University of Wisconsin-Madison

Institute for Research on Poverty

Volume 4
Number 1
Fall 1979

Focus

ISSN: 0195-5705

Work and welfare: new directions for reform

In the history of social welfare programs, rhetoric about the virtue and the necessity of work has been a commonplace. Four hundred years ago, the earliest poor laws recommended whipping for "sturdy beggars"—a direct and brutal approach to the interwoven problems of work, poverty, and welfare that is hardly likely to commend itself today. It didn't work, anyway. But have contemporary efforts to disentangle the real interrelationships among these three issues brought the United States any nearer a successful social policy? After the ten years of intense, if unfocused effort that is generally described as the "war on poverty," the cry for reform of welfare programs is as loud and as persistent as it has ever been.

Recent research at the Institute has sought to probe the realities behind the loud expressions of public discontent, and to see how the current income transfer system in the United States actually works. But it has gone beyond, to suggest new and far-reaching solutions to very persistent problems, and these solutions are directly related to the crucial issue of work. In this article, we shall, briefly, report some conclusions about the current system, and then examine two proposed solutions, one of them a more general, national proposal, the other a specific, phased program for reform within the boundaries of one state.

Why reform the system?

From the beginning of the war on poverty, the federal government moved along several paths. On the one hand, it wished to ensure an adequate income for all families, to provide for those who could not provide for themselves, and to curtail what was described as a "vicious circle" of poverty, concentrated within particular ethnic groups and regions. On the other hand, it sought to provide education, training, and in some measure, jobs, for those who could currently work or were potential workers—above all, children and young people.

Thus, Head Start, Job Corps, and other employment and training programs for the young were implemented; Medicaid, Medicare, and Supplemental Security Income were set up to meet the needs of the elderly and those needing public support. Already existing programs were vastly expanded: Social Security, Disability and Unemployment Insurance, Food Stamps. By 1977, government spending for income support purposes exceeded $200 billion, and about 45 percent of all households (80 percent of all poor households) were receiving support, in cash or in kind, from one or some combination of over 40 social welfare programs. Two-thirds of this expenditure—$134 billion in 1977—is in the form of social insurance—old age, survivors' and disability pensions, unemployment insurance, and Medicare. Benefits under these programs have grown since 1972 substantially faster than has median family income. The remainder consists of income-tested payments—"welfare."

If one uses the government's official statistics, the incidence of poverty has declined from about 22 percent of the population in 1959 to about 12 percent today. If one adds the value of in-kind transfers to the cash incomes that the government uses to measure poverty, the incidence declines at most to about 6 percent. Moreover, the great bulk of income-tested welfare payments (over 80 percent) and nearly half of all social insurance payments are received by those who have market incomes that are less than the officially established poverty lines.

FOCUS is a Newsletter put out three times a year by the

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The purpose of FOCUS is to acquaint a wide audience with the work of the Institute for Research on Poverty, by means of short essays on selected pieces of research.

The material in any one issue is, of course, just a small sample of what is being done at the Institute. It is our hope that these summaries will whet the appetite of the reader to learn more about the research itself, and more about other research on poverty—an area of vital social concern—by Institute staff.

The views expressed are those of individual members of the Institute; they do not represent the position of the Institute for Research on Poverty, the University of Wisconsin, the Department of Health, Education, and Welfare, or other funding agencies.

At first glance these figures would seem to be cause for congratulation: if poverty has not surrendered, is it not in retreat? Moreover, the social insurance payments that bulk so large are not very controversial; they are considered to have been "earned" by recipients, and in the case of old age pensions, "paid for" by a lifetime of work and payroll contributions. The remaining welfare payments, about $50 billion, are relatively small when compared with government expenditures on defense and education. Institute researchers Robert Plotnick and Tim Smeeding argue that unless eligibility is widened or participation increases adjusted, the poverty count will "bottom out" at around 7 percent.

This record represents, it would seem, a considerable social achievement. Why then the persistent demands for change? What are the criticisms most frequently voiced?

The kinds of complaints that are most often voiced are somewhat contradictory. They can be very simply stated.

1. The system costs too much.
2. It doesn't do enough.
3. It rewards people who don't want to work and discourages those who do.

How much substance is there to these charges? Institute researchers have provided some answers.

The system costs too much

Many of the past increases in the costs of the system were, of course, deliberate—the result of legislative decisions to improve the status of particular groups and to fund certain programs more generously. Social Security benefits, for instance, expanded 189 percent between 1965 and 1977. The era of such large across-the-board increases is probably over, but it is clear that costs must continue to rise, for both social insurance and welfare programs.

First, wages have continued to rise, and both the amount of contributions to Social Security and the ceiling on those contributions have also risen. Since the rules that determine Social Security benefits emphasize contributions in the years nearest retirement, payments to newly retired persons and their survivors will continue to grow in real terms.

Second, groups with higher than average incidences of poverty—households headed by the young, the old, and by single women—are growing as a percentage of all households. Thus the transfer system will continue to grow merely to maintain its present level of support for all eligible citizens.

Finally, even those who are, in general, optimistic about the abilities of income transfers to control poverty acknowledge that the effectiveness of the present mix of transfer programs may have reached its zenith. If the remaining problems of poverty, they argue, are to be solved through improving performance of the income transfer system in these areas, it can be done only at very high cost to taxpayers who are themselves now faced with stable or declining real incomes, and are clearly uneasy about the mounting tax burdens of government in general.

The system doesn't do enough

The relatively optimistic statistics demonstrating current low levels of poverty do not go unchallenged by some liberal social critics and policy makers. They argue that one must consider, not absolute income levels, but relative income inequality. Then, despite the growth in the system, the share of total income received by the bottom 20 percent of households has not changed significantly in 30 years. Some demographic groups have clearly fared much better than others. The status of the elderly has been very much improved; constituting roughly 20 percent of all households, they reap 50 percent of all transfers. But two-parent nonaged households with low incomes receive little help from the system; over one-third of families headed by women remain in poverty, and progress for them has been very slow.

When we look at the other front of the war on poverty as the Census measures it, the attempt to educate and train the young, to bring into the labor force those who would experience, absent government help, persistent unemployment, the record is, at best, doubtful. It is harder, of course, to measure success here. The effect of Head Start in improving school performance remains controversial, and recent studies of the Job Corps have found that participants have made only small earnings gains, on the average, although they appear to be less likely to engage in criminal activity.

It is clearly very difficult to deal effectively with persistent unemployment or with poverty through "human capital" or training programs directed at the supply side of the labor market. Certain structural characteristics of that market—labor union power and exclusionary practices, minimum wage legislation that induces employers to substitute capital investment for labor restricted entry to certain occupations, impediments to spatial and occupational mobility, and racial discrimination—are increasingly seen as major contributors to continued high unemployment among the young and minorities.

Among populations that were the target of particular government programs, the rate of unemployment remains appallingly high—it stands at nearly 30 percent for black teenagers, with attendant risks that lifelong patterns of poverty and work avoidance are being established. Training or public jobs programs that lead to no permanent employment may, furthermore, meet with unanticipated and quite undesirable responses. For example, Institute researcher Irving Piliavin has found some evidence that young people who have been in short-term training or jobs programs are more likely to turn to crime when the program ends, as a way of maintaining the improved lifestyle that the regular income offered them.

The system discourages people from working

Here we return to the issue with which this discussion began—the difficulty of establishing a workable, socially acceptable balance between the individual's perceived obligation to work, and the government's perceived obligation to ensure social justice.

The last decade has seen a variety of studies evaluating the precise economic impacts of transfer programs on the labor market. Transfer benefits can, and generally do, induce some recipients to work less than they might otherwise. They cause others to leave the labor market entirely, though for different reasons: the elderly, because they are assured of a decent living without continuing to work; those marginally employed, like many female family heads, because their earned income provides no higher a standard of living and security than they can achieve through cash and in-kind transfers, coupled with access to such services as Medicaid.

How serious is this problem? Robert Lampman of the Institute for Research on Poverty has estimated that the reduction in labor supply may be about 7 percent of total hours worked or less, allowing for the fact that this reduction is concentrated among groups with relatively low productivity. Different groups and programs show differ-

A Subject Guide to Institute publications

The Institute has compiled a *Subject Guide* to Institute publications—Discussion papers, Reprints, Special Reports, books, and *Focus* articles. The guide is designed to provide a quick reference to areas of particular concern to students, researchers, and anyone interested in poverty-related issues. For example, subject categories include: economic status and inequality, social welfare policy, children and youth, and blacks and minorities.

If you are already on the *Focus* mailing list you will receive a free copy automatically. For others interested in receiving a copy, the guide is available on request from the Institute for Research on Poverty, 3412 Social Science Building, University of Wisconsin, Madison, WI 53706.

ent effects. The impact is probably highest among the aged, whose rate of participation in the labor force dropped from 46 percent to 20 percent between 1950 and 1978.[1]

The statistics on labor supplied by the elderly throw some light on one of the most loudly expressed criticisms of the welfare system—that it supports the undeserving at the expense of the workers. For even those most harsh in their condemnation of "welfare bums" regard the diminished necessity for work among the elderly as relatively benign, and it is the elderly who receive the largest share of transfers. Why, then, does the system draw such moral opprobrium?

It is customary to refer to the "work ethic" in explaining public hostility to welfare and welfare recipients. A belief in the positive virtue of work—in making it through one's own efforts—is assumed to be integral to the American ethos. Those who fail, in the land of opportunity, fail because of laziness or moral flaws. There is clearly good evidence for this belief: people feel that those who *can* work, ought to work. Forty years ago it was believed that mothers with children still at home should not work; today, when the majority of such mothers do, a work requirement for AFDC mothers has been instituted. But the evidence of widespread alienation from work under modern factory and corporate conditions—of a corrosive bitterness among those too young to remember the Depression, and be grateful for any job—suggests that there may well be as much envy as there is moral outrage.

Institute Special Report

SR 24 *Targeted Employment Subsidies: Issues of Structure and Design* by John Bishop and Robert Haveman

This report prepared for the National Commission for Manpower Policy explores the wide variety of targeted employment subsidy programs and their various objectives. The programs can vary in terms of employees covered, the characteristics of the employment subsidized, the mode of subsidy payment, the types of employers eligible for the subsidy, and levels of employment or employment changes on which the subsidies will be paid. Variations in each of these components will influence how any program will affect the performance of the economy—and affect the objectives for which the program was designed. The core of the report discusses these interactions. In the final sections the authors describe and evaluate the Target Jobs Credit program and make recommendations for the future evolution of this program and the New Jobs Tax Credit programs.

Even the welfare system's natural political constituency—those whom it is intended to help—are unhappy with it. Welfare recipients may or may not feel humiliated, in themselves, by their need, but they must continually fight to maintain their self-respect against the hostility of others, and their fight is rendered more difficult by delivery systems that may seem deliberately punitive.

> Welfare makes you feel like nothing . . . But you must understand, mothers, too, work . . . I'm home, and I'm working . . . I'm a working mother . . . Why can't a woman just get a check in the mail: Here: this check is for you. Forget welfare. You're a mother who works. (Studs Terkel, *Working*, p. 303.)

It is no surprise that a system that generates such universal dissatisfaction is considered ripe for change. When this will happen is moot. The failure of the last three administrations to pass a comprehensive welfare reform package strongly suggests that *when* is dependent upon *how*, and maybe upon *how much*, and that the answers are not simple. Merely continuing to expand the current system seems likely to be neither effective nor politically feasible.

How should it change? This is a question to which some new and promising answers are emerging.

What are the alternatives?

A comprehensive description—even a fairly complete listing—of the many different welfare reform proposals over the last ten years is well outside the scope of a brief article. Clearly, any proposal that does not effectively address the central issue of work must be considered inadequate.

Institute researchers Sheldon Danziger, Irwin Garfinkel, and Robert Haveman have recently laid out one proposal, encompassing reforms in the entire tax and transfer system, that embodies some of the newest and most promising approaches to the provision of jobs for low-skilled workers.

To consolidate and simplify the existing system, and to increase the rewards of working for those who are able to get jobs, they propose:

(1) Replacing the current income tax and Food Stamp program with a credit income tax (CIT) with a modest income guarantee of about $600 per person.[2]

(2) Supplementing the basic CIT credit for the aged, blind and disabled to bring their incomes up to the level

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provided by the current Food Stamp and Supplemental Security Income programs.

(3) Establishing a social child support program, along lines described elsewhere in this issue. Thus they would strike at the roots of the present expansion in the AFDC program.

In their policies directed at providing employment, they depart from past approaches that have focused on training, or on macroeconomic policies designed to stimulate the economy, creating more jobs only indirectly. Instead, they focus directly on the demand for labor, proposing a series of employment and wage subsidies whose target is specifically those who under current conditions are least likely to find jobs.

This emphasis on direct creation of jobs is not a new one, but the methods proposed unquestionably are. When people think of creating jobs, it is direct public employment that perhaps springs most immediately to mind. But such programs have always been controversial. They have high and very visible costs, and their results have been problematic. The major current public programs are those instituted under the Comprehensive Employment and Training Act (CETA), for which about $6 billion was earmarked in fiscal 1979. Because of their variety and the decentralized administrative structure of CETA, we have almost no information about their efforts. In 1977, the Carter administration proposed, as part of its Program for Better Jobs and Income, to create 1.4 million extra public jobs. Congressional response was unenthusiastic. The administration has once again introduced major welfare legislation, the Social Welfare Reform Amendments of 1979.[3] In it the figure for public jobs is slashed to 400,000, but the fate of even this modified program is still unclear.

It seems likely, therefore, that policies designed mainly to increase the supply of private jobs available hold more promise than the traditional public provision of jobs. Such policies were, indeed, part of PBJI, and are retained in the new administration proposals. Their potential achievements, the various forms they can take, and the administrative systems needed to implement them have been fully discussed in papers by several Institute researchers and in a 1977 Conference on Direct Job Creation, jointly sponsored by the Brookings Institution and the Institute for Research on Poverty.[4]

What we know about the actual operation of these programs so far is encouraging. For instance, the New Jobs Tax Credit established by Congress in 1976 subsidized employment over and above a fixed base (102 percent of the previous year's employment level). Because of the structure of that subsidy (50 percent of the first $4200 of earnings), employers were given a substantial incentive to hire low-skilled workers rather than looking to capital expenditure for expansion. Estimates of its effects over the two years of its operation vary, but it has clearly been responsible for substantial increases in employment in the construction and retailing industries during 1977 and 1978. Once unemployment had declined below 6 percent and inflation became the central policy concern, it was allowed to expire and the much smaller targeted tax credit was substituted. An earnings subsidy already has passed Congress, in the form of the Earned Income Tax Credit.

Employment subsidies such as these, if targeted on disadvantaged groups of workers, can clearly offset the labor market distortions caused by minimum wage legislation and racial discrimination. Furthermore, it seems that they can effectively reduce unemployment without the severe inflationary side effects associated with more general stimuli to the economy such as tax cuts.

Increasing the demand for labor by direct government action has, as its natural corollary, the need to bring together those who need jobs and the jobs that subsidy policies make available. An experimental employment opportunity pilot program is currently under way for the Department of Labor (Institute researchers are involved in evaluation studies). Unlike earlier employment programs directed at the supply of labor, this one lays only minor and secondary stress on classroom training. Its emphasis, instead, is on practical training in the context of the job market. Those heads of families who are eligible first participate in a directed, subsidized job search (details vary in different programs). Only if this search fails is provision made for on-the-job training with private employers, public service employment, or some form of formal training that may last up to a year. At the end of this period the individual once again enters the job search program.

The new emphasis on generating jobs and matching people to them has very pragmatic roots. To succeed, any proposal for welfare reform must be politically acceptable to a broad spectrum of the American establishment. President Nixon's 1969 Family Assistance Plan clearly was not. Nor was President Carter's PBJI. Employment subsidy programs appear attractive, for at least three reasons.

First, they can reduce poverty and inequality without reducing work effort. Second, because the deficiencies of human capital programs and of current transfer policies are only too well known, demand-side policies that stimulate public and private employment are tempting. Their pitfalls, after all, are not so apparent; they have been neither seriously attempted nor comprehensively analyzed. Finally, they are believed to be consonant with current and traditional American values, and indications are that they stand a reasonable chance of congressional acceptance.

Can it be done?

How might such a program be implemented?

We have, in the *Report* of the Wisconsin Welfare Reform Study Commission of 1978, a comprehensive blueprint for an incremental approach to welfare reform in one state, that at the same time makes it clear that limited, short-run proposals for administrative reform are wholly unable to accomplish all that must be done in the interests of social equity and continued economic prosperity.[5]

The *Report*'s approach was, by design, non-parochial; it was intended, in the words of the committee chairman, Robert Haveman, a member of the Institute for Research on Poverty, to "place Wisconsin at the forefront of efficient and equitable social policy in this country." The three primary goals of this two-stage program were succinctly summarized:

- to assure Wisconsin's low-income population an adequate level of income support with maximum work incentives and minimum stigma

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Selected references on welfare reform

John Bishop, "The Potential of Wage Subsidies: A Report to the Employment and Training Administration of the Department of Labor." Draft, March 1979. Madison, Wisconsin: Institute for Research on Poverty.

Sheldon Danziger, Irwin Garfinkel, and Robert Haveman, "Poverty, Welfare and Earnings: A New Approach." Institute for Research on Poverty Reprint no. 358.

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Sheldon Danziger, Robert Plotnick, and Timothy Smeeding, "Poverty: Past Trends, Present Status, and Future Prospects." Institute for Research on Poverty Reprint no. 345.

Irwin Garfinkel and John Palmer, "Issues, Evidence, and Implications." Overview essay in *Creating Jobs: Public Employment Programs and Wage Subsidies,* ed. J. Palmer. Washington: The Brookings Institution, 1978. (Forthcoming Institute Reprint).

Robert Haveman, "Direct Job Creation: Potentials and Realities." Institute for Research on Poverty Discussion Paper no. 570-79.

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Robert J. Lampman, "Labor Supply and Social Welfare Benefits in the United States." Institute for Research on Poverty Special Report no. 22.

Stanley Masters and Rebecca Maynard, "Supported Work: A Demonstration of Subsidized Employment." Institute for Research on Poverty Discussion Paper no. 551-79.

Irving Piliavin and Rosemary Gartner, "Assumptions to Achievements of Manpower Programs for Offenders: Implications for Supported Work." Institute for Research on Poverty Discussion Paper no. 541-79.

Policy Analysis Series Books

Robert H. Haveman, ed. *A Decade of Federal Antipoverty Programs: Achievements, Failures, and Lessons.* New York: Academic Press, 1977.

Maurice MacDonald, *Food, Stamps, and Income Maintenance.* New York: Academic Press, 1977.

Robert D. Plotnick and Felicity Skidmore, *Progress Against Poverty: A Review of the 1964-1974 Decade.* New York: Academic Press, 1975.

- to substitute earned income from private sector work for welfare income for Wisconsin's disadvantaged population
- to improve the equity among various groups of disadvantaged people, and between the poor population and those who are non-poor.

The *Report*'s short-range agenda was designed to offer immediate remedies for inadequacies in the existing income and work opportunity system. It recommended (1) immediate implementation of policies stimulating private employment, such as the enactment of a supplementary state EITC for low-income workers and a state supplementation of the Targeted Jobs Tax Credit; (2) establishment of statewide eligibility and payment standards, and if need be coordinating offices, in such areas as General Relief, child care, and AFDC.[6]

But both the Committee and the official to whom it submitted its report—Secretary of Health and Social Services Donald Percy—clearly believed that any reform agenda that stopped short at merely incremental changes in the existing legislation could not begin to meet the social and economic problems posed by and for the disadvantaged population. Systematic change—"basic and fundamental reform"—was needed.

To this end the Committee set out, in its long-range agenda, a total restructuring of existing state tax and transfer programs.

The reform program was developed under three main heads: Income Support, Employment Stimulation, and Provision of Social Services. All three involved major administrative rationalizations. These will not be discussed here; we shall concentrate instead on the general tenor of the proposals.

Income support. If the Committee's plan were adopted, the existing state income tax, and all separate welfare programs such as AFDC or Food Stamps would be replaced by a new, integrated tax-transfer system: a credit income tax supplemented by a cash payment equivalent to the current value of food stamps, a refundable earned income tax credit, and a new child support system.

Employment stimulation. The *Report* directly rejected traditional aggregate demand policies, such as general tax incentives, because of their ineffectiveness at the state level and transfer policies because of their serious work disincentives. It recommended instead a combination of labor demand and labor supply policies directed above all at increasing private sector employment. The committee believes that a flexible mixture of targeted and marginal employment subsidies similar to those included in their short-run recommendations be made a permanent part of the economic landscape. These, they considered, were important policy instruments to reduce the potential risks to employers of hiring disadvantaged workers, to increase financial rewards and work incentives for such workers, and to induce additional on-the-job training and work experience.

Provision of social services. The reforms proposed under this rubric were directed not only to eliminating the stigmatizing elements that have been so prominent in the present welfare system, but to ensuring that all those poor people, working or not, who were in need of medical or child care assistance would receive it. Currently such services are often conditional on status as a welfare recipient, and drastic cutoff lines and benefit reduction rates are applied to those who are beginning to earn their way off welfare. The new system would thus eliminate those features of the present system that discourage work or active job search.

Recognizing the limits inherent in dealing, at a state level, with areas on which national policies clearly impinge, the Committee nevertheless recommended that the state develop a health care coinsurance plan if the federal government did not soon adopt national health insurance. And, as a corollary to the employment-related strategies they had earlier proposed, they stressed the necessity for effective state intervention to create efficient and equitable subsidized child care service.

Proposals along the lines of the two that we have briefly discussed represent only one approach among many currently competing for the attention of legislators and policymakers throughout the United States. But it is an approach that embodies some of the most recent conclusions emerging from the steadily expanding volume of research on the current tax-transfer system, and at its core is a direct attack on the vexed relationship between work and welfare that has so long eluded resolution. ■

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[1]See *Focus,* Vol. 3, no. 2 (Winter 1978-79): "Why Older Americans Don't Work."

[2]Under a CIT as generally conceived, the obligation to file is universal, and there are no income exclusions or deductions to reduce taxable income; these are replaced by a system of refundable credits. The familiar set of tax brackets is eliminated in favor of a uniform nominal tax rate with one or two surtaxes at the highest income levels. Low-income persons receive payments from the Department of Revenue throughout the year, instead of having to "collect welfare."

[3]Details are summarized in the *Socioeconomic Newsletter, 4,* 10, Oct. 1979.

[4]See *Focus,* Vol. 1, no. 3, and Vol. 3, no. 3.

[5]Wisconsin Welfare Reform Study Advisory Committee, *Report and Recommendations.* Madison, Wisconsin: Department of Health and Social Services, 1979.

[6]There were other more minor specific suggestions, not addressed here.