in general. Unlike JTPA and its predecessors, participation in these programs can be mandatory in the sense that a recipient's refusal to participate can lead to a reduction or denial of welfare benefits.

The Work Incentive Program and Its Predecessors

The first federal program permitting states to establish workfare programs for AFDC recipients, the Community Work and Training Program, was enacted in 1962. It lasted for five years and was implemented in only 13 states. The Economic Opportunity Act of 1964 authorized the Work Experi-

9. In program year 1984, 63 percent of JTPA participants had graduated from high school, compared with 49 percent of individuals eligible for JTPA in that year. Department of Labor, "Summary of JTLS Data for JTPA Title IIA and III Enrollments and Terminations During July-December 1985" (May 1986), p. 7. The estimate for individuals eligible for JTPA was calculated from the March 1985 Current Population Survey.

ence and Training Program, which provided work-related assistance to heads of low-income families, most of whom were welfare recipients. It, too, operated for about five years.

The Work Incentive Program, enacted as part of the Social Security Amendments of 1967 and signed into law in January 1968, provides AFDC recipients with job search assistance, training, and other work-related services intended to help them become self-sufficient. The federal government spent about $200 million for this program in 1986, slightly more than half the amount expended in 1979 in nominal dollars and about one-third the amount after adjusting for inflation. The 1987 Continuing Resolution appropriated about $100 million for WIN for this year. 10/

States are required to operate WIN programs or alternatives approved by the Secretary of Health and Human Services. The federal government provides 90 percent of total WIN costs under a grant to the states; states provide the remainder. Unlike the optional programs discussed below, the maximum amount of the federal grant is determined in advance. The WIN program is jointly administered by the Health and Human Services and Labor departments at the federal level. This dual structure was originally required at the state level as well, but legislation in 1981 (discussed below) allowed states to consolidate the program within their welfare agency, under the oversight of HHS.

All individuals who are receiving or have applied for AFDC and who are age 16 or older must register for WIN services unless they are exempted; otherwise, they risk losing benefits. As discussed in Chapter I, the most common reason for exemption is that the mother is caring for a dependent child under six years of age. 11/ Exempt individuals may volunteer for program services. 12/

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10. This amount is for the first nine months of the fiscal year, in anticipation that a new program will be enacted by July 1, 1987.

11. An AFDC recipient is also exempt if she is ill or incapacitated; lives too far away from a work incentive project; is needed at home to care for another member of the household; already works at least 30 hours per week; is a full-time student in a secondary or vocational school; or resides with an adult relative who participates in the program.

12. The WIN legislation establishes a set of priorities for service that states are to use, "taking into account employability potential." First priority is given to unemployed parents who are the principal earners; second priority to mothers who volunteer; third priority to other mothers and pregnant women under age 19; and fourth priority is given to dependent children and relatives over age 15 who are not attending school, working, or participating in a training program. Fifth priority is given to all other registrants.

The initial emphasis in WIN was on classroom training to provide recipients with the skills needed to become self-sufficient. In 1971, the emphasis shifted toward on-the-job training and immediate job placement. 13/ In recent years, WIN has provided very little training. Instead, most WIN funds have been used for supportive services (including child care), job search assistance, and registration costs. For example, in 1984, only about one-tenth of the funds were used for work and training activities. 14/

Optional Work-Related Programs for Welfare Recipients

In 1981, the Reagan Administration asked the Congress to enact legislation requiring states to enforce a work-related obligation on certain AFDC recipients. Although nonexempt AFDC recipients had been required to register for WIN and to participate in WIN-assigned activities, enforcement had not been strict. The Administration endeavored to strengthen the requirements, particularly through the use of workfare.

While the Congress did not act on all aspects of the Administration's requests, it considerably strengthened the ability of states to operate a wide range of work-related programs if they chose to do so, and to require AFDC recipients to participate in them. One provision of the Omnibus Budget Reconciliation Act of 1981 (OBRA) authorized states to establish alternatives to WIN. Known as "WIN Demonstrations," these alternative programs are administered solely by the state welfare agencies rather than jointly with state employment agencies. The federal funding arrangements and permissible activities are the same as for regular WIN programs.

Other sections of OBRA enabled states to establish workfare programs--Community Work Experience Programs--to which certain welfare recipients may be assigned. Recipients who are required to register for WIN may also be required by states to work each month for a number of hours equal to their family's AFDC grant divided by the federal or state

13. As part of this shift, the 1971 Revenue Act provided a tax credit to employers to induce them to hire WIN registrants. This credit was a forerunner of the Targeted Jobs Tax Credit.

14. Data on program costs provided by the Department of Labor, August 1986. These data refer to the $165 million granted to states operating regular WIN programs in 1984. An additional $112 million was granted to states for WIN Demonstrations, discussed below. (California, New York, and several other states have since implemented WIN Demonstrations. As a result, regular WIN programs account for a smaller share of the total WIN budget in later years.)

minimum wage rate, whichever is higher. Assuming a minimum hourly wage of $3.35, for example, a woman who is receiving $335 a month for herself and her children could be required to work up to 100 hours a month in unpaid community service. The federal government reimburses states for half of the administrative costs of running such programs through the IV-A open-ended matching provisions.

OBRA also allowed states to establish "work supplementation" programs. The general approach of these programs is to encourage employers to accept AFDC recipients into on-the-job training positions by reimbursing them for a specified percentage of the wages paid. States are permitted to reduce AFDC payments across the board, or to lower them in specific locations in which the programs operate, or to cut them for specific categories of recipients determined on the basis of ability to participate in work supplementation programs. The savings then are diverted into a fund to finance part or all of the subsidies--a funding mechanism known as "grant diversion." 15/ As later amended by the Deficit Reduction Act of 1984, states may use AFDC funding to subsidize training provided by private employers as well as that provided by government agencies and nonprofit organizations.

The Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) added another option for states--to operate job search assistance programs for AFDC applicants and recipients. Together with previously enacted requirements, a nonexempt AFDC recipient can now be required to participate in job search assistance for up to 16 weeks during the year in which the recipient applied for benefits and 8 weeks during each subsequent year. Funding is provided under the IV-A matching provisions for this option as well.

State Responses

Largely as a result of OBRA and related legislation, many states have experimented with new ways of providing work-related activities. By January

15. States are permitted to give recipients an additional incentive to participate by providing the $30-plus-one-third earnings disregard for up to nine months, rather than the normal four months. Administrative costs are reimbursed through the IV-A matching arrangements. Information on the federal requirements and on the implementation of several state programs is provided in *Work and Welfare*, a report prepared by Margaret Malone for the Subcommittee on Employment and Productivity of the Senate Committee on Labor and Human Resources and the Subcommittee on Social Security and Income Maintenance of the Senate Committee on Finance, S. Prt. 99-177 (August 1986); Patricia Auspos, *Interim Findings From a Grant Diversion Program*, (New York: Manpower Demonstration Research Corporation, 1985); and Michael Bangser, James Healy, and Robert Ivry, *Welfare Grant Diversion: Lessons and Prospects* (New York: Manpower Demonstration Research Corporation, 1986).

1987, 42 states were operating one or more of the new optional programs (see Table 3). Twenty-six states, including most of the states with the largest AFDC populations, had converted their WIN programs into WIN Demonstrations. The other 24 states continued to operate regular WIN programs. Many states in both groups operated other optional programs as well. Twenty-six states established community work experience (workfare) programs under IV-A authority, 25 states established job search programs (also under IV-A authority), and 15 states established work supplementation or grant diversion programs.

The most recent detailed information about the scale of these work-related programs and how states have been operating them is from a General Accounting Office (GAO) study that covered activities during fiscal year 1985. 16/ GAO estimated that about 700,000 people (one-fifth of the AFDC recipients, other than children, in the states included in the study) were participating in WIN Demonstration programs during fiscal year 1985. The study was seriously hampered by the lack of uniform data among states on the programs' designs and on their implementation. It is not even clear, for example, how many of the recipients recorded as participating in WIN Demonstration activities actually received services, because WIN registrants could be included even if their only activity was registration.

The GAO study indicates that participation in WIN Demonstration programs focuses mainly on job search assistance. Seventy-six percent of the activities in which recipients engaged were classified by the states as job search assistance, meaning either that the recipients looked for work, sometimes being required to report to staff on their activities ("individual job search"), or that they participated in classes providing instruction in job search techniques and were supervised during their search ("group job search"). Twelve percent of the activities were "direct placement assistance," meaning that a job developer tried to match recipients to jobs and refer them directly to employers. The remaining 12 percent were primarily training, education, and workfare. (Unlike workfare authorized under Title IV-A, workfare assignments under WIN are limited to 13 weeks, and the number of hours per week is not governed by the size of the participants' benefits.)

In addition, as reported in Table 3, many states have imposed requirements for participation in job search assistance and workfare on their AFDC applicants and recipients outside of WIN. Usually, though, these programs have been operated on a very small scale. GAO estimates that, in 1985, only about 40,000 people participated in the job search programs and

16. General Accounting Office, *Work and Welfare: Current AFDC Work Programs.*

TABLE 3. STATE PARTICIPATION IN OPTIONAL WORK PROGRAMS FOR AFDC RECIPIENTS, JANUARY 1987

State a/	WIN Demonstration b/	Work Experience c/	IV-A Job Search d/	Work Supplementation e/
Alabama	No	Yes	No	No
Alaska	No	No	Yes	No
Arizona	Yes	No	No	No
Arkansas	Yes	No	No	No
California	Yes	Yes	Yes	No
Colorado	No	Yes	No	Yes
Connecticut	Yes	No	Yes	Yes
Delaware	Yes	No	No	No
Florida	Yes	No	Yes	Yes
Georgia	Yes	Yes	Yes	No
Hawaii	No	No	No	No
Idaho	No	Yes	No	No
Illinois	Yes	Yes	No	No
Indiana	Yes	No	No	No
Iowa	Yes	Yes	No	No
Kansas	No	Yes	Yes	No
Kentucky	No	No	No	No
Louisiana	No	No	No	No
Maine	Yes	No	Yes	Yes
Maryland	Yes	No	Yes	Yes
Massachusetts	Yes	No	Yes	Yes
Michigan	Yes	Yes	No	Yes
Minnesota	No	Yes	Yes	Yes
Mississippi	No	No	No	No
Missouri	No	No	No	No

SOURCE: Department of Health and Human Services, Family Support Administration, Office of Family Assistance, "Welfare Work Programs: Status Report" (January 1987).

a. The District of Columbia, Guam, Puerto Rico, and the Virgin Islands are operating regular WIN programs only.

b. The 26 states operating WIN Demonstrations administer their WIN funds through a single agency under the authority granted by OBRA. The federal government provides 90 percent of the funding through a closed-end match. As discussed in the text, a wide range of work-related activities are authorized, but the major activity has been job search assistance.

c. The 26 states that adopted "work experience" options operate workfare programs in which the number of hours worked in any month is determined by dividing the AFDC

TABLE 3. (Continued)

State a/	WIN Demonstration b/	Work Experience c/	IV-A Job Search d/	Work Supplementation e/
Montana	No	No	No	No
Nebraska	Yes	Yes	Yes	No
Nevada	No	Yes	No	No
New Hampshire	No	No	No	No
New Jersey	Yes	No	Yes	Yes
New Mexico	No	Yes	No	No
New York	Yes	Yes	No	Yes
North Carolina	No	Yes	No	No
North Dakota	No	Yes	No	No
Ohio	No	Yes	Yes	Yes
Oklahoma	Yes	Yes	Yes	Yes
Oregon	Yes	No	Yes	Yes
Pennsylvania	Yes	Yes	Yes	No
Rhode Island	No	No	Yes	No
South Carolina	No	Yes	Yes	No
South Dakota	Yes	Yes	No	No
Tennessee	Yes	No	No	No
Texas	Yes	No	Yes	No
Utah	No	No	Yes	No
Vermont	No	Yes	Yes	Yes
Virginia	Yes	Yes	Yes	No
Washington	No	Yes	Yes	Yes
West Virginia	Yes	Yes	Yes	No
Wisconsin	Yes	Yes	Yes	No
Wyoming	No	No	No	No

benefit by the federal or state minimum wage, whichever is higher. The federal government reimburses states for 50 percent of the administrative costs through the IV-A open-ended matching provisions.

d. The 25 states that operate "IV-A job search programs" may require AFDC applicants to participate for up to eight weeks initially, and AFDC recipients may be required to participate for up to eight additional weeks each year. The federal government reimburses states for 50 percent of the administrative costs through the IV-A open-ended matching provisions.

e. The 15 states that operate "work supplementation" programs use AFDC funds to subsidize employers to provide on-the-job training to recipients. The federal government reimburses states for 50 percent of the administrative costs through the IV-A open-ended matching provisions.

20,000 in the workfare programs authorized under Title IV-A. In the 10 states that operated grant diversion or work supplementation programs during 1985, fewer than 3,000 individuals participated.

Two large programs that have received much attention are California's Greater Avenues for Independence (GAIN) program and Massachusetts' Employment and Training (ET) Choices program. GAIN was enacted in 1985 and, once fully in operation, will require county welfare departments to provide a broad array of work-related activities for AFDC applicants and recipients, such as job search assistance, training and education services, workfare, and supportive services, including child care and transportation assistance. The program will assess the work-related needs of recipients who are required to register and will develop individual plans. AFDC recipients who are exempt from registering will be encouraged to volunteer for the program.

California's mandatory registrants could be required to participate for three weeks in a structured job search program, then to enroll in a job preparation program such as training or education. Recipients who have not found employment within a specified period after completing a program can be assigned to a workfare position for up to one year. Recipients can be reimbursed for child care expenses both during and after participation in the program.

Massachusetts began the ET program in late 1983, as part of its WIN Demonstration program, and has been enlarging it considerably since then. A key characteristic of ET is its emphasis on providing AFDC recipients with a wide range of options for preparing for employment, including job search assistance, training (much of it through contracts with JTPA program operators), education, and support services. A major component of ET's cost is vouchers for child care, both for AFDC recipients while they participate in work preparation activities and for ET graduates during their first year of employment. 17/

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17. State officials estimate that over $40 million was spent on ET in fiscal year 1986, with the federal government reimbursing the state for less than a quarter of the total cost. Commonwealth of Massachusetts, Department of Public Welfare, "The Massachusetts Employment and Training Choices Program: Program Plan and Budget Request FY 87" (January 1986), pp. 25-30; and Testimony of Charles M. Atkins (Commissioner) before the Subcommittee on Public Assistance and Unemployment Compensation, House Committee on Ways and Means, 99:2 (February 27, 1986).

The net impacts of GAIN, ET, and most of the other state initiatives have yet to be estimated. 18/ In the case of ET, for example, while much information is available about how many participants found jobs and stopped receiving AFDC, the extent to which the program itself brought about these outcomes is not known. Estimating a program's net effects on participants requires a method of distinguishing between outcomes attributable to the program and those that would have occurred anyway. Results from several state demonstration programs, which were the subjects of systematic evaluations designed to isolate net effects, were recently released. The methods used in these studies and their findings are examined in the next two chapters.

18. California and Massachusetts have both recently awarded contracts to evaluate GAIN and ET. In 1986, the Massachusetts Department of Public Welfare released interim findings on participation patterns and on the subsequent earnings and AFDC receipts of individuals who participated in ET. This study did not, however, estimate what would have happened to these individuals in the absence of the program. See Massachusetts Department of Public Works, "Evaluation of the Massachusetts Employment and Training Choices Program: Interim Findings on Participation and Outcomes, FY84-FY85" (January 1986).

CHAPTER III

ASSESSING WORK-RELATED PROGRAMS

A number of the new work-related programs authorized by the Omnibus Budget Reconciliation Act of 1981 are currently being evaluated. Though still in progress, these studies have already generated a great deal of information that could be useful to the Congress in its deliberations over future federal policy on work/welfare programs. This chapter examines the methods used to estimate a program's effects and describes a number of past and current evaluation studies.

EVALUATION METHODS

Most of the potential effects of work-related programs are exceptionally difficult to estimate, largely because one cannot be sure what would have occurred in the absence of the programs. Suppose, for example, that 100 AFDC recipients participate in a training program and one year later 50 are no longer receiving welfare. Did the training program increase the participants' earnings and reduce their use of AFDC? Did the program save the government money? The answers to both questions depend partly on the extent to which these people would have found jobs and stopped receiving welfare benefits even if the training program had not been available. The answer to the second question also depends on the extent to which savings to the government from helping these participants find jobs would be offset by costs incurred as a result of having fewer employment opportunities available for people who did not participate in the program, some of whom might themselves become welfare recipients. 1/

The statistics discussed in Chapter I on the movements of women on and off welfare suggest the difficulty of isolating the effects of a work/welfare program from the normal mobility of members of this group.

1. Many evaluators analyze government programs in terms of their benefits and costs to society as a whole, rather than to the participants or to governments. This broader perspective is discussed in the next chapter.

Estimates from the recent evaluations of demonstration programs, which are discussed in Chapter IV, provide further evidence that many women find jobs and move off AFDC even if they do not receive work-related assistance. Evaluating the success of a program in increasing earnings and reducing welfare expenditures is therefore impossible without also determining the earnings and welfare receipt of participants had they not participated in the work-related program.

Program evaluators have developed several techniques for estimating what would have happened to a group of program participants had they not been in the program. The most common approach employs statistical techniques to project what would have happened to the participants, based on their own past behavior, their characteristics, and the future activities of similar people who did not participate in the program.

The evaluations of the Comprehensive Employment and Training Act and Work Incentive programs described in this chapter used this approach. There is no assurance, however, that the statistical techniques generated correct answers to the question "What would have happened without program participation?" Unmeasured characteristics, such as degree of motivation, could systematically distinguish participants from people who did not apply to, or were not accepted into, the program. This problem is known as "selection bias."

An alternative approach is to conduct an experiment in which people eligible to participate in a program are randomly assigned either to the program or to a control group that does not participate in the program. Though generally acknowledged by evaluators to be a more effective approach than statistical techniques, random assignment is difficult to carry out and has not been widely used. It is currently being used, however, to evaluate several of the new initiatives (primarily WIN Demonstration programs) and will be used to evaluate Job Training Partnership Act programs. When properly carried out, random assignment avoids the problem of selection bias. 2/

At least three serious problems remain, even in evaluations based on random assignment. The first is lack of information for inferring program effects beyond the period for which data have been collected. Program costs usually are incurred at the beginning of the observation period, whereas the effects of a successful program could continue for many years. As a result, failure to include effects beyond the first year or two would probably understate

2. Specifically, it can eliminate selection bias in comparing outcomes for members of the experimental group with those for members of the control group. Selection bias can still occur if one attempts to estimate differences in the effects of one specific activity versus another, unless participants are randomly assigned to activities as well.

the program's value. Simply assuming that the benefits observed during the first year or two will continue indefinitely could overstate or understate the program's benefits, depending on whether the effects decrease or increase over time. Examining the effects within the observation period can provide clues, but not solid evidence, about subsequent effects. Moreover, in assessing a program, policy analysts disagree about how much weight should be accorded to effects in future years--that is, the extent to which future benefits and costs should be "discounted" to make them commensurate with current ones. 3/

The second problem is lack of information about a program's effects on people who did not participate in it. This problem is potentially more profound, especially when estimating the net cost to taxpayers and assessing whether a program is worthwhile for society as a whole. The key aspect of this problem is known as "displacement"--participants obtaining jobs that, in the absence of the program, would have gone to others. 4/ Suppose, for example, that an AFDC recipient's participation in a job search assistance program causes her to find a job and go off welfare. If she was hired instead of someone else, as a result, and that other person goes on, or stays on, welfare, then the net impact on government expenditures would be much smaller. Moreover, any reduction of job opportunities for individuals who did not participate in a program is a loss that should be considered in assessing the overall value of a program.

Such displacement would not, however, alter the program's effects on its participants. Even if the total number of jobs did not increase as a result of the program--that is, assuming 100 percent displacement--a work-related program for welfare recipients might be desirable as a means of redistributing job opportunities. In particular, one might wish to reduce the likelihood of people receiving public assistance for long periods of time, even if doing so caused more people to incur short periods of joblessness.

Displacement is a concern because increasing recipients' job search skills and employability does not directly expand the number of jobs employers offer, although employers might be able to fill job vacancies more rapidly--especially

3. Most analysts agree that the value of, for example, $100 to be received five years from now is not as much as $100 received today, even in the absence of inflation or risk. One way of adjusting for the value of the future amount is to reduce it by a discount rate, which is analogous to an interest rate. The disagreement is over how to determine the appropriate rate.

4. Another aspect of this problem is that nonparticipants could also be affected if the program changed their behavior. For example, knowing that AFDC required participation in work-related activities might deter individuals from applying for the benefits.

in labor markets with low unemployment rates. In principle, work-related programs could indirectly help to increase the total number of jobs nationally by lowering the cost of labor to employers. For example, training programs funded by governments could reduce the extent to which firms must incur training costs or raise wages to attract workers with particular skills.

Displacement would most likely occur in places and in occupations in which there are already large numbers of qualified job-seekers relative to available positions. Similarly, programs operating on a large scale within a labor market would be more likely to result in displacement than are smaller ones. In essence, helping large numbers of welfare recipients to compete for similar jobs in a labor market in which job openings are scarce would be more apt to lead to extensive substitution of program participants for nonparticipants than would otherwise occur.

While the extent of displacement cannot be estimated, the majority of those who lose jobs probably would not qualify for AFDC. Less than one family in six is headed by a woman with no husband present. Although displacement might well occur primarily among women, many of the displaced women would probably be wives or unrelated individuals and therefore generally not eligible for AFDC. Even if the relevant labor market for work-related programs for AFDC recipients were concentrated more narrowly among relatively low-wage jobs held by women, it appears unlikely that more than one-fifth of the displaced workers would be eligible for AFDC. 5/ No information is available, however, to estimate the proportion who might be eligible for unemployment benefits or other income transfer programs.

The third problem is the difficulty of generalizing from effects observed at a small number of sites to what would happen if the program were carried out nationwide or even on a larger scale within the same sites. The Manpower Demonstration Research Corporation (MDRC), which has evaluated a number of work-related programs, emphasizes throughout its reports that its findings reflect the effects of demonstrations that were carried out in specific ways, under particular circumstances, and generally on a small scale. No one can be sure, for example, that a program that increased the average earnings of fewer than 2,000 participants in San Diego in 1983 would do so if carried out nationally in 1988.

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5. As reported in Chapter II, the average wage rate of AFDC mothers who found jobs after leaving JTPA programs between July 1984 and June 1985 was about $4.40 per hour. Analysis of data from the March 1986 Current Population Survey indicates that about one-fifth of the 9 million women employed in jobs that usually paid between $3.50 and $5.00 per hour were in female-headed households. The loss of jobs would not necessarily result in their becoming AFDC recipients.

MAJOR STUDIES

This section examines the major evaluations of CETA, WIN, and recent demonstrations that are the basis for the principal findings about the effects of work-related programs for AFDC recipients presented in Chapter IV.

General Employment and Training Programs

Much information has been collected about the implementation of the Job Training Partnership Act, but little is yet known about the program's net impact. Periodic data are reported on the placement rates of terminees and the wage rates of those placed. As noted in the preceding chapter, for example, 56 percent of the AFDC mothers who left JTPA projects in a recent year found jobs, with an average hourly wage rate of about $4.40. These data are difficult to interpret, however, without information about what would have happened to the participants in the absence of the program. The Department of Labor recently began a major evaluation using a controlled experiment design, but no results are anticipated until at least 1990. 6/

Meanwhile, the best information available about the potential effects of JTPA's job training and job search assistance for members of low-income families is from evaluations of CETA, the program that JTPA replaced. Although JTPA operates with a different administrative structure and differs from CETA in many other ways, the two programs are sufficiently similar in their objectives, the types of training offered, and the characteristics of the participants to make examination of the effects of training under CETA relevant. 7/ Indeed, many of the same people and organizations are providing the training under the current program as under its predecessor. 8/

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6. Abt Associates, Inc., together with MDRC, NORC, and ICF, Inc., began the five-year evaluation in 1986. The preliminary plan calls for random assignment to treatment or control groups of up to 30,000 JTPA applicants in 20 service delivery areas. Follow-up interviews are to be conducted about 18 months and 30 months after assignment.

7. As one report on the implementation of JTPA put it, "...after years of training programs, there is little new under the sun: there are only so many ways to teach people to operate word processors and become carpenters." Grinker Associates, Inc., "An Independent Sector Assessment of the Job Training Partnership Act," Final Report: Program Year 1985 (New York, July 1986), pp. 115-116.

8. Local JTPA administrators, however, are reportedly making greater use of commercial training schools and less of community-based organizations than did CETA administrators. See Grinker Associates, Inc., "An Independent Sector Assessment," especially pp. 7 and 116-117.

At least a half dozen major evaluations of the impact of CETA on the earnings of its participants have been conducted, all using data from the Continuous Longitudinal Manpower Survey (CLMS). The CLMS is a nationally representative survey of individuals who were enrolled in employment and training activities conducted by local agencies under CETA. Most of the evaluations have been based on members of the sample who enrolled in training or work experience programs in 1975 or 1976. Interviews with these participants provided information about their employment and earnings in the year before and in the year after they enrolled in CETA projects (and sometimes longer), as well as other information about their backgrounds and activities. In addition, the Social Security records of these participants provided information about their earnings histories for several years before and after enrollment.

The major distinction between the evaluations--and the source of their biggest problems--is in the construction of their comparison groups. In the absence of a control group, each evaluator has had to decide how to estimate what the individuals in the sample would have earned had they not participated in CETA activities. A wide range of statistical techniques were used, as each analyst attempted, in effect, to produce artificially what would have happened if eligible individuals had been randomly assigned to or denied CETA training.

For example, a study conducted by the Congressional Budget Office and the National Commission for Employment Policy (CBO/NCEP) used CLMS data to determine participants' earnings during their first two or three years after leaving the program. Their hypothetical earnings in the absence of the program were estimated based on trends in their earnings before their enrollment in CETA projects and on the earnings histories during the same period of a similar group drawn from the March 1976 Current Population Survey (CPS). 9/

Apprehension about the reliability of estimates based on the general approach used in the various evaluations of CETA led the Department of Labor to appoint a technical panel to advise it on its plans for evaluating JTPA. In 1985, that panel concluded that current techniques to resolve the estimation problems associated with selection bias were inadequate and not likely to produce convincing estimates of the impacts of JTPA. It strongly recommended

9. The comparison group included people between the ages of 25 and 60. For comparability with the CLMS group, the CPS sample included only those individuals who were in families with incomes below $30,000 in 1975 and who earned less than the maximum earnings reported by Social Security records (for example, $14,100 in 1975). The participants in the CLMS sample analyzed in the CBO/NCEP evaluation were restricted to individuals who were over 24 years old and had been in CETA training programs more than seven days. See CBO/NCEP, *CETA Training Programs - -Do They Work for Adults?* (1982), Appendix A.

that the department conduct a set of classical experiments involving the random assignment of eligible individuals to treatment and to control groups. 10/ This advice was accepted and is now being carried out.

Work Incentive Program

Evaluations of WIN have focused on its effects on participants' earnings and on their receipt of AFDC, with the methodological issues being quite similar to the ones for CETA evaluations discussed above. As with the CETA studies, the effects of WIN on program participants were estimated using longitudinal data concerning the participants themselves. The major evaluations were based on data from a series of interviews with almost 4,000 individuals nationwide who participated in WIN activities in 1974 or 1975. To impute what would have happened to the participants had they not been in the program, interviews were also conducted with about 5,000 individuals who were eligible for WIN services but did not participate. 11/ Quarterly earnings, receipt of AFDC, and other information was collected for both groups for up to three years after the participants left the program.

Recent Demonstration Programs

Evaluations of work-related programs for AFDC recipients are currently being conducted by the Manpower Demonstration Research Corporation in cooperation with a number of states that launched new programs (WIN Demonstrations, workfare, and so on) as authorized by the Omnibus Budget Reconciliation Act of 1981. Eight of the states testing these optional work-related programs entered into agreements with MDRC to evaluate systematically the effectiveness of their initiatives.

In these evaluations, eligible AFDC applicants and recipients are randomly assigned to experimental ("treatment") groups or to control groups, thereby making it possible to isolate a program's effects on participants.

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10. Ernst Stromsdorfer and others, "Recommendations of the Job Training Longitudinal Survey Research Advisory Panel." Report prepared for the Office of Strategic Planning and Policy Development, Employment and Training Administration, Department of Labor (November 1985).

11. Ketron, Inc., "The Long-Term Impact of WIN II: A Longitudinal Evaluation of the Employment Experiences of Participants in the Work Incentive Program, Final Report" (Wayne, Pa., January 1980). Ketron reports that most of the sample entered the program after January 1974 and left before July 1975 (p. 78). The designation "WIN II" refers to the shift in emphasis of WIN programs--from classroom training to on-the-job training and direct placement assistance--that occurred in 1971.

The experimental groups are subject to the set of rules and options being tested; the control groups are subject to the normal rules and opportunities in that location. As discussed below, members of the experimental groups did not necessarily participate in any activities, though they were all subject to the added requirements. Final reports on five of the demonstrations have been released and are discussed in the next chapter. The five locations for which evaluation results are available are Arkansas (Pulaski South and Jefferson Counties); San Diego, California; Baltimore, Maryland; Virginia; and West Virginia. 12/ Characteristics of the demonstrations are outlined in Table 4.

The mix of services available to participants varied among the five locations. Job search assistance was offered in all locations but West Virginia. In Arkansas and in one of two experimental groups in San Diego, the program model included a job search workshop to be followed by a short-term workfare assignment for participants who had not found jobs by the end of the workshop. Workfare was not provided to the other experimental group in California in order that the net impact of a short-term workfare obligation could be estimated. In Virginia, job search assistance was to be followed by short-term workfare, education, or training; however, few participants actually received education or training as a result of being in the experimental group. The Baltimore, Maryland, program offered a much broader mix of services to participants, including education and training. In that sense, the Maryland demonstration program is closer to the ET program in Massachusetts and the GAIN program in California than are the others. West Virginia's program model was the only one in the set that tested workfare of unlimited duration; no other activities were offered.

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12. The five final reports, each published by Manpower Demonstration Research Corporation (New York), are: Daniel Friedlander and others, *Arkansas: Final Report on the WORK Program in Two Counties* (September 1985); Daniel Friedlander and others, *Maryland: Final Report on the Employment Initiatives Evaluation* (December 1985); Barbara Goldman and others, *California: Final Report on the San Diego Job Search and Work Experience Demonstration* (February 1986); James Riccio and others, *Virginia: Final Report on the Virginia Employment Services Program* (August 1986); and Daniel Friedlander and others, *West Virginia: Final Report on the Community Work Experience Demonstrations* (September 1986).

    In addition, evaluations of initiatives in Maine, New Jersey, and Chicago, Illinois, are in progress. The Illinois demonstration includes activities similar to those undertaken in other sites, such as job search assistance and short-term workfare. The Maine and New Jersey demonstrations are the only ones that test on-the-job training funded by grant diversion. Final reports on these demonstrations are scheduled for publication in late 1987 or early 1988.

Although participation was mandatory in all of these sites, the demonstrations differed in terms of which groups were included. All of the demonstration sites included AFDC applicants, and all but one included recipients; San Diego restricted the experiment to AFDC applicants. 13/ Arkansas was unique in including mothers of children ages three through five in its demonstration, whereas the other sites limited participation to mothers who were not caretakers of children under age six. California and West Virginia included large numbers of AFDC-UP participants in their demonstrations. 14/

For several reasons, the MDRC studies will probably be the most germane to any future debate over work-related programs for AFDC recipients. First, the demonstrations began after the major revisions in AFDC earnings disregards in 1981. Second, the demonstrations' designs include many of the elements that have been proposed for national programs, such as mandatory participation in job search assistance activities. Third, the evaluations have used an experimental design that has been carried out very effectively.

MDRC's use of random assignment overcomes many of the problems that plagued evaluators of CETA and WIN. One can be reasonably confident that a finding that members of an experimental group had higher earnings than those of the control group represents a positive effect of being in the experimental group, subject to the usual cautions about sampling error and reliability of the data. 15/

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13. In its evaluations, MDRC designated individuals as applicants if they entered the research sample either at the time they applied for benefits or shortly thereafter. Recipients, on the other hand, were already on AFDC when they entered the sample.

14. Arkansas and Virginia do not have an AFDC-UP program and therefore had no men in their demonstrations. Maryland included AFDC-UP participants in their demonstration, but the small number in the research sample precluded detailed analysis.

15. Interest in finding ways of helping AFDC recipients to find jobs has stimulated a number of other carefully conducted experiments in recent years. See, for example, Carl Wolfhagen and Barbara Goldman, *Job Search Strategies: Lessons from the Louisville WIN Laboratory* (New York: MDRC, 1983); Stanley Masters and Rebecca Maynard, *The Impact of Supported Work on Long-Term Recipients of AFDC Benefits* (New York: MDRC, 1981); and Stephen Bell, John Enns, and Larry Orr, "The Effects of Job Training and Employment on the Earnings and Public Benefits of AFDC Recipients: The AFDC Homemaker-Home Health Aide Demonstrations" (Abt Associates, Inc., Washington, D.C., October 1986). Researchers at Mathematica Policy Research, Inc., reviewed many such studies, including the two MDRC studies mentioned here, and reestimated several of them; see Jean Baldwin Grossman, Rebecca Maynard, and Judith Roberts, "Reanalysis of the Effects of Selected Employment and Training Programs for Welfare Recipients," (Mathematica Policy Research, Inc., Princeton, N.J., October 1985). In general, their conclusions are similar to the principal findings of the studies discussed in this report.

TABLE 4. SELECTED CHARACTERISTICS OF WORK-RELATED DEMONSTRATIONS EVALUATED BY MDRC

	Location	
Characteristic	Arkansas	Baltimore, Maryland
Program Model	Job search workshop followed by individual job search and short-term workfare	Multicomponent, including job search, education, training, and short-term workfare
Study Area	Pulaski South and Jefferson Counties	10 of the 18 Income Maintenance Centers
Target Groups a/	WIN-mandatory AFDC applicants and recipients, including women with children age 3 through 5	WIN-mandatory AFDC and AFDC-UP applicants and recipients
Research Method	Random assignment; control group gets no services	Random assignment; control group gets WIN services
Sample Enrollment Period	June 1983-March 1984	November 1982-December 1983
Final Sample Size	1,153	AFDC: 2,823 AFDC-UP: 349
Observation Period for Full Sample	3 quarters	5 quarters

SOURCE: Judith M. Gueron, *Work Initiatives for Welfare Recipients* (New York: Manpower Development Research Corporation, March 1986), Table 1, and MDRC staff.

a. MDRC designated individuals as "applicants" if they entered the research sample either at the time they applied for AFDC benefits or shortly thereafter. Individuals already on AFDC were designated as "recipients."

TABLE 4. (Continued)

Location		
San Diego, California	Virginia	West Virginia
Job search workshop or job search workshop followed by short-term workfare	Job search followed by education or training or short-term workfare	Workfare of unlimited duration
Countywide	11 of 124 agencies (4 urban, 7 rural)	AFDC: 9 of 27 administrative areas. AFDC-UP: 10 of 27
WIN-mandatory AFDC and AFDC-UP applicants	WIN-mandatory AFDC applicants and recipients	WIN-mandatory AFDC and AFDC-UP applicants and recipients
Random assignment to one of two experimental groups; control group gets WIN services	Random assignment to one of two experimental groups; control group gets no services	AFDC: random assignment, control group gets WIN services. AFDC-UP: matched-county comparison b/
October 1982-August 1983	August 1983-September 1984	AFDC: July 1983-April 1984. AFDC-UP: March 1983-April 1984
AFDC: 3,591 AFDC-UP: 3,406	3,184	AFDC: 3,694 AFDC-UP: 5,630
6 quarters	4 quarters	7 quarters

b. For the AFDC-UP study, outcomes in areas that were to create and fill as many workfare jobs as possible were compared with outcomes in similar areas in which workfare was limited to a smaller percentage of the eligible population.

CHAPTER IV

EFFECTIVENESS OF WORK-RELATED PROGRAMS

The evaluations of CETA, WIN, and especially of the recent work/welfare experiments provide much information about the effects on the earnings of program participants during the first year or two after they enroll. The latter two sets of evaluations also contain information about the participants' receipt of AFDC and, to a lesser extent, other income. This chapter draws on these studies to assess the effectiveness of work-related programs in raising the living standards of welfare recipients, reducing the costs of welfare, and requiring recipients to contribute to society.

PRINCIPAL FINDINGS

Perhaps the most important finding is that work-related programs, such as job search assistance and training, have repeatedly been shown to be effective in increasing the average earnings of economically disadvantaged female participants, especially those who lack recent work experience. This finding is remarkably consistent among the studies examined here.

The studies also indicate that the costs to governments of operating work-related programs for welfare recipients are offset to some extent by savings generated from reduced outlays for AFDC, Medicaid, and other transfer programs. Whether work-related programs for welfare recipients save taxpayers money in the long run by reducing expenditures for transfer programs by more than their costs is not known. The answer depends on the effects of the programs beyond the period for which data have been collected, on the extent to which other workers are displaced, and on the specific characteristics of the programs themselves.

Thus far, few states have chosen to require large percentages of recipients to participate in work-related activities. A recent field study by the General Accounting Office found that most states have not used the authority given to them in recent years to impose work-related obligations, particularly workfare, on a large portion of their AFDC recipients. Most of the requirements have focused on job search assistance. The Manpower Demonstration Research Corporation's analysis of several demonstrations that used workfare, at least on a short-term basis, indicates that the workfare programs appear to have been carried out in ways that are generally considered fair by participants and productive by their supervisors.

Together, the findings from the numerous studies of work-related programs reviewed here provide a more solid basis for conclusions about such programs than do the findings from any individual study. The variation in estimates, though, also serves as a reminder of the uncertainties involved. The results of these studies should be viewed as a general indication of effectiveness in achieving the various goals, not as precise measurements.

EFFECTS ON INCOMES

Nearly all the studies of work-related programs reviewed here indicate that such activities increase the average earnings of economically disadvantaged female participants, usually by moderate amounts.

Comprehensive Employment and Training Act

Most evaluations of CETA training programs found statistically significant gains in earnings for adult female participants; women who had little previous employment generally had larger gains than others. 1/ Most of the estimated average annual earnings gains for women during the first year after participation were between $800 and $2,000 in 1985 dollars. CETA does not appear to have increased the average earnings of adult male participants.

The joint study by the Congressional Budget Office and the National Commission for Employment Policy, which examined the effects on the post-program earnings of a sample of the adults who entered CETA training programs between January 1975 and June 1976, provides representative estimates. 2/ The average earnings of women increased by about $1,700 annual-

1. The terms "insignificant" and "significant" are used throughout this chapter to denote whether or not the researchers calculated that an estimate different from zero might have been a random occurrence associated with small sample size. For example, an estimate that a group's average earnings increased by $1,700, significant at the .10 level, means that there is less than a 1-in-10 chance that the population from which the sample was drawn had no average gain in earnings.

2. CBO/NCEP, *CETA Training Programs--Do They Work for Adults?* (1982). The study did not examine the effects of participating in the public service employment activities also authorized by CETA.

ly (in 1985 dollars), to a level about 40 percent above their estimated earnings in the absence of the training. About four-fifths of the estimated gain for women was associated with an increase in the number of hours they worked (compared with the number they would have worked in the absence of the program). The remaining one-fifth of the gain was associated with increased hourly wage rates.

CETA training appears to have been much more effective for participants without previous work experience than for other participants. 3/ The estimated average annual earnings gain of women who had not been employed during the five years preceding enrollment in CETA was about $3,300 (in 1985 dollars), double that of the women who had been employed during that period. 4/ For men, the effect of CETA training on earnings was small and statistically insignificant.

The CBO/NCEP study also found that the impact of CETA training on the earnings of women appeared to be positively related to the length of training and did not diminish during the first two or three years after participating in the program. The type of training--classroom training, on-the-job training, and work experience--did not appear to affect the size of the gains.

Work Incentive Program

Studies of the effects of participating in WIN activities during the mid-1970s also suggest that work-related activities for AFDC recipients, especially women without prior employment, can increase their earnings.

The study by Ketron, Inc., for example, estimated that during the first year after participating in WIN, women on AFDC earned an average of almost $600 (in 1985 dollars) more than they otherwise would have (see Table 5). These gains were sustained in the second year, but were no longer statistically significant by the third year. The women without prior employment gained much more than did other women in the first year, and they continued to benefit from their participation in the second and third years. 5/ Men initially gained

3. Ibid., p. 26. For the purpose of this analysis, "no previous work experience" is defined as having no earnings reported to the Social Security Administration between 1970 and entry into a CETA program about five years later.

4. Only 12 percent of the women in the sample did not have work experience during the previous five years. Among the 88 percent who did, the average gain was about $1,600.

5. Prior employment means that the individual reported having a prior occupation.

TABLE 5. ESTIMATED EFFECTS ON THE ANNUAL EARNINGS AND ANNUAL AFDC RECEIPTS OF WOMEN AND MEN PARTICIPATING IN THE WORK INCENTIVE PROGRAM IN 1974 AND 1975 (In 1985 dollars)

Group	Years After WIN Participation		
	One	Two	Three
	Average Annual Earnings		
Women			
No prior employment	920*	980*	750*
Prior employment a/	360	260	90
All women	570*	520*	340
Men			
No prior employment	2,420*	480	-1,180
Prior employment a/	630	80	-280
All men	840*	140	-370
	Average Annual AFDC Receipts		
Women	170	120	140
Men	-190*	-340*	-240

SOURCE: Congressional Budget Office using data from Ketron, Inc., "The Long-Term Impact of WIN II: A Longitudinal Evaluation of the Employment Experiences of Participants in the Work Incentive Program, Final Report" (Wayne, Pa., January 1980), pp. 83-84.

NOTE: The original estimates by Ketron were adjusted to reflect the increase in the Consumer Price Index between 1975 and 1985, and were then rounded.

(*) indicates that the estimate is significantly different from zero at the .10 level.

a. Prior employment means that the individual reported having a prior occupation. About 55 percent of the women and 80 percent of the men reported having prior employment.

more than women (though not in percentage terms), but their gains did not last; by the third year, the men were estimated to incur losses, though the estimates are not statistically significant. Ketron estimated that participation in the program reduced AFDC receipts of the men but had no significant impact on the AFDC receipts of the women.

Ketron also attempted to determine which types of services provided by WIN were most effective. Many WIN participants in the sample had received job placement assistance but did not report any additional activities relating to education, job training, or work experience. Assistance with job placement was estimated to be the least effective approach in increasing participants' earnings, though readers are warned that "job placement assistance" was a broad category that could have included participants who received few, if any, services. Subsidized work experience and public service employment were estimated to increase participants' earnings by more than did vocational training. It is not clear, however, whether the researchers were successful in fully adjusting for any tendency of program operators to place the most employable participants in these activities.

Caution must be exercised in interpreting the WIN estimates for three reasons. First, the estimates are based on the WIN program and its participants more than a decade ago, and therefore might not be relevant for assessing the effectiveness of the current program. Second, the AFDC rules, particularly concerning earnings disregards, have changed dramatically since these studies were conducted. Third, and most important, the techniques used to estimate program effects are subject to considerable uncertainty.

Recent Demonstrations

Evaluation of the recent demonstration programs by MDRC generally confirm and extend some of the key results reported above for CETA and WIN. Because MDRC's studies used random assignment of individuals to an experimental or control group, greater confidence can be placed in their estimates of the direct effects of the programs on participants' earnings and receipt of AFDC payments. Moreover, because the activities were carried out after the major changes in AFDC rules concerning earnings disregards were made in 1981, the estimates of welfare savings are more relevant to the current situation.

The interpretation of their findings, though, is still not straightforward. The design and operation of the demonstrations differed among sites. Moreover, the environments within which the demonstrations operated varied between locations and over time. The observed effects differ considerably from one site to another and, occasionally, from one cohort of participants to another at the same location. It has not been possible to isolate the extent to which these differences result from the variation in the design of the demonstrations themselves, rather than from other causes.

In four of the five demonstrations evaluated by MDRC, most people in the experimental (treatment) groups who engaged in any activity participated in job search assistance. However, their other activities--for example, whether they received training or participated in workfare projects--differed considerably among sites. The number of people actually participating in activities also differed greatly. The estimated effects for the demonstrations discussed here are the effects of being in a treatment group--not of actually receiving work-related assistance. 6/

Earnings and Employment. The average earnings of members of the treatment group exceeded those of the control group in each location except West Virginia, although the gains were not statistically significant in all cases (see Table 6). In Arkansas and Virginia, both of which emphasized job search assistance, the average gains during the period for which earnings data were available (two and three quarters, respectively) were about $30 to $40 per quarter. As a percentage, however, the Arkansas gains were quite substantial--the members of the treatment group earned an average of 36 percent more than their counterparts in the control group.

Much larger increases in earnings were recorded for the demonstration in San Diego that combined job search and workfare--about $140 per quarter during the observation period. Moreover, data for participants who were followed for two additional quarters indicate that these gains persist, averaging about $140 per quarter during this period as well.

A major cause of the average earnings gains for members of the treatment groups is that more of them obtained jobs than would have in the absence of the program. In Arkansas, Virginia, Baltimore, and the job search/workfare demonstration in San Diego, the majority of the gains in earnings was associated with statistically significant increases in the employment rates of the members of the treatment group, relative to the control group, during most of the observation periods. For example, in the San Diego job search/workfare demonstration, during the last quarter for which information is available for

6. Because even members of the experimental group who received no work-related assistance were subject to stronger work-related requirements than were members of the control groups, the comparison groups must include them. In Baltimore, about half of the members of the treatment group participated in one or more activities, including 40 percent who received education or training assistance. In San Diego, too, about half participated; most of the participants attended group sessions for job search assistance, and over one-fourth were also in short-term workfare.

the full sample, 42 percent of the treatment group was employed, compared with 38 percent of the control group. The average quarterly earnings of job-holders in the treatment group and the control group were about $2,200 and $2,000, respectively. 7/

The estimates for participants in the San Diego experimental group for whom the only activity was job search are so sensitive to which cohort they were in that no conclusions can be reached about this demonstration's effect on earnings (they are not shown in Table 6). 8/ Moreover, the inability to account for the difference in outcomes between the two cohorts highlights the need to be cautious in generalizing from any specific set of results. The results for West Virginia provide strong evidence that--under the specific conditions in which the demonstration was operated in that state, which included a chronically depressed labor market in a rural setting--requiring AFDC nonexempt recipients to participate in workfare as long as they remain on welfare does not improve their average earnings or increase their employment rates. As emphasized by MDRC, this finding was not surprising to the program's proponents, and they did not consider it a sign of failure. The major goal in West Virginia was to provide participants with useful work experience, not to increase their earnings or to save money. Had earnings increased, it would have been an additional benefit.

Other estimates from these demonstrations support the previous finding that work-related programs tend to be most effective in increasing the earnings of women who lack substantial work experience. In Baltimore, members of the experimental group who had not worked in the year before being randomly assigned increased their earnings during the first year by over $300, while those who had worked during that year experienced no significant effect on their earnings. In San Diego's job search/workfare demonstration, those who had

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7. The average earnings of job-holders were estimated by dividing the quarterly earnings of the group by the proportion employed during that quarter. The earnings data only indicate whether an individual held a job any time during the quarter and, if so, what he or she earned during the entire quarter. Therefore, it is not possible to determine hourly wage rates or the number of hours worked. In other demonstration sites, the earnings levels of job-holders were generally lower--for example, about $1,000 during the third quarter in Arkansas and about $1,600 during the fifth quarter in Baltimore.

8. Based on the gains in earnings observed for individuals who entered the experiment during October 1982 through March 1983, one would conclude that the demonstration was quite successful in increasing average earnings, with gains of between $100 and $250 per quarter, and significant gains in four of the seven quarters observed. But the cohort who entered the experiment during April 1983 through August 1983 experienced losses in earnings during all five of the quarters observed, including one loss that was significant.

TABLE 6. ESTIMATED SHORT-TERM EFFECTS ON THE EARNINGS AND EMPLOYMENT OF PARTICIPANTS IN FIVE WORK-RELATED DEMONSTRATIONS

	Estimated Quarterly Earnings (In current dollars)			Estimated Percentage Employed During Quarter	
	In Absence	Impact of Program c/		In Absence	Impact of Program e/
Quarter a/	of Program b/	Dollars	Percent	of Program d/	(In percentage points)
			Arkansas		
Second	86	54*	63*	9.6	5.0*
Third	127	23	18	12.2	3.1*
Average	106	38*	36*	10.9	4.0 f/
			Baltimore, Maryland		
Second	333	-14	-4	24.0	3.2*
Third	408	60*	15*	27.9	4.5*
Fourth	505	66	13	31.6	3.1*
Fifth	513	65	13	31.6	5.0*
Average	440	44	10	28.8	4.0 f/
			San Diego, California g/		
Second	369	141*	38*	28.7	6.9*
Third	538	163*	30*	32.3	7.8*
Fourth	693	117*	17*	36.9	5.5*
Fifth	729	119*	16*	37.5	5.4*
Sixth	773	161*	21*	38.1	3.8*
Average	620	140*	23*	34.7	5.9 f/
			Virginia		
Second	285	0	0	26.4	1.9
Third	346	35	10	27.9	3.3*
Fourth	407	46	11	30.5	3.9*
Average	346	27	8	28.3	3.0 f/

(Continued)

TABLE 6. (Continued)

Quarter a/	Estimated Quarterly Earnings (In current dollars): In Absence of Program b/	Impact of Program c/: Dollars	Impact of Program c/: Percent	Estimated Percentage Employed During Quarter: In Absence of Program d/	Impact of Program e/ (In percentage points)
			West Virginia		
Second	95	6	6	9.9	-0.8
Third	112	21	19	11.2	-0.3
Fourth	155	-7	-5	13.1	-1.0
Fifth	173	-11	-6	13.8	-1.1
Sixth	178	-9	-5	13.8	-0.4
Average	143	0	0	12.4	-0.7 f/

SOURCE: Congressional Budget Office using data from the Manpower Demonstration Research Corporation.

NOTE: (*) indicates that the estimate is significantly different from zero at the .10 level.

a. Because some of the earnings and employment in the first quarter occurred before individuals were randomly assigned, they are not included here. The quarterly average reflects only those quarters reported here.

b. Quarterly earnings of control group.

c. The impact of the program is measured as the difference between the earnings of the experimental group and those of the control group (after adjusting for minor differences in the characteristics of the two groups).

d. Percentage of the control group employed at any time during the quarter.

e. The impact of the program on employment of the experimental group.

f. Significance tests for the average effects on employment are not available.

g. Includes estimates for the experimental group eligible for job search assistance and short-term workfare; estimates for group eligible only for job search assistance are not reported here.

TABLE 7. ESTIMATED SHORT-TERM EFFECTS ON RECEIPT OF AFDC BY PARTICIPANTS IN FIVE WORK-RELATED DEMONSTRATIONS

Quarter	Estimated Quarterly AFDC Receipts (In current dollars): In Absence of Program a/	Impact of Program b/: Dollars	Impact of Program b/: Percent	Estimated Percentage Receiving Any AFDC During Quarter: In Absence of Program c/	Impact of Program d/ (In percentage points)
			Arkansas		
First	258	-9	-3	69.0	-2.4
Second	317	-41*	-13*	71.4	-5.8*
Third	289	-43*	-15*	63.8	-6.9*
Average	288	-31*	-11*	68.1	-5.0 e/
			Baltimore, Maryland		
First	672	7	1	92.1	0.4
Second	672	7	1	87.5	-0.2
Third	593	0	0	78.2	-0.8
Fourth	569	-6	-1	73.2	-1.5
Fifth	558	-15	-3	70.4	-1.7
Average	613	-2	0	80.3	-0.8 e/
			San Diego, California f/		
First	752	-18	-2	80.3	-2.0
Second	765	-70*	-9*	67.6	-3.4*
Third	653	-71*	-11*	56.2	-4.5*
Fourth	580	-67*	-12*	47.9	-2.0
Fifth	501	-39	-8	41.1	-1.7
Sixth	445	-22	-5	36.2	-1.2
Average	616	-48*	-8*	54.9	-2.5 e/
			Virginia		
First	551	-9	-2	82.9	-0.2
Second	547	-24*	-4*	76.4	0
Third	478	-30*	-6*	67.5	-1.6
Fourth	430	-20	-5	59.8	-0.1
Average	502	-21*	-4*	71.6	-0.5 e/

(Continued)

TABLE 7. (Continued)

Quarter	Estimated Quarterly AFDC Receipts (In current dollars): In Absence of Program a/	Impact of Program b/: Dollars	Impact of Program b/: Percent	Estimated Percentage Receiving Any AFDC During Quarter: In Absence of Program c/	Impact of Program d/ (In percentage points)
West Virginia					
First	449	3	1	93.2	1.0
Second	454	5	1	86.7	0.9
Third	413	-2	0	79.0	-1.0
Fourth	377	-7	-2	72.5	-1.5
Fifth	351	-15*	-4*	67.8	-2.3
Sixth	337	-9	-3	63.5	-1.7
Seventh	341	-16*	-5*	60.7	-2.8*
Average	389	-6	-1	74.8	-1.1 e/

SOURCE: Congressional Budget Office using data from the Manpower Demonstration Research Corporation.

NOTE: (*) indicates that the estimate is significantly different from zero at the .10 level.

a. Quarterly AFDC receipts of control group.

b. The impact of the program is measured as the difference between the AFDC receipts of the experimental group and those of the control group (after adjusting for minor differences in the characteristics of the two groups).

c. Percentage of the control group receiving AFDC at any time during the quarter.

d. The impact of the program on AFDC receipts of the experimental group.

e. Significance tests for the average effects on percentage receiving AFDC are not available.

f. Includes estimates for experimental group eligible for job search assistance and short-term workfare; estimates for group eligible only for job search assistance are not reported here.

not worked in the previous year gained three times as much as the others. 9/ These findings are especially noteworthy because, unlike the CETA estimates, they could not be attributed to failure to adjust fully for selection bias.

Receipt of AFDC. Significant reductions in the average amounts of AFDC received by the experimental groups (compared with the corresponding control groups) were estimated by MDRC in Arkansas, San Diego, and Virginia, but not in Baltimore (see Table 7, previous page). Significant reductions in the percentage of the experimental groups receiving benefits were estimated in two of the three quarters in Arkansas and two of the six quarters in San Diego. In West Virginia, where the workfare program had no effect on earnings, little impact on AFDC was found.

Predicting longer-term effects of program participation on total family incomes and other measures of economic well-being is especially difficult. In some demonstrations (for example, in the San Diego job search/workfare program), the decline in AFDC benefits was considerably smaller than the increase in average earnings during the observation period, but this effect was not observed in other demonstrations (Arkansas, for example). Even if an individual's earnings gains exceeded the reduction in AFDC and other cash transfers, the related loss of Medicaid eligibility--and whether the new employers provide health insurance--could be critical. 10/ Costs of child care and other work-related expenses must also be taken into account. On the other hand, although the immediate gains in earnings might be small, the new employment could open up opportunities for subsequent higher-paying jobs that might not otherwise have been available.

EFFECTS ON GOVERNMENT BUDGETS

Whether a work-related program for AFDC recipients costs or saves governments money depends on the magnitudes, if any, of the following elements: the operating costs incurred (including costs for child care and other supportive services); the savings from AFDC and other transfer programs attributable to their reduced use by program participants; the revenue gains resulting from the participants' increased earnings; the costs of AFDC and other transfer programs resulting from their increased use by nonparticipants; and the revenue losses caused by nonparticipants' reduced earnings. Any estimates of a program's budgetary effects must be based on information or assumptions about each of these components (see accompanying box).

9. Those who had not worked during the previous year gained about $1,050 during the five quarters for which data are available, compared with $350 for the others; the latter estimate is not statistically significant.

10. MDRC did not collect information on health insurance coverage.

ESTIMATING THE MAJOR BUDGETARY EFFECTS OF A WORK-RELATED PROGRAM FOR AFDC RECIPIENTS

1. **Operating Costs**

   For most work-related programs, these costs would occur during the year in which a person enrolled, and could be estimated from program records. In addition to the direct expenses associated with operating these programs, costs might be incurred for providing supportive services, such as child care and transportation allowances.

2. **Savings from AFDC and Other Transfer Programs Attributable to Reduced Usage by Program Participants**

   Outlays for benefits and administrative costs for AFDC, Food Stamps, Medicaid, and other transfer programs for participants in work-related programs might decrease.

   Estimation of savings during the period for which the participants' actual usage has been observed requires a basis for figuring what their usage would have been in the absence of the program.

   Estimation of savings beyond the observation period requires a basis for projecting the rate at which the savings would rise or fall.

3. **Tax Revenues Attributable to Increased Earnings of Work Program Participants**

   Income, payroll, and sales taxes paid by, or on behalf of, participants might grow as a result of any increase in their earnings and total incomes.

   Estimation during and beyond the observation period involves issues similar to the ones discussed above.

4. **Costs of AFDC and Other Transfer Programs Attributable to Increased Usage by Nonparticipants**

   Individuals who attain higher earnings as a result of their participation in a work-related program could do so by obtaining jobs that, if not for the program, would have been held by others. Costs of transfer programs would rise to the extent that nonparticipants' earnings are reduced and their use of AFDC, unemployment insurance, or other programs is increased.

   Estimation during and beyond the observation period requires making assumptions about the extent to which displacement would occur and the characteristics of those displaced.

5. **Revenue Losses Attributable to Reduced Earnings of Nonparticipants**

   Income, payroll, and sales taxes paid by, or on behalf of, nonparticipants might decrease as a result of any reduction in their earnings and total incomes.

   Estimation during and beyond the observation period involves the same type of assumptions about displacement as noted above.

The most pertinent information about the direct effects of work-related programs on governmental costs comes from the demonstrations evaluated by MDRC. For each demonstration, MDRC calculated the costs incurred by federal, state, and local governments, and the extent to which these costs were offset by reductions in welfare payments to participants and by increases in taxes paid by them. They did not, however, calculate any effects on nonparticipants' use of transfer programs or tax payments. MDRC's estimates of the direct effects on all levels of government are shown in Table 8. 11/ In these demonstrations, the costs to government agencies of operating these programs ranged from less than $200 per member of the experimental group in Arkansas to about $1,000 in Baltimore. (Recall that all estimates of costs and benefits in each of these studies are calculated for the entire group, not just the individuals who received services; the average costs for those actually receiving services would be larger.)

Most of the outlays were for direct operating costs, such as the wages of staff to administer the program and provide the activities to participants. The estimated costs attributable to being in the demonstration are those incurred for the experimental group net of those incurred for the control group.

Some government funds were also spent for child care, transportation allowances, and other supportive services (included in the operating cost estimates reported in Table 8). Costs for child care turned out to be a minor portion of total costs even in Arkansas, where many of the participants were the mothers of children ages three through five. In that demonstration, for example, less than 10 percent of the demonstration's costs were for child care. One reason why child care costs were so small is that many of the participants' activities could be done on a part-time basis. For example, the group sessions for job search assistance in the Arkansas demonstration met only three hours a day. Similarly, in West Virginia, costs for child care accounted for less than one-quarter of the average cost of $260 per person. There, most workfare activities for mothers were held during the school year and during school hours.

In Arkansas, San Diego, and Virginia, the demonstrations are estimated to have reduced the average cost of providing AFDC and benefits from other transfer programs to members of the experimental group by at least as much as the cost of operating the program. Increased tax revenues provided additional

11. MDRC reports contain ranges of estimates, depending on assumptions about the extent to which the effects of a program would diminish (or "decay") after the observation period. For each demonstration, one of the assumptions was that of moderate decay (between 22 percent and 30 percent per year). The numbers in Table 8 reflect this assumption. The implications of alternative decay rates used by MDRC are discussed below.

budgetary gains. In Arkansas, for example, the cost of transfer programs for the average member of the group would decrease by an estimated $800 over a five-year period, compared with an operating cost of $158; in addition, she would pay $49 more in taxes. Thus, over a five-year period, the Arkansas program is estimated to pay for itself several times over. In contrast, the transfer program savings and increased tax revenues attributed to the Baltimore demonstration over the five-year period are estimated to be substantially below their operating costs, despite the program's positive effect on participants' earnings and, therefore, on tax revenues.

Finally, West Virginia's demonstration was the only one in which operating costs were projected beyond the observation period. Unlike the other programs, this one requires eligible recipients to participate for as long as they are receiving benefits. Small savings in transfer programs are estimated to offset only about one-third of the operating costs.

Several elements of MDRC's methodology should be borne in mind when interpreting these results. First, in most sites the majority of the estimated offsetting savings and revenue gains are based on projections of what will happen after the observation periods end. The estimates shown in Table 8 are based on the assumption that benefits observed during the most recent half-year will diminish at a moderate rate over the remainder of the five-year estimation period. 12/ During the observation periods, the effects for the Arkansas and San Diego demonstrations were sufficiently large to offset the programs' costs, but those for the Virginia demonstration were not. The Baltimore program's estimated net cost would be much higher if there were no effects estimated beyond the observation period.

MDRC also estimated the budgetary effects of several of the demonstrations based on alternative assumptions about the rates at which the effects diminish (known as the "decay rate"). One assumption was that the benefits observed during the most recent half-year will persist for the remainder of the five-year period. Under this assumption, the estimated savings in transfer programs and revenue gains are, of course, larger. Consequently, the estimated budgetary effects of the demonstrations would be more favorable. For example, the net savings for the Arkansas project would be about $1,160, rather than

12. The observation periods used in Table 8 are longer than the ones reported in Tables 6 and 7. In those tables, estimates of the short-term effects for the full sample in each demonstration site were reported. Information is also available for a longer period for part of the sample (the earliest ones to enter the experiment). For purposes of estimating effects over a five-year period, MDRC used this information as well.

TABLE 8. ESTIMATED FIVE-YEAR BUDGETARY EFFECTS OF FIVE WORK-RELATED DEMONSTRATIONS (Impact per member of experimental group, in 1984 dollars)

	Location				
	Arkansas	Baltimore, Maryland	San Diego, California a/	Virginia	West Virginia
		Operating Costs			
Total	158	1,038	636	430	260
Observation period	158	1,038	636	430	158
Projected b/	0	0	0	0	102
		Costs of AFDC and Other Transfer Programs			
Total	-800	-500	-1,215	-440	-88
Observation period	-321	-273	-667	-147	-66
Projected b/	-479	-227	-550	-293	-25

SOURCE: Calculated by Congressional Budget Office using estimates from the Manpower Demonstration Research Corporation.

NOTE: The estimates are averages for members of the AFDC experimental groups, including individuals who might not have received any services. They indicate the average change in costs or revenues caused by the demonstrations for all levels of government combined.

Details may not add to totals because of rounding.

a. Estimates are for the group eligible for job search and short-term workfare.

TABLE 8. (Continued)

	Location				
	Arkansas	Baltimore, Maryland	San Diego, California a/	Virginia	West Virginia
		Revenues c/			
Total	49	247	371	149	3
Observation period	10	81	147	35	7
Projected b/	39	166	224	114	-5
		Net Impact (Assuming No Displacement of Workers) d/			
Total	-691	291	-950	-159	169
Observation period	-173	684	-178	248	85
Projected b/	-518	-393	-774	-407	82

b. MDRC projected budgetary impacts using alternative assumptions about the extent to which effects estimated for the most recent half-year would persist for the remainder of the five-year period. The estimates shown here are based on the MDRC projections for which effects were assumed to diminish at a moderate rate: 30 percent for Arkansas; 22 percent for Baltimore, Virginia, and West Virginia; and about 25 percent for San Diego. See the text for additional information about MDRC's assumptions and about the effects of using alternative ones.

c. Revenue additions reduce the net cost of a program.

d. In each site, the net impact equals the estimated operating costs minus the estimated reduction in transfer program costs and the estimated increase in revenues. A negative net impact indicates that the program is estimated to save governments money (in the absence of displacement), and a positive net impact indicates that it is estimated to cost money.

$690; and the net loss for the Baltimore demonstration would be reduced from $290 to $60 per member of the experimental group. The net savings for the Virginia demonstration would more than double, from $160 to $340.

The assumptions used for the projections can only be tested by acquiring additional data. 13/ The quarterly patterns observed in most of the demonstrations suggest that MDRC's assumption that the effects will diminish at only a moderate rate is a reasonable one, but they do not provide sufficient information to make an accurate projection. 14/ MDRC may be too pessimistic or too optimistic about the extent to which the observed effects will persist. If, for example, the assistance provided to recipients enabled them to acquire work experience that increases their long-term employability, then the program may have put them onto a permanently higher earnings path. If the program only helped them find jobs a little faster than they would have on their own, however, then the effects might diminish at a faster rate than assumed by MDRC.

MDRC's exclusion of any effects beyond the five-year period appears overly pessimistic. Presumably some of the effects would persist beyond that time. 15/ Moreover, MDRC used a real discount rate of 5 percent per year to reflect the lower present value of benefits to be received in the future. This rate is somewhat higher than the discount rate commonly used by analysts of government programs. Had MDRC used a longer projection period or a lower discount rate, their estimates of the savings in transfer programs and gains in revenues would have been higher.

Another key assumption underlying the estimates in Table 8 is that no displacement occurred. If, at the other extreme, one assumed that each AFDC recipient who obtained a job as a result of program participation displaced a similar person who then entered or remained on AFDC, the net budgetary impacts of the demonstrations would simply equal their operating costs (that

13. MDRC is currently tracking the effects of the Baltimore demonstration beyond the two years used in the final report.

14. The decay rate used by MDRC for the majority of their projections--22 percent per year--was based on the decay rate estimated by Ketron in their evaluation of WIN's effects in the mid-1970s. That estimate is subject to considerable uncertainty. The effects projected for the San Diego program were based on decay rates estimated for the observation period.

15. The present value of such effects would, of course, be smaller for later years than for the immediate years. For example, assuming effects will diminish at a rate of 22 percent and using a discount rate of 5 percent, the present value of a $100 savings in AFDC costs this year would diminish to less than $30 by the fifth year and less than $10 by the tenth year.

is, there would be no budgetary offsets). Neither alternative is realistic. The chance of displacement makes MDRC's revenue estimates especially problematic, because if aggregate earnings are unaffected, then there will probably be no revenue gain. 16/ On the other hand, welfare savings would still occur to the extent that the displaced individuals did not receive transfer payments. As discussed in Chapter III, probably no more than one-fifth of these people would be eligible for AFDC, although some might be eligible for other transfer programs.

Finally, the revenue estimates were made under tax rules before passage of the Tax Reform Act of 1986. The reduced effective income tax rates for low-income families under the new law will almost certainly lower (and could eliminate) federal income tax revenues on their increased earnings. Federal income taxes account for about 40 percent of the revenue gains estimated for Arkansas, Baltimore, and Virginia, and about 50 percent for San Diego. 17/ In contrast, both employees and their employers would still incur Social Security taxes, and the employees would still pay state income, sales, and other taxes.

In sum, the findings from these studies suggest that the participants in several recent demonstrations will have reduced their use of transfer programs and increased their tax payments by enough to offset operating costs within five years. In the absence of displacement, for example, the Arkansas and San Diego demonstrations show net savings even if there were no effects beyond their observation periods. Estimates for the Virginia demonstration indicate that the program would save money even if the effects diminished at a much more rapid rate than was assumed by MDRC.

Without knowing the extent to which the participants might have displaced others people, however, firm conclusions cannot be reached about whether or not work-related programs "pay for themselves." In the Arkansas demonstration (assuming that the effects diminish at the rate indicated), displacement would need to be very high before the program would no longer show a savings; in Virginia, on the other hand, an offset of about 30 percent as a result of displacement would change the estimate from one of moderate net sav-

16. Total revenues could even decrease if the income tax rates of the displaced workers would have been higher than those of the AFDC recipients who obtained the jobs.

17. For example, MDRC's final report for Arkansas indicates that $21 of the $49 in estimated revenue gains for the five-year period is from the federal income tax; $18 is from the Social Security tax; and $10 is from state income, sales, or other taxes. The reports for Baltimore, San Diego, and Virginia provide the disaggregation of revenues for the observation periods only.

ings to one of small net costs. 18/ Using a lower decay rate or discount rate or a longer projection period would result in more favorable estimates, while using a higher decay rate or the current federal income tax schedule would result in less favorable estimates.

EFFECTS ON RECIPIENTS' CONTRIBUTIONS TO SOCIETY

Some observers argue that work-related requirements are important, whether or not they increase the incomes of participants or lower governments' costs for welfare programs. As discussed in Chapter I, such requirements are advocated by people who want to assure that recipients contribute to society in whatever way they can and to discourage individuals who can get jobs from being on welfare. The Job Training Partnership Act and its predecessors have not been used directly for these purposes because participation has been voluntary. WIN was established partly to impose and enforce an obligation on recipients to at least participate in a job search assistance program. It has not been successful in doing so, however, in that only a minority of eligible recipients have had to participate. This failure is commonly attributed to a lack of funds.

A major objective of the relevant provisions of the Omnibus Budget Reconciliation Act of 1981 was to encourage states to require that more AFDC recipients participate in work-related programs, including workfare. States were given the authority to do so and were given access to additional federal funds. One purpose of the recent demonstrations was to test the feasibility of operating a program in which a larger portion of the eligible population would be required to participate, and to gauge the reactions of the people affected. In practice, few jurisdictions have opted to impose and enforce new work-related requirements on larger numbers of their eligible AFDC populations. In most places, participation in job search assistance programs has been the only required activity. The program component that has probably caused the most controversy--workfare--has played only a minor role.

Nonetheless, the results of the recent demonstrations suggest that it is feasible to engage a higher percentage of AFDC recipients in work-related

18. The estimates reported in Table 8 indicate that the transfer program savings and revenue gains in Arkansas were over five times the program's cost. Therefore, even if four-fifths of these effects were offset by higher transfer costs and lower taxes for nonparticipants, the program would still be estimated to pay for itself. For the San Diego job search/workfare demonstration, savings to governments from participants' reduced use of transfer programs and higher tax payments would be insufficient to pay for the program if job losses by nonparticipants offset about 60 percent of these effects. For the Virginia demonstration, the margin would be even smaller.

programs than has generally been done, at least in these five jurisdictions. MDRC found that the majority of the individuals in the treatment groups in most of their evaluation sites received, at a minimum, the services of a job search assistance program within one year of entering the demonstration. Recipients, for the most part, complied with the new requirements, and few were penalized for not fulfilling their obligations. 19/

In several of the demonstration sites evaluated by MDRC, workfare was required of certain recipients--usually following unsuccessful job search assistance and usually limited to a maximum duration of three months. Only in West Virginia was the workfare requirement open-ended. There, monthly participation rates in workfare projects peaked at about 20 percent among the AFDC population available for assignment and at almost 70 percent among the AFDC-UP population. The latter percentage occurred under favorable circumstances, including special funding for a "saturation" demonstration and an agency staff with a strong commitment to the program.

An important reason for imposing a work requirement on recipients may be for the general public to obtain something of value from recipients in return for their benefits. In West Virginia, in particular, the planners of the workfare demonstration promoted it partly as a way of providing public services that had previously been provided through the CETA public service employment program, and that they could otherwise not afford. 20/

MDRC's analysis of the work performed by the workfare participants in West Virginia and elsewhere suggests that this goal was achieved. Recipients were assigned to a wide range of government agencies and nonprofit organizations. The majority of AFDC workfare assignments were in clerical and service jobs, while the majority of AFDC-UP assignments were in maintenance and construction activities. Surveys of worksite supervisors indicated that the AFDC workers were, on average, at least as productive as regular employees and that the value of their output exceeded the cost of the program. 21/

19. For example, within nine months after random assignment in the West Virginia workfare demonstration, 1.8 percent of the experimental group of AFDC recipients had been sanctioned (that is, penalized for not complying) compared with 1.7 percent of the control group. Among the AFDC-UP participants in West Virginia's workfare program, 6.3 percent were sanctioned, compared with 2.8 percent in the comparison group.

20. The background for West Virginia's decision to operate workfare programs is described in MDRC's final report. The public service employment program ended in 1981, the year in which the proposal for the workfare demonstration was prepared.

21. In West Virginia, the average productivity of the AFDC participants and of the AFDC-UP participants was judged to be 8 percent and 22 percent higher, respectively, than that of regular workers doing the same jobs.

Finally, an interesting question is whether the recipients perceive the work-related requirements to which they are subject as fair, or whether they comply with them only because the value of their AFDC and Medicaid benefits still outweigh the personal costs. MDRC's surveys of participants in workfare activities found that the majority of participants appeared to accept the requirement as a legitimate objective of the welfare system.

EFFECTS ON SOCIETY AS A WHOLE

The above discussion of program impacts has focused primarily on their effects on recipients' incomes, on government budgets, and on the extent of recipients' participation in work-related activities. A broader framework would be to consider the effects of these programs from the perspective of society as a whole. Instead of estimating whether a program subtracts from or adds to a government's net expenditures, for example, one could examine whether the nation as a whole is made better off or worse off by the program. Most evaluators use an approach known as "benefit-cost analysis" to address this issue.

The costs of a work-related program to society as a whole include the costs of the resources expended, regardless of who pays for them. These costs are compared with the gains to society in terms of the increased value of the goods and services produced as a result of the program. Its effects on the amount of AFDC and other transfer payments and on tax revenues are not part of a societal benefit-cost analysis, because these effects involve the distribution of goods and services, not their level. (Any savings in the costs of administering transfer programs as a result of a reduction in their use, however, is a savings to society as a whole and is therefore included in the estimates.)

Using this approach, MDRC estimated that, over a five-year period, each of the five work-related demonstration programs discussed here had societal benefits that exceeded their costs--with the net gains per member of the experimental group ranging from about $300 in Arkansas to $2,000 in San Diego. In each site except West Virginia, the major benefit to society was the increased output associated with the earnings gains of the participants. In the West Virginia demonstration, the value of the output produced by the workfare participants was the major benefit.

The uncertainties discussed above are relevant here as well. In particular, displacement of nonparticipants would reduce the benefits to society, except for gains to society associated with the redistribution of job opportunities. Moreover, as MDRC notes, their estimates do not include many costs and benefits that are more difficult to quantify. The effects on the children of their mothers' working, rather than receiving AFDC, for example, are not measured even though these effects could be more important to society than those that are estimated. These effects could be positive or negative. Similarly, the participants and other members of society may prefer that they work for reasons other than the value of their output as such. For example, work might provide recipients with a higher self-esteem, and taxpayers might feel better about providing transfer payments to individuals whom they perceive as trying to help themselves.

CHAPTER V

ISSUES AND APPROACHES IN DESIGNING WORK-RELATED PROGRAMS FOR WELFARE RECIPIENTS

The studies reviewed in Chapter IV indicate that carefully designed work-related programs for AFDC recipients have the potential to achieve many of the goals sought by their proponents. These outcomes, though, are not always realized, and the best available information is not always good enough for predicting the circumstances under which they will occur.

An important lesson from these studies is the need to have moderate expectations about whether work-related programs are likely to meet one or more of their goals: raising living standards of recipients and their families, reducing welfare costs, and requiring recipients to contribute to society in whatever ways they can. For example, reductions in the number of participants receiving transfer payments and in the amounts they received offset at least part of the costs of operating the demonstration programs recently evaluated by the Manpower Demonstration Research Corporation, but whether these activities pay for themselves in the long run is not known.

This chapter draws on the findings from the earlier parts of this report to examine issues and options concerning eligibility criteria, program activities, and financing that the Congress might consider if it decided to change the current work-related programs for AFDC recipients or to develop new ones. Issues considered include:

- How to define eligibility for--or the requirement to participate in--work-related activities;
- Whether to require states to enroll minimum percentages of their eligible AFDC population in work-related programs;
- Whether to reward states for increasing the earnings of participants, reducing welfare costs, or achieving other objectives in their work-related programs;
- Whether to encourage or require states to concentrate work-related activities on specific groups;

- o Whether to encourage or require states to emphasize specific activities, such as job search assistance, education, training, workfare, or child care subsidies; and

- o The amount of funds to be provided by the federal government.

The resolution of these issues would most likely reflect the priority given to the various possible goals, as well as the information available about the potential effects of one approach or another. Those people whose primary objective is to increase the incomes of welfare recipients, for example, might make different decisions than would those whose first priority is to reduce welfare costs--even if they agreed on the evidence.

In deciding many of these questions, the Congress would also need to address an important set of cross-cutting issues: How prescriptive should the federal government be in setting the terms under which the programs operate, and how much flexibility should the states be given? Many of the specific issues relating to program design can be thought of as involving two decisions:

- o Should the federal government tell the states what to do?

- o If so, what should the mandate be?

For example, should the decision about whether to exempt mothers of young children be made by the federal government or by the states? If the former, what should the decision be? Should the federal government require all states to operate specific types of work-related programs, such as workfare or education? If so, which ones and for whom?

The usual argument in favor of being highly prescriptive in the design of federal programs administered by the states is that this is the best way of assuring that the national purpose will be achieved. State governments, given considerable latitude, would set their own priorities, which could differ from those for which the program was enacted. The standard argument in favor of providing states with flexibility is that they are in the best position to determine what would be most effective, because they are most knowledgeable about the environment in which the programs operate. 1/

1. In the general debate over welfare reform, this issue has also arisen in the context of whether the federal government should set minimum benefit standards and whether it should require states to provide benefits to unemployed parents.

Five proposals introduced in early 1987 exemplify the range of possible approaches the Congress could adopt. The Administration's Greater Opportunities through Work (GROW) bill, for example, would require states to enroll specified percentages of the eligible AFDC population. Recipients would be required to participate in one or more work-related programs, including job search, workfare, education, and JTPA-funded training. Caretakers of young children would no longer be exempt from participation, except for mothers up to six months following birth. State costs would be matched on an open-ended, 50/50 basis (except for education and training costs).

The Work Opportunities and Retraining Compact (WORC) bill would require states to develop comprehensive employment and training plans for AFDC recipients and to offer education and training options to those who need them to become employable. The federal government would pay for at least 70 percent of education and training costs, increasing its share to 75 percent for states who meet specified performance standards. Exemptions would be similar to current law, except that states would have the option of requiring participation for recipients caring for children between the ages of three and six if child care were provided; individuals could refuse employment if it would result in lower income. Costs for administration and supportive services would be matched on a 50/50 basis.

The Fair Work Opportunities bill would substantially increase funding for WIN and require states to establish comprehensive programs, including education, training, job search, and supportive services; workfare would be prohibited. 2/ States would be required to match 25 percent of the additional amount and would receive extra funds for meeting or exceeding specified performance standards.

The Jobs for Employable Dependent Individuals (JEDI) bill would give states bonuses for providing education and training programs for certain recipients who then find jobs and go off AFDC for at least one year. The size of the bonuses to states would be based on the average federal benefits paid to those recipients and their families during the two years before qualifying for the bonus. 3/

2. Title IV-C of the Social Security Act authorizes the appropriation of such sums as may be necessary for WIN activities. About $200 million was appropriated for 1986 and about $100 million for the first nine months of this year. The Fair Work Opportunities bill would authorize $500 million for 1988 and such sums as may be necessary in later years.

3. Participants who might qualify states for bonuses would include heads of households who received AFDC benefits and who meet either of two criteria. First, they received benefits continuously for two years and did not work during the previous year. Second,

The Family Welfare Reform bill would establish a National Education, Training, and Work (NETWORK) program. States would be required to offer a wide range of activities to participants, including educational programs for those who have not completed high school, job search and placement assistance, and employment counseling. States would have the option of requiring caretakers of children under age six to participate in the program on a part-time basis if child care assistance were guaranteed by the program. The federal government would reimburse states for 75 percent of the program's costs. 4/

The costs of these and other work-related proposals are extremely difficult to predict. In general, the operating costs would depend on the specific terms of the proposal and on how states chose to respond to the requirements or incentives established. For example, the costs for child care associated with the GROW proposal would depend on the extent to which the mothers of pre-school-age children were used to meet the targets for participation rates. The education and training costs associated with the WORC proposal would partly depend on the extent to which states expanded such activities. The net impact on federal and state budgets would also depend on the extent to which the program costs would be offset by reductions in outlays for AFDC and other transfer programs.

ELIGIBILITY CRITERIA

Under current law, only about one-third of all adult women receiving AFDC are required to participate in WIN or other work-related activities. Narrowing the grounds for exemption could be advocated either as a means of helping more recipients increase their incomes, of reducing welfare costs, or of involving more recipients in work-related activities.

Because the most common reason for exempting recipients over age 16 is that they are caring for young children, the question of whether to change this rule is an especially important one. Some states have received temporary waivers from the Secretary of Health and Human Services permitting them to require mothers of younger children to fulfill work requirements. In these states, much smaller percentages of the mothers are exempt. In Oklahoma,

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they are less than 22 years old, did not complete secondary school or its equivalent, and did not work during the previous year. In each case, the participants must be placed in nonsubsidized jobs for at least one year, must earn at least as much as their previous AFDC payments, and must no longer qualify for such benefits.

4. This description is based on the bill (H.R. 1720) introduced in March. The bill is currently being revised.

for example, which does not exempt caretakers on the basis of their children's ages, only about one in ten female adult recipients was exempt in 1984, compared with a national average of two-thirds.

Options that might be considered for altering eligibility criteria include eliminating the exemption from work requirements on the basis of children's ages or lowering the age-of-child threshold, allowing states to make such changes on their own, or encouraging mothers of young children to participate in work-related programs without requiring them to do so. The ET program in Massachusetts, for example, encourages mothers of young children to volunteer for the program and offers participants child care subsidies for up to one year after leaving the program. The Administration's proposal would eliminate the exemption of mothers of children under age six, except during the first six months after birth.

Women who begin receiving AFDC when their youngest child is under age six are more likely than other mothers to be dependent on welfare for a long time. Participation in work-related programs before their youngest child's sixth birthday could provide these women with the job search skills, education and training, or work experience that would help them find jobs and reduce their reliance on welfare payments sooner.

Recent program experience provides some indication that these benefits could be obtained. The basis for drawing conclusions about what would happen if the programs were carried out on a larger scale, however, is limited. The only recent evaluation study that directly addressed the question of the effectiveness of work-related programs for mothers of young children, relative to other mothers, was the Manpower Demonstration Research Corporation's analysis of Arkansas' demonstration program. About half of the participants had children ages three through five, and the rest had older children. Overall, the program appeared to be equally effective for the two groups in terms of its impact on participants' earnings and on their receipt of AFDC payments.

Encouraging or requiring AFDC recipients with pre-school-age children to seek work or to participate in activities that would make them more employable would not be asking them to do something that is unusual, because the majority of mothers of children under age six are now working, though not primarily on a full-time year-round basis. 5/ Many observers view a require-

5. CBO tabulations of the March 1986 Current Population Survey indicate that 9.7 million (61 percent) of the 15.7 million mothers of children under age six worked for pay sometime during 1985. Almost two-thirds of these working mothers (6.1 million) worked primarily on full-time schedules (that is, at least 35 hours per week), although only about one-third (3.6 million) worked full-time year-round.

ment that recipients with young children engage in work-related activities, at least on a part-time basis, as more reasonable today than even two decades ago, when staying home with the children--at least until they started school--was the norm.

Other people argue, however, that single women with children who have not yet started school are already contributing to society by caring for their children, as originally envisioned by the planners of the AFDC program. Society has a strong interest in assuring that the children are properly cared for. Whether, and under what circumstances, the needs of young children are best met by their parents, rather than by others, is highly controversial.

Moreover, the costs of providing suitable child care for recipients while they participate in programs and later, if they find jobs, would diminish the gains to the participants, to taxpayers, or to both. These costs are much higher for infants than for older children. While participating in a work-related program, an AFDC recipient is generally eligible for child care subsidies; so taxpayers would, in effect, pay the bulk of this cost. The extent to which the government would pay the costs of child care for recipients engaged in paid employment is determined largely by the AFDC rules for disregarding certain income, including the deduction of up to $160 per child for monthly child care expenses.

Whether a lack of suitable child care at affordable prices would be a problem if large numbers of mothers of young children were required to participate in work-related programs cannot be determined from existing studies. 6/ MDRC did not find it to be a problem in Arkansas, although this result could merely reflect the small scale on which the demonstration was conducted. On the other hand, this finding could also stem from the ability of program operators to work out part-time schedules that best fit the needs of the mothers and their children, thereby leading to only a modest increase in the demand for child care services.

TARGETS FOR REQUIRED PARTICIPATION

A contentious issue has been whether the federal government should require each state to enroll specified percentages of their nonexempt AFDC applicants

6. Information about the market for child care services is fragmentary, in part because child care is often provided through informal arrangements with friends, neighbors, and relatives, not just through formal child care centers. For a review of this information and a discussion of options for increasing the supply of child care programs, broadening knowledge about available resources, and lowering the cost to low-income families of child care, see Congressional Budget Office, *Reducing Poverty Among Children* (May 1985), pp. 136-148.

and recipients in work-related activities. If so, what level of participation should be mandated, and how should participation rates be measured? The Administration has repeatedly proposed legislation to require all nonexempt applicants for, and recipients of, AFDC to participate in work-related activities. States whose participation rates did not meet specified targets would have their federal payments reduced. 7/

Proponents of specifying targets for participation rates contend that they are needed in order to enforce work-related obligations on a larger number of recipients and to engage them in productive activities. Data on program participation indicate that, under current rules, most states are not opting to enroll large percentages of eligible AFDC recipients in activities other than registration and job search assistance. If this goal is to be given greater priority, changes in the incentives faced by states--such as penalties for not achieving specified participation rates or rewards for doing so--would be appropriate.

Opponents of setting minimum rates of participation argue that such targets would make it more difficult for states to implement programs that would have the largest effects on recipients' earnings or on welfare costs. These opponents want the flexibility to give priority to these goals, even though fewer recipients might be served. 8/

The recent demonstrations, as well as earlier studies, suggest some of the issues that would need to be resolved in order to establish targets for program participation rates. For example, what time period should be used--participation during a month, at any time during a year, or at any time during a recipient's current spell on AFDC? What amount of activity should count as fulfilling the participation requirement during whatever period is used? For the purpose of enforcing work-related obligations, monthly participation rates might be most relevant, although the costs associated with achieving

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7. The Administration's proposal last year called for a phase-in period of three years, with states required to achieve participation rates of 25 percent in the first year, 50 percent in the second, and 75 percent in the third and later years. The GROW proposal, introduced this year, provides lower targets for participation rates and a longer phase-in period (five years), increasing from 20 percent in the first year to 60 percent in the fifth and later years. Because most mothers of young children would no longer be automatically exempt, however, the base on which these rates would be calculated would be much larger.

8. For example, Cesar Perales, testifying on behalf of the National Council of State Human Service Administrators, argued that "states deliberately, and quite appropriately, restrict participation in work program activities to ensure that limited dollars are targeted to achieve the best results." Testimony before the Subcommittee on Public Assistance and Unemployment Compensation, House Ways and Means Committee, March 13, 1986.

monthly targets might discourage states from providing intensive services to participants, perhaps reducing the chances of achieving other goals. To achieve those alternative goals, other measures might be more appropriate--for example, completion of a high school education.

High monthly participation rates might be hard to achieve through ordinary job search assistance and training programs without extensive recycling of participants--an approach that would add to program costs and would probably not result in proportionately larger gains in income or reductions in welfare costs. Job search assistance usually involves participation for one or two months. Job training programs normally last less than six months. For example, the median length of stay of AFDC mothers who left Job Training Partnership Act programs between July 1984 and June 1985 was 17 weeks (see Table 2 in Chapter 2).

One way of achieving substantially higher monthly participation rates might be to require open-ended workfare programs. The evidence from MDRC's study of West Virginia's workfare demonstration suggests that such a program could be carried out on a wider scale than is currently being done nationwide. Although 26 states had set up workfare programs as of January 1987, only six (Michigan, Oklahoma, Pennsylvania, South Dakota, Virginia, and West Virginia) had done so on a statewide basis.

Information from the study of West Virginia's workfare program also suggests that engaging the majority of eligible mothers in workfare assignments might be very difficult. In an average month, only about one in five women in the experimental group participated, even though the cumulative participation rate among eligible AFDC recipients reached 33 percent during a 15-month period. 9/ One reason why these rates were so low was that program staff exercised considerable discretion in not assigning mothers to work schedules that would interfere with caring for their children; participation in the summer months, for example, was much lower than in other months. Achieving higher participation rates would probably require either more rigorous enforcement or additional supportive services. The basic question, then, is whether the value of the work done by the participants and the other benefits--to participants and to society as a whole--associated with their participation would warrant the resulting operating costs.

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9. Manpower Demonstration Research Corporation, *West Virginia: Final Report on the Community Work Experience Demonstrations*, pp. 80 and 88.

PERFORMANCE STANDARDS

Another issue is whether federal legislation should mandate performance standards to reward states that achieve the standards or penalize states that do not. Several bills include provisions to build in performance-based rewards. The WORC bill, for example, would require standards to be developed based on such factors as post-participation employment and wage rates and reduced dependence on AFDC; states that achieved these standards would be given a slightly higher federal matching rate for their work-related activities than would other states.

Performance standards could be used to encourage states to establish work-related programs that would increase recipients' incomes or reduce welfare costs, just as setting targets for participation rates could encourage states to enforce work-related obligations on larger percentages of recipients. Moreover, without performance standards, holding states accountable for meeting national objectives would probably be more difficult. Here, again, issues arise regarding what the federal government seeks to achieve and how prescriptive it should be. If the primary goal is to enforce work-related obligations, then targets for participation rates, rather than performance standards, might be pertinent. But if the primary goal is to increase participants' incomes or reduce costs, and if the Congress wants to hold states accountable for achieving these objectives, then performance standards might be more appropriate.

Findings from some of the studies discussed in this report suggest major difficulties that would need to be overcome for such performance standards to be effective. In particular, data for the general population of women who head households with children and for the eligible recipients in the demonstration sites who were not in the treatment groups reveal sizable fluctuations in earnings and receipt of AFDC. Among the recipients in the control group in MDRC's study in Baltimore, Maryland, for example, one in six was employed and nearly all were receiving AFDC payments during the quarter of random assignment; one year later, one in four was employed and one in five was no longer receiving payments.

These statistics on the normal movement of AFDC recipients off welfare and into jobs underscore the challenge of developing a tracking system that would identify the savings and earnings gains that would be properly attributable to an individual's participation in a work-related program. The obvious method--tracking each participant's subsequent welfare receipts and earnings--would be severely flawed by the absence of a benchmark for comparison. Indeed, one would need to be concerned about inadvertently giving states incentives to avoid serving the most difficult cases. Moreover, a performance incentive based on short-term indicators might steer states toward activities with faster payoffs, even if the returns were not as long-lasting.

The use of placement rates as the standards of performance, for example, could prompt states to enroll the most employable recipients in their programs. To deal with this problem, it would be necessary to measure a base (pre-program) placement rate for each state, or to develop a statistical method of adjusting placement rates for differences in state unemployment rates, population characteristics, and other factors. Whether it is feasible to design and implement an effective procedure for making such adjustments is uncertain.

PRIORITIES AMONG RECIPIENTS

A fundamental question in the employment and training field is how best to allocate scarce program resources among eligible individuals. Options that might be considered in establishing priorities include allowing states to determine which eligible individuals are to be emphasized, or requiring states to give priority to certain groups. The NETWORK program, for example, would require states to give priority to recipients in families with parents who were under age 18 when their first child was born, to long-term recipients, and to families with children under age six.

Which priorities, if any, should be established in the legislation depends very much on one's general perspective about the degree to which the federal government should be prescriptive and about the goals one is seeking to achieve through work-related programs. If the primary objective were to achieve long-term savings in welfare costs, for example, priority could be given to individuals most likely to remain on AFDC for long periods--new recipients with young children, women who have never married, women who began receiving AFDC at an early age, and those without recent work experience. Such patterns of AFDC receipt, however, could mask substantial differences in long-term dependency among recipients within each group. For example, although, on average, new recipients with young children are on AFDC for many years, some of these recipients do leave quickly. This variation within groups would argue for continuing to allow states considerable flexibility in deciding whom to serve.

PRIORITIES AMONG ACTIVITIES

In considering work-related legislation, the Congress might require or encourage states to provide specific types of activities, prohibit certain activities, or leave all decisions about activities up to the individual states. The most common activity in work-related programs designed specifically for AFDC recipients is job search assistance, while the majority of the AFDC recipients in JTPA programs are engaged in training.

Existing proposals differ in the types of work-related activities that would be required or encouraged. The Administration's bill, for example, would encourage states to provide job search assistance and workfare by matching funds for these activities, but it would provide no money for education and training beyond what is already granted to states through JTPA. In contrast, the WORC and NETWORK bills would also match state funds for any education, training, or employment-related services, while the Fair Work Opportunities bill would specifically prohibit states from using mandatory workfare. Some proposals would provide additional child care and other supportive services to recipients after participation in work-related activities, in order to facilitate their transition into unsubsidized employment.

The evaluation studies reviewed in Chapter IV offer several broad indications of which types of activities might be effective in achieving various goals. They should be used with caution, however, because their applicability hinges on the extent to which results of activities carried out in specific places under specific circumstances would be replicated in other areas or nationwide. Job search assistance and training appear to increase the earnings of economically disadvantaged women, including mothers receiving AFDC. Workfare alone for the duration of one's receipt of benefits enables participants to contribute to society, but does not appear to increase their long-term earnings or significantly reduce their receipt of AFDC--at least under the poor economic conditions in which it operated in the West Virginia demonstration.

The various studies offer little basis for identifying which types of activities are most successful in cutting outlays for welfare. Although one would generally expect activities that produce the largest gains in earnings ultimately to produce the largest welfare reductions, this was not always the case. Differences between study sites--particularly in AFDC benefit levels--make it hard to isolate the effects of different activities. Moreover, since different activities cost varying amounts, even less is known about their net effects on federal or state spending.

As a means of increasing recipients' contributions to society, workfare might be appropriate, either alone or in combination with job search and other assistance. The recent demonstrations indicate that where workfare has been used, it appears to have been carried out in ways that are generally considered fair and productive. Proponents argue that participating in workfare is a reasonable "quid pro quo" for receiving benefits. In addition, they contend, it can help deter individuals capable of finding paid employment from applying for, or continuing to receive, AFDC payments.

Opponents of workfare, on the other hand, point out that recipients' participation in other activities, such as training or education, could ultimately be more productive for society and be more likely to reduce the participants' future dependence on welfare. Moreover, they question whether workfare could be carried out on a large scale in a way that would provide useful employment without displacing regular workers or undercutting their wages and without demeaning the participants. Opponents also argue that most AFDC recipients would rather work than be on welfare and that the problem is mainly a lack of employment opportunities, not motivation.

Finally, some proposals would provide individuals who find jobs and go off AFDC with continued assistance--particularly child care subsidies and continued Medicaid coverage--in order to ease their transition to unsubsidized employment. The potential increase in child care and health care costs faced by AFDC recipients could be a major barrier for some recipients who might otherwise be able to go to work. Particular concern has been raised about the potential cost of health care for those who no longer qualify for Medicaid and work for employers who do not provide adequate health insurance. 10/ The evaluations reviewed in this report did not provide any information about the effectiveness of programs that would continue assistance after the participants left AFDC.

FEDERAL FUNDING

Current federal funding arrangements for work-related activities differ markedly from one program to another. Each year, the Congress appropriates WIN

10. CBO tabulations of the March 1985 Current Population Survey indicate that about one-quarter of all employed unmarried women with dependent children are estimated to be without health insurance. These estimates are for workers who report being paid on an hourly basis. About 60 percent of these women report having insurance provided by their employers, and 15 percent report having other insurance. The likelihood of being insured is generally smaller among workers with lower wage rates.

funds that are allocated to the states; the states are required to pay 10 percent of program costs and the federal share is 90 percent. Federal expenditures for work-related activities funded through Title IV-A of the Social Security Act are open-ended entitlements to states based on a 50/50 matching formula. JTPA Title II-A funding is provided by annual appropriations, with no matching requirement for states.

Among funding issues the Congress might face in changing the current programs or developing new ones are whether to increase federal expenditures for work-related programs for recipients; whether to provide the funds through appropriations or open-ended entitlements; whether to require states to match federal expenditures and, if so, at what rate; and whether to continue separate funding for WIN. Recent proposals illustrate several approaches that might be considered. The Administration's bill, for example, would continue the 50/50 matching requirements for work-related activities funded through AFDC, but it would abolish WIN. The WORC proposal would increase the federal share of expenditures for AFDC-based work-related activities to at least 70 percent for all education and training costs and would continue to provide 50 percent of administrative and support costs. The Fair Work Opportunities bill would sharply increase federal WIN appropriations, with a requirement that states match the funds above the current level on a 75/25 basis, with 25 percent provided by the states.

In each of these proposals, the net impact on the federal budget would depend, in part, on how states respond to the requirements or incentives established and on the extent to which the program costs would be offset by reductions in outlays for AFDC and other transfer programs. Increasing the matching rate or the range of eligible activities could substantially increase federal outlays. CBO is currently estimating the costs and offsetting savings for a number of proposals.

Some analysts argue that because the federal government receives a large share of the budgetary gains attributable to work-related programs, it would be equitable for it to pay a large share of the costs as well. This arrangement would give states a greater incentive to operate programs, especially relatively intensive ones, because their costs would more closely match their share of the savings. 11/ For example, MDRC estimated that the federal government would

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11. In 1986, the federal government paid for about 54 percent of AFDC and Medicaid benefits, on average, and 100 percent of food stamp benefits; it paid about half of the administrative costs for each program. Its share of AFDC and Medicaid benefits varies from state to state, but is always at least 50 percent.

receive two-thirds of the gains from reduced use of AFDC and other programs and from increased tax payments attributable to being in the AFDC job search/workfare treatment group in San Diego. 12/

On the other hand, work-related programs also achieve other goals, including some that might not primarily benefit the federal government. Workfare programs provide unpaid labor that state and local agencies and community organizations find worthwhile, for example. Some observers contend that paying for expanding these work forces is not a federal responsibility.

12. MDRC, *Final Report on the San Diego Job Search and Work Experience Demonstration,* 1986, p. 180. Total estimated reduced costs to governments and increased tax revenues over a five-year period were $1,586 per member of the treatment group, of which the federal government's share was $1,079, or 68 percent. Similarly, MDRC staff estimated that the federal government would receive about two-thirds of the benefits in the Arkansas demonstration and four-fifths of the benefits in the demonstration in Baltimore, Maryland. The latter is higher partly because a larger percentage of the benefits were from increased tax payments (especially federal income and Social Security payroll taxes), rather than reduced use of AFDC.