National Center for Policy Analysis

BRIEF ANALYSIS
No. 210
For immediate release:
Friday, August 23, 1996

Does Welfare Reform Cost More Money?

Critics of welfare reform assume that welfare recipients are unable to earn a decent wage on their own and that single mothers have no place to leave their children while working. Thus, opponents assert, in order to compete in the labor market welfare mothers need education and child care services — items that can cost almost as much as a minimum-wage worker earns. For example, by one estimate, Wisconsin's recently passed welfare-to-work legislation will increase that state's welfare bill by 13 percent.

Proponents of work-fare often accept the same premise. As a result, a great deal of money goes not to support work but to pay tuition and training costs. Unfortunately, the recipients often make the minimum effort necessary to stay in the program and continue collecting benefits. Thus little progress is made.

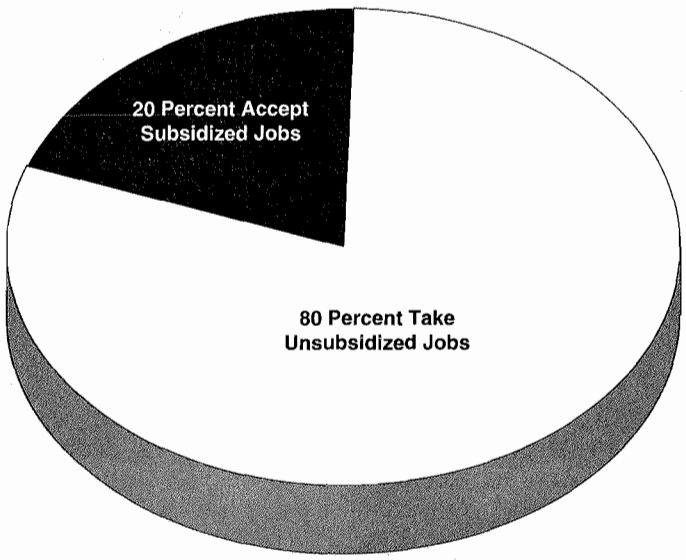
Fortunately, work-fare programs in some states already have been successful in getting recipients back to work while decreasing total welfare costs. Let's take a closer look.

A Program That Works. Welfare reforms being implemented in Oregon, Mississippi and six other states are based on the premise that most training should take place on the job. In general, program costs do not increase because savings from the declining number of welfare recipients reduce overall costs. The vision underlying these programs is that able-bodied welfare recipients should get a paycheck, not a welfare check. This "Full Employment Program" consists of:

- *Subsidized jobs at the minimum wage or higher.* Federal and state money currently used to fund food stamps and Aid to Families with Dependent Children (AFDC) is used instead to subsidize jobs. Employers must pay participating workers at least the minimum wage and as much as they pay like-trained employees. The program guarantees that participants will have more spendable income (when including the Earned Income Tax Credit) than they get from a welfare check. In Oregon, for example, the average is more than $5.50 an hour.
- *Incentives for employers.* The program subsidizes employers. In Oregon, for example, the subsidy is equal to the minimum wage plus FICA taxes, unemployment insurance and workers' compensation insurance premiums.
- *Opportunities for advancement.* After four months (in Oregon) if the employer has not offered the participant an unsubsidized job, the participant is paid for eight hours of job search time every week for the next two months. If the participant does not find an unsubsidized job in the allotted time, he or she may switch to another subsidized job with another employer at the end of the period.
- *Temporary continuation of noncash benefits.* AFDC recipients retain their Medicaid eligibility and receive child care if they need it. They do not receive cash payments through programs such as AFDC, and food stamps are converted into cash.
- *Educational opportunities.* Participants in a subsidized job may receive guidance and counseling, including life skills classes. They may also enroll in classes to earn a General Education Diploma (GED). However, they learn job skills primarily on the job, not in a classroom.

FIGURE I

Oregon Welfare Recipients Given a Choice: Unsubsidized Jobs Look More Attractive



Source: American Institute for Full Employment.

Welfare-to-Work Success: Oregon. Oregon was the first state to adopt a Full Employment Program ("JOBS Plus") which called for a three-year, six-county pilot project. At the same time, the state implemented a jobs-oriented philosophy in other counties. Many

Dallas Headquarters: 12655 N. Central Expy., Suite 720 • Dallas, TX 75243-1739 • 214-386-6272 • Fax: 214-386-0924 • E-Mail: ncpa@onramp.net
Washington Office: 727 15th St. N.W., 5th Floor • Washington DC 20005 • 202-628-6671 • Fax 202-628-6474
For more information: Curt Erickson in Dallas at 214/386-6272 or Joan Kirby in Washington at 202/628-6671

welfare recipients quickly found unsubsidized jobs when faced with the reality of having to take some type of job. Others simply left the system, presumably because they had better alternatives elsewhere.

- Initially, 55 to 60 percent of welfare recipients were considered eligible to enter workfare, and that number is expected to increase to 70 percent under new legislation that passed on July 1, 1996.
- Of the approximately 2,200 people who took jobs in the six pilot counties, *about 80 percent did not need the government subsidy, saving the system millions of dollars in welfare spending.* [See Figure I.]
- Of those who did take subsidized jobs, four out of five moved on to unsubsidized jobs during the first 14 months.

A more detailed breakdown of one of the pilot counties demonstrates one reason why welfare-to-work saves money: faced with the necessity of having to take a job, about a third of the people simply leave the system. In Beaverton, Oregon, 549 people applied for welfare between February and July of 1996. Of that number:

- About 35 percent signed up for JOBS Plus but found an unsubsidized job within the first 30 days.
- About 33 percent either left the program voluntarily or refused to cooperate and are in the process of losing their welfare benefits.
- Only eight out of 549 people actually acquired a subsidized job.

Because of the work incentives, welfare recipients are leaving the system and fewer are signing up for benefits. As a result, the state is saving money.

- Within three months of implementing the program in 1994, the number of families on welfare began falling. They are down about 30 percent since the beginning of 1994, from 44,000 to 31,000, and officials think the number could drop to about 20,000 within four years.
- Total welfare spending for the state has declined about 10 percent.

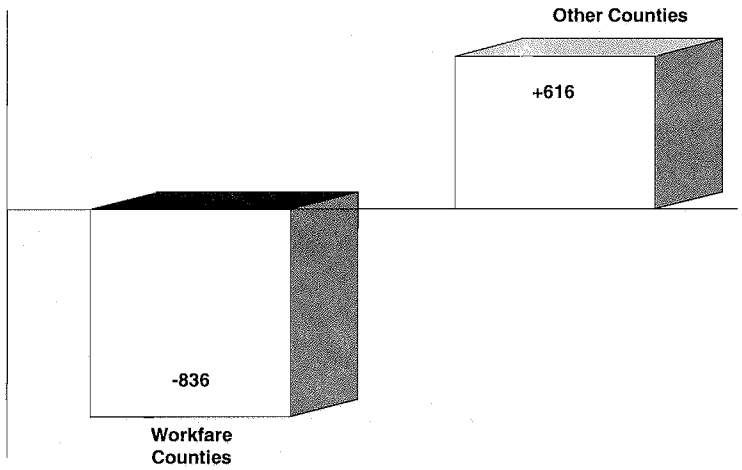
Welfare-to-Work Success: Mississippi. Mississippi was the second state to enact a Full Employment Program ("Work First") through a pilot project in six counties with 27 percent of the state's welfare caseload. Private staffing companies recover most of the costs of employer recruiting, worker preparation and job placement through fees they charge to their client employers. Work First results to date are remarkable, even in the early stages of implementation.

- Through the end of March 1996, some 3,500 welfare cases had been assigned to Work First, and 633 individuals had been placed in jobs — 352 unsub-sidized and 281 subsidized.
- The combined AFDC/food stamp caseload in the six test counties is declining by 1.41 percent per month — seven times the rate of the rest of the state.
- Total AFDC payments are also declining — 11.4 percent between September 1995 and April 1996 in the test counties compared to only 4.4 percent in the rest of the state.
- The number of food stamp-receiving households has declined by 836 in the test counties while rising by 616 in the rest of the state. [See Figure II.]

FIGURE II

Change in Households Receiving Food Stamps in Mississippi

(First Six Months)



Source: Mississippi Department of Human Services.

Conclusion. Welfare-to-work programs can reduce the number of people who rely on welfare and save the federal and state governments money. Those recipients who can find other work usually do, thus decreasing the welfare rolls. Those who can't find a job get a subsidized job.

This Brief Analysis was prepared by NCPA President John C. Goodman and Vice President Merrill Matthews Jr.