Insight ON THE NEWS

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Welfare Reforms, Or Just Renewal?
—Economic Complications of Welfare Reform

By Douglas J. Besharov

Throughout his presidential campaign, Bill Clinton pledged "the end of welfare as we know it." He promised to "provide people with the education, training, job placement assistance and child care they need for two years—so that they can break the cycle of dependency. After two years, those who can work will be required to go to work, either in the private sector or in meaningful community service jobs." Since his election, Clinton has repeated this promise many times.

Contrary to the impression most voters may have gained, however, Clinton's plan would cost money, not save it. In an unpublished memorandum, his campaign estimated that new welfare expenditures would total $7 billion a year by 1996. Moreover, there is no assurance that his plan would work; each element in it is fraught with ambiguities and traps that threaten to undermine any true reform.

For example, consider the cost for the administration to achieve its stated goal for providing education and training. Raising skills and therefore earnings will not be easy. Years of inactivity leave their mark. A large portion of welfare recipients are young mothers who start out with poor prospects and who further limit their life chances by dropping out of school, having babies out of wedlock and not working. As a result, they do not have the education, skills or work habits needed to earn a satisfactory living.

Since the late 1960s, the federal government and many state and local agencies have tried various approaches to reducing long-term welfare dependency among these young mothers. Even richly funded demonstration programs find it exceedingly difficult to improve the ability of these mothers to care for their children, let alone become economically self-sufficient. Earnings improvements in the realm of 6 percent are considered successes.

California's welfare-to-work program is a case in point. In 1985, the state established the Greater Avenues for Independence program, of GAIN, an education and training project for welfare recipients. A six-county evaluation found that average two-year earnings for single parents increased by 20 percent ($266 in the first year of the study and $519 in the second), but total two-year earnings reached only $4,620. The country with the greatest improvement, Riverside, was able to increase two-year earnings by $2,099. However, average earnings over this two-year period were still less than $6,000—not nearly enough to lift these single mothers off welfare.

The welfare rolls declined by only 5 percent in Riverside, and by a statistically insignificant amount across all the other countries.

So job training and education alone are unlikely to solve the problem. That is why Clinton has also proposed a major expansion of earnings subsidies, especially the Earned Income Tax Credit, a refundable credit for workers with low to moderate incomes. At the lowest income levels, the credit rises with the worker's earnings. A phaseout of the credit begins when workers reach a specific income limit.

Unfortunately, the financial mathematics of the earning capacity of unwed mothers leads inexorably to long-term dependency. Most of these mothers do not have the job skills needed to earn enough money to make their families economically viable.

As Sar Levitan, director of the Center for Social Policy Studies at George Washington University, explains: "Twenty-five- to 44-year-old women with less than a high school education on average do not earn enough to maintain a family of three above the poverty line. The nearly one-third of female [Aid to Families with Dependent Children recipient] adults who are younger than age 25 of course face even bleaker prospects."

Average annual earnings for female high school dropouts are extremely low. In 1990, dropouts ages 18 to 24 who were working full-time earned about $11,033 a year; 25- to 34-year-olds earned $13,385. (Note that in 1990 the poverty line for a family of three was $10,419.) Even with the assistance of the current Earned Income Tax Credit, these earnings (minus taxes) are only $11,557 and $13,252, respectively. Recognizing that so many single mothers will never be able to support themselves, Clinton pushed through a major expansion of the tax credit. After it is fully implemented in 1996, the credit will raise these numbers significantly—to $13,409 and $14,775—but even this dramatic increase will not be enough to break the hold of AFDC.

Even if we ignore the $4,440 in Medicaid benefits for which a family of three is eligible, under the current Earned Income Tax Credit, the lower-salaried mother with two children will earn only $2,0398 more a year than a mother on welfare. The higher-salaried mother will earn $2,236 more a year than a welfare mother. To put these figures in perspective, that would come to $1.13 and $1.24 an hour for the salaried mothers, respectively. This is without considering the imputed value of leisure time, which a welfare mother may use to hold down a job in the informal economy (in which unreported income is earned through anything from handiwork to illegal activities).

The Clinton-expanded Earned Income Tax Credit would put salaried mothers and mothers who receive welfare in a much better position if they work, adding $3,890 and $3,759, respectively, to their annual incomes. However, after deducting the costs of benefits and of going to work (child care, transportation, wardrobe and a range of other expenses), their hourly wages would be only about $2.16 and $2.09, respectively. If a young parent were to go to work under these circumstances, it still wouldn't be for the money.

Under these circumstances, the Clinton goal of "making work pay" would be prohibitively expensive, because, it would require an Earned Income Tax Credit many times larger than the newly expanded one and, probably, an increase in the minimum wage. And increasing either would create other distortions and inequities. Scholars such as Gene Steuerle, a senior fellow at the Urban Institute, have warned that the earned income credit is already so large that it contains a dangerous incentive for people to over-report their earnings.

For example, a self-employed baby-sitter with two children, whose annual income was actually $5,000, would in 1996 receive a tax credit of 40 percent of her earnings, or $2,000. By claiming the maximum creditable earnings of $8,425, she could receive a credit of $3,370. Since the tax rate at these income levels is only 15.3 percent, she would receive a net gain of $1,235 for reporting her actual income, but $2,081 for reporting the higher amount, a net increase of $846.

The last pillar of the Clinton program calls for a two-years-and-out rule for all recipients. Unpublished documents from the Clinton campaign estimated caseloads by 14 percent over four years by deterring long-term dependency through its training and work requirements. This modest claim seems reasonable—if the two-year rule does not become an entitlement to two years of training and education.

But that is a big if. Clinton has promised to give welfare recipients up to two years of education job training, job placement assistance, child care and additional health coverage. Will this promise attract more people to welfare and keep them on longer because they want the benefits? There is some evidence that this is what happened in California before budget problems forced the state to trim the educational benefits in its welfare-to-work program.

Advocates of the two-year time limit say it would cap welfare dependency. However, maximums have a distressing tendency to become minimums. If the hundreds of thousands of short-term recipients lengthen their spells to take advantage of a new training entitlement, caseloads will explode.

And why two years? Presumably because of the often-stated statistics that half of all new recipients are off welfare within two years. But there is no magical line at two years. It is just a convenient measure of dependency. Many recipients go off after much shorter periods.

As important a question is how the two years will be measured. Mark Greenberg, senior staff attorney at the Center for Law and Social Policy, identifies several problems with deciding when to start and stop the clock of time-limited welfare. Many of those who leave AFDC after less than two years eventually return to the system. Should they be able to start with another two years of benefits, or should they get only the time remaining from their first spell? Some recipients are also not ready to start education and training as soon as they go on welfare. Should they be penalized for waiting, or should their two years of education and training be counted once they begin such a program? Other measurement problems include deciding who should be penalized for administrative delays and determining what exceptions will be made for factors such as illness, child care breakdowns and other personal crises.

One hopes, therefore, that the two-year year limit will not be applied literally but, instead, will signal a new, overarching commitment to discouraging long-term dependency.

Many welfare mothers, even after two years of education and job training, will still be unable to support themselves. The administration plan will probably mandate community service for able-bodied recipients of assistance. That means a large proportion of recipients will end up in semipermanent "community service jobs," a euphemism for having them work to earn their welfare benefits (usually at the minimum wage).

The Clinton campaign estimated that about 1.5 million young mothers would be required to take such jobs. Such a "workfare" program, by itself, might lower caseloads. One of the few systematic evaluations of workfare took place in Ohio, were welfare recipients in eight counties were subject to a 12-hour-per-week work requirement. Of those on the welfare program for two-parent households, known as AFDC-UP (for "unemployed parent"), at least one adult was required to work up to 40 hours a week. After five years, projected AFDC caseloads were 11 percent lower than was predicted, based on the experience of other countries in the state. AFDC-UP caseloads were one-third lower.

A work requirement of this magnitude might also reduce the attractiveness of welfare for young people with poor earnings prospects. If young people know that the welfare agency is serious about mandating work, they will be less likely to view AFDC dependency as a possible life option. Over the long run, this could change behavior substantially.

At least in the short run, however, a workfare program would be much more expensive than the current system, because of the added costs of establishing and monitoring job placements and finding child care while mothers work. During the campaign, Clinton staffers estimated that monitoring each job would cost $2,100 annually; child care would add $1,300. This additional cost of $3,400 per family is about three-quarters of the average annual AFDC grant.

A big question, of course, is whether these would be real jobs or simply the make-work of the past. It will take extreme shrewdness—and good luck—to avoid a replay of the results of the Comprehensive Employment and Tracing Act, or CETA. Between 1973 and 1984, CETA spent $60 billion (which, adjusted for inflation, would be two to three times that amount today), but was widely perceived to be a boon-doggle and a patronage pot for politicians.

An even bigger question is whether welfare mothers will participate in these programs. When candidate Clinton spoke of cutting off benefits to mothers who fail to meet work and training requirements, most voters probably assumed he meant cutting off all payments. But Clinton has been consistent in saying that only the mother's portion of the AFDC grant, not the children's, would be cut. Foot stamps, Medicaid, housing and other benefits would remain untouched.

We have some idea of how such a narrowly delimited sanction might affect the behavior of young mothers. Between 1987 and 1991, the Department of Health and Human Services operated the Teenage Parent Demonstrations in Camden and Newark, N.J., and in Chicago. These projects required that all teen mothers participate in education, job-training and work-placement programs. No exceptions were made for mothers with very young children or mothers still in school. If they failed to participate, they were subject to a reduction of their welfare grant by the amount allocated to the mother, generally one-third to one-half of the family's grant, or about $160 per month.

The Teenage Parent Demonstration found that most young mothers would come in for an assessment but were unlikely to continue participating without prodding. Despite multiple warnings, for example, almost 40 percent had their welfare grants reduced at least once. Ten to 20 percent simply dropped out—acquiescing to a semipermanent reduction in their grants rather than participating.

Why this seeming lack of concern about receiving a full welfare payment? Some think it is because these women are unable to follow through with activities in their own economic interest. This is partly true, but there are other forces at work. a study of welfare recipients in Chicago, Charlestown, S.C., and Cambridge, Mass., by Kathryn Edin and Christopher Jencks found that AFDC and food stamps accounted for only 57 percent of their income. The rest came from friends, relatives and absent fathers (21 percent); unreported work (10 percent); Supplemental Security Income and foster care (6 percent); illegal activities (3 percent); and “other” (3 percent). The evaluators of the Teenage Parent Demonstrations believe that the mothers in their programs also had additional sources of support. It may be that some young mothers decided they did not really need the money of that it cost too much in forgone income to attend the programs.

There is another possibility that is more disturbing: The young mothers came into the programs willing to try them out, but did not like what they saw. That would help explain the difference between rates of initial and subsequent participation.

Will we, as a nation, be willing to accept the trade-off of some possible harm to the children whose parents do not participate in return for the possible benefit to those whose parents do? Or, in the face of such high levels of sanctioning, will we yield to the temptation to make exceptions to whatever rules are adopted?

The opening would be Clinton’s phrase “those who can work will be required to go to work.” As David Ellwood, an assistant secretary at the Department of Health and Human Services, has written: “It would not be difficult to create a set of exemptions that led to just 10 percent of the caseload being required to work.” The possible exemptions? Mothers with children under 3, mothers still in high school (or any school, for that matter), those with psychological problems or drug and alcohol addictions, and even those who are “socially” or “employment” disable.

These tough questions do not mean that we should retreat from Clinton’s proposal. He has refocused national attention to where it belongs—on the problem of long-term welfare dependency. But caution is in orders. The history of social engineering is strewn with examples of perverse and unintended consequences from even the most promising of programs. Too many questions remain unanswered to rush headlong into a radically reorganized welfare program. The administration should develop a multiphase plan, with progressive levels of implementation based on careful evaluations of what has gone before. This is the surest road to welfare reform.