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Balancing Work and Solidarity in the Western Democracies[1]

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Abstract

The capitalist democracies of western Europe and the U.S. have developed extensive social programs, based on the principle of solidarity, that provide assistance to the destitute, the unemployed, the sick, the disabled, and the elderly. Due in part to growing levels of spending on these solidarity programs that may threaten financial solvency in some of these countries and in part to a growing belief that social programs should help people work and achieve self-sufficiency, these countries have implemented "work activation" policies that try to encourage, entice, and cajole physically-able people to work. Experience implementing such work activation policies now suggests that policy can emphasize the relatively new goal of work activation while still achieving the traditional social purpose of solidarity programs by greatly reducing poverty. The aim of this paper is to review the experiences of the U.S. and selected European nations in attempting to balance solidarity with work activation by discussing both the components of an ideal work activation system and the problems these systems often encounter. The problems examined include too few jobs, recessions, low wages, and disconnected adults. The overarching purpose of the paper is to find a balance between the goals of social solidarity and work activation.

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Introduction

Capitalism has its flaws, not the least of which are inconsistency in providing jobs for everyone who wants to work and indifference to people who cannot or are not expected to work. A capitalist system based entirely on markets, profit, and freedom will leave behind those who, for whatever reason, cannot find jobs or who cannot produce value in the labor market.

A sparkling achievement of the European and American capitalist systems is that they have, each in their own manner, figured out a host of ways to help these left behind groups. The word “solidarity” may be a little hackneyed today, but the development of social programs that brought a human face to the “malign effects” of capitalism, as Treasury Secretary Henry Morgenthau put it at the Bretton Woods Conference, has been a vitally important development in human history.[2] The essence of the human face of solidarity is the promise that, in addition to help from family and community, government will help those left behind to achieve a decent living standard even though they cannot, or in some cases choose not to, work. Solidarity is expressed in programs that provide cash and in-kind benefits to the elderly, the disabled and sick, the unemployed, and the destitute.

All the Western democracies have developed extensive and generous programs that help these troubled groups. The programs vary from nation to nation, but taken as a whole they are the most successful programs ever devised by national governments to help the troubled. But alas, in the last two or three decades these programs have come under threat by a perfect storm that includes international competition for jobs, technological innovations and efficiency-oriented business practices that are making it difficult for the unskilled to qualify for jobs, historic changes in family composition, and aging of their populations leading to increased pressure on public pension systems and health expenditures. This perfect storm not only increases the costs imposed on governments by their solidarity programs but also constitutes a threat to the tax base by which solidarity programs are maintained. These two factors, in turn, represent a direct threat to the financial integrity of the government budgets of most or all of the Western democracies – if not now, then soon.

One of the most important responses to the perfect storm goes by the name, in Europe at least, of “work activation.” Although the details vary from country-to-country, the general idea of activation is that policy should encourage more people to work by providing them with incentives, both positive and negative, to do so.

Thus, the social programs in all these countries serve the common broad purpose of achieving solidarity with those who can’t work, those who can’t find jobs, and the destitute; they all find ways to balance solidarity with self-sufficiency and work; and, most important for my purposes here, they all seem to be evolving toward a greater emphasis on personal effort, economic independence of individuals and families, and a higher share of their adults working.[3] After reviewing the importance of work, the ways that nonwork is possible and sometimes even encouraged by the Western democracies, and the specific programs some of the Western Democracies have mounted to encourage work, I describe what I deem to be the important elements of an ideal, work-based capitalist system that balances solidarity with individual responsibility. I then turn to a discussion of several problems that are evident in the work-based approaches that are now such a notable feature of social policy in both the U.S. and the western European and Scandinavian countries, concluding that research and international comparisons and learning should play a key role in helping the Western democracies and other nations address the perfect storm that now threatens.

A word is in order about my perspective. I worked with Republicans on the Ways and Means Committee in the U.S. House of Representatives that wrote the initial and most of the final draft of the 1996 welfare reform law. Since enactment of the 1996 reforms, and especially since I left the House and assumed a position at the Brookings Institution, I have studied and frequently written about the reforms and their effects.[4] The 1996 law is the primary example of work activation in U.S. national policy. The law and associated legislation, as we will see, are a combination of tough provisions designed to encourage benefit recipients to work and kinder and gentler policies that could bring welfare recipients into the mainstream by helping them find a job, helping them with child care, giving them generous wage supplements through the income tax code, ensuring medical care for their children (and now, since enactment of recent health legislation, for the mothers as well), and in general achieve what Europeans call economic and perhaps even social inclusion. However, everything depends on work. Unless former welfare recipients – as well as other low-skill workers who never joined the welfare rolls – work close to full time, their families could be worse off than if they had stayed on welfare. Moreover, there are many important issues about how the fifty states are implementing welfare reform, the import of which is to raise questions about basic issues of fairness and solidarity.[5] In recent Congressional testimony, for example, I raised critical questions about whether states were providing adequate levels of cash support to destitute families that were having trouble finding work during the Great Recession.[6] The American work activation system is far from perfect and should be subjected to the same careful scrutiny by Congress and the Administration as it has received from researchers and policy analysts.[7]

In short, although I have been a strong supporter of work activation policy in the U.S., I have tried to recognize and analyze its inherent problems. I intend to deal forthrightly with the problems as well as the achievements of U.S. activation policy in this paper. After studying activation policy in the European nations, I have concluded that both the U.S. and Europe face many of the same problems – and have a lot to learn from each other. This paper, written primarily from an American perspective, is a small step in that direction.

Jobs, Jobs, Jobs[8]

Both America and Europe face a new version of the central problem of reconciling capitalism with solidarity. The problem is how to keep work rates high without chaining people to a machine or check-out counter and without making welfare, unemployment, or sickness and disability benefits so stingy that suffering abounds.

The Importance of Work

Why is work the central issue? The advantages of work to individuals and society are copious. One advantage is that people need work to keep their bodies and minds from atrophying. Both traditional wisdom ("Idle hands are the devil's workshop") and high-quality research show that people who work are healthier, happier, and richer than their non-working counterparts.[9]

An especially egregious outcome of idle hands is that nonwork can be habit forming. One of the most important studies of welfare in the U.S., performed by LaDonna Pavetti, examined the duration of spells on welfare in the 1980s and earlier.[10] The main finding was that at any given moment, 65 percent of the adults (mostly mothers) on welfare were in the midst of spells that would eventually, counting repeat spells, last eight years or more. The study – and a similar study of poverty spells by David Ellwood and Mary Jo Bane of Harvard – was used frequently by supporters of the 1996 welfare reform legislation with the argument that welfare was, in effect, like a virus that caused the disease of dependency. And it would require strong medicine to cure this disease. Another important finding of the Pavetti study was that many people who joined the welfare rolls used the program as its originators intended. Typically, they entered during a period when they were down on their luck, often following job loss or divorce, stayed a year or so, and then left for work or marriage, many never to return. Again, the findings on poverty spells from Ellwood and Bane, featuring a mixture of short spells, long spells, and frequent returns to poverty, were strikingly similar to Pavetti's findings on welfare spells.

The finding that welfare caseloads contain a mixture of people who get off quickly and people who stay a long time and often return to the rolls highlights a problem that must be faced by social programs in Europe and the U.S. – even if most people do the right thing most of the time, there are a significant number of people who do not. I am not proposing that the world can be divided into ambitious people and lazy people. Rather, people fall along a continuum in the intensity with which they pursue independence – and people's location on the continuum can change over time as their circumstances change. Generous social programs bear the moral hazard of moving people along the continuum in the direction of dependency.[11] It seems certain that this stark fact is universal and will never change. We're talking here about human nature.

At the other end of continuum from those with idle hands are those who go to bed late and get up early to make something of themselves and to create a future of accomplishment and economic security. Few human drives are as powerful as the drive to have productive work and to achieve financial security. Modern technology-based economies allow a much greater range for the expression of talent and preparation than either agricultural economies with their need for backbreaking labor or industrial economies with their emphasis on repetitive labor and routines. Economists Harry Holzer and Robert Lerman, responding to the constant harping on the U.S. "hourglass economy" with a shrinking middle class and supposed rapid growth of low-skilled jobs with low wages, have emphasized the continuing importance of middle-skill jobs that have both decent wages and opportunities for advancement.[12] According to the U.S. Bureau of Labor Statistics (BLS), middle-skill jobs constituted nearly half of all jobs in 2006. These jobs typically require some post-high school education or training but not a four-year degree and often not even a two-year degree. These middle-skill positions, which BLS projects will comprise 45 percent of all job openings over the next decade, pay between $30,000 and $60,000 a year, often have employee benefits, and usually open opportunities for advancement and often for starting small businesses.

Another advantage of work for individuals is that people who work have a foot on the ladder to success. All of the Western democracies have lots of low-wage jobs that are generated by their economies, and critics have often been dismissive of these "dead-end" jobs.[13] During the American welfare reform debate of 1995-96, Democratic members of Congress and editorial page writers often disparaged "dead-end, hamburger flipping" jobs.[14] Similar criticisms have been voiced by European analysts.[15] This criticism was always somewhat off the mark because it ignored the huge achievement made by many people without work experience and headed toward a life of dependency who learned how to hold down a job – any job. In almost every case, these "dead-end" jobs, when combined with government benefits for low-income workers, would make workers and their families better off financially – provided they worked close to full time – than if they had stayed on welfare.[16] Equally important, even lousy jobs can lead to better jobs and unskilled workers increase their odds of getting better jobs if they have a good work record. If nothing else, even low-wage jobs teach the importance of being on time, following directions, being courteous to customers, getting along with co-workers, and so forth.

The advantages of increasing the number of citizens who work are as great to government as they are to individuals. Governments survive on taxes and the ultimate source of taxes is work. More workers mean more taxes. Fewer workers mean lower tax revenues and higher social expenditures.[17] Nonwork often imposes two costs on government – one cost in lost taxes and a second cost in additional social benefits.

But a more fundamental advantage of work to government brings us back to solidarity. The Western Democracies have a long and distinguished history of creating opportunity for their citizens and for immigrants. In the U.S., before the War on Poverty of the mid-1960s, the major role of government in promoting work and opportunity was keeping order and paying for public education. It is striking to recall that when the War on Poverty began in the mid-1960s, in direct contrast with the tradition of generous welfare programs already underway in Europe, the American federal government had very modest social policy (unemployment and pension programs were the exception). No Head Start, no Food Stamps, no Medicare, no Medicaid, no Earned Income Tax Credit, virtually no housing programs, very modest education and training programs (other than those for the military), and so forth. But President Johnson's domestic war not only expanded the federal role in fighting poverty and expanding opportunity, but put the nation on a path that subsequently grew into a superhighway. In 1968 the federal and state governments together spent about $16.1 billion or less than 2 percent of Gross Domestic Product (GDP) on means-tested programs (i.e., below some minimum income cutoff for eligibility); by 2004, means-tested spending had increased to $583 billion or a little less than 5 percent of GDP.[18] Although there is no comparable data series after 2004, federal budget documents show that means-tested spending exceeded $700 billion by 2008, again about 5 percent of GDP.[19] Thus, in either 2004 or 2008 government spending on means-tested programs was about 270 percent greater as a percent of GDP than it had been in 1968.

Similarly, other Western democracies spend considerable sums on social programs, some of it intended to promote work preparation and opportunity.[20] A substantial portion of this money, varying from country to country, is intended to help the poor, the unemployed, and the disabled simply maintain their health and welfare, but much of the money is aimed explicitly at boosting development, skills, and opportunity – in other words, as investments in preparation for work and independence by helping people seize the abundant opportunities on offer by our respective capitalist economies. A recent study estimates that the U.S. federal government alone spends around $750 billion annually on programs that promote economic opportunity such as employer work subsidies, homeownership, savings and investment incentives, education and training, and others.[21] I am not aware of a similar analysis for European nations, but it seems reasonable to believe that the figure for Western Europe would be similar to the impressive figure for the U.S.

Of course, in the U.S. and most European nations, governments below the national level also play a vital role in programs designed to promote work and opportunity.[22] The investment that has throughout American history produced the greatest payoff to government and the entire society is public education.[23] In 2008, the nation spent nearly $507 billion on public elementary and secondary education. This figure breaks down to well over $10,000 per pupil, an increase of 60 percent in dollars adjusted for inflation since 1985.[24] States and localities pay for about 92 percent of public education. In addition, states pay a substantial fraction of cash welfare, Medicaid, and a host of other social programs, many of which are designed to promote opportunity and some of which support low-income working families. So federal, state, and local governments all realize the importance of work and opportunity and they place their biggest bets on programs explicitly designed to promote opportunity.

Ways Not to Work

If work and the opportunity to prepare for work are so important to both individuals and government, it would seem natural for individuals to avidly pursue work and advancement and for governments to give individuals all the help and support they need to do so. An irreverent graduate student once remarked that the university was the place where man first discovered it was possible to live without working. Perhaps, but the Western democracies have discovered many ways for people, including whole families, to live without working. A major argument of this paper is that, due to a perfect storm of converging factors that include government deficits and evolving views on personal responsibility, all or nearly all of the Western democracies have decided to rebalance their social policies in order to reduce or at least contain spending on social programs by placing a greater emphasis on work.[25] If Europe and the U.S. want to aggressively promote work, a good place to begin is by reflecting on modern ways not to work.

Labor Force Participation of Women

The Western democracies must come to terms with five sluices through which potential workers leave the labor market on a regular basis, three of their own creation. The first, easily dispensed with because the data are so clear, is women. Not so many years ago, there was a colorful argument in the U.S. and Europe about whether a woman's place was in the home. A large majority of men and many women held that it was. Traditions are not always wonderful. But beginning at least by the 1960s,[26] the women's movement established a loud and effective voice for women's equality, a major part of which was economic independence from men. In addition to this cultural change in attitudes about women's employment, economic necessity drove women into the labor force because changes in post-industrial economies reduced the share of males earning enough to sustain a family at the standard of living to which they were rapidly becoming accustomed. In addition, the rise in divorce and non-marital births often left mothers and their children in difficult financial circumstances.[27]

Whatever the cause, over the last half century or so, women – including those with young children – have flooded into the labor force. In the U.S., for example, the share of women with jobs increased from about 40 percent of all adult women in 1960 to about

66 percent in 2009.[28] In the Netherlands, only a little more than 30 percent of adult women were employed as late as 1979, but by 2009, after almost continual increases for three decades, nearly 70 percent of Dutch females were employed, a record for Europe and North America.[29] Additionally, Germany and the U.K. now have female employment-to-population ratios of well over 60 percent. The Western democracies have already enriched themselves, strengthened their pension systems, and struck a blow for opportunity and equality by creating social and political conditions that have opened the door – virtually all the way – to increased female employment.

Programs for the Elderly

A second source of encouragement to leave the labor market is retirement policy. One of the great achievements of the Western democracies, beginning with Germany in 1889, has been the creation of retirement programs that provide a guaranteed income to the elderly. Equally important for evolving views on who should be expected to work, all the Western nations created their retirement programs when life expectancy was much shorter than it is today. As people live longer, of course, they have more years in which to draw retirement benefits, thereby boosting costs. As health science, nutrition, and other factors extend longevity, actuarial tables are trumped and policymakers discover that prolonging life has budget impacts. In the roughly half century since 1960, life expectancy has jumped by almost a decade in Germany, the Netherlands, the U.K., the U.S., and other nations.[30] Some Western governments, as if to aggravate the unexpected costs of the ever advancing average age of death, retooled their retirement programs to allow early retirement. Unfortunately, when given a choice between a guaranteed income (and usually other benefits as well, especially health insurance) without work and a somewhat higher income with work, millions choose the nonwork option.

Today, given the aging population in all the Western democracies, relatively fewer workers are paying for the retirement benefits of relatively more retirees. In the U.S., for example, for every retired worker eligible for Social Security there were 42 workers in 1940, 16 in 1950, and 3.3 today. By 2050, it is expected that there will be only 2 workers for every 1 retiree.[31] Given the pay-as-you-go nature of modern retirement programs, the present course is unsustainable on financial grounds alone. Many of the Western democracies have already increased their age of retirement and made other adjustments in their retirement programs and there certainly will be further reforms in the future. One effect of these reforms has already been to bring some “elderly” people back into the labor force, a move that can be expected to expand. In the Netherlands, for example, the employment-to-population ratio for those between ages 55 and 64 in 1986 was 25.5; by 2009 the ratio had leaped to 52.6, in large part because of deliberate government policy aimed at increasing employment among those over age 55.[32]

Programs for the Destitute

Welfare, the third sluice and perhaps the most controversial, is nonetheless another great achievement of the Western democracies. As Hobbes would have it, life in the state of nature is "solitary, poor, nasty, brutish, and short."[33] But the Western democracies, more or less for the first time in history, developed a range of welfare benefits to offset the "nasty, brutish, and short" part of the Hobbes dictum by helping the destitute, including the elderly who until the modern era had suffered the highest poverty rates because their ability to work declined. In all the Western democracies, these welfare benefits came to be seen as entitlements, a legal right, enforceable by law. Solidarity in some cases seemed to trump personal responsibility.

But it soon became clear that generous benefits induce generous leisure in some people.[34] It is no coincidence that every Western democracy has taken action to counteract the tendency of welfare programs to support nonwork.[35] First, some countries have reduced welfare benefits, simultaneously reducing the moral hazard of welfare and making it more difficult to live without working. Second, all have strengthened the requirements for benefit recipients to work or prepare for work. As we will see in more detail below, these provisions – usually referred to as "active labor market policies" in Europe – can be shown to have had their intended effects in many countries, but benefit cuts and work requirements that force people off benefit programs could violate the solidarity principle and for this reason are almost always controversial. Even so, at the moment the energy seems to be with work requirements and personal responsibility in both the U.S. and across Europe. Third, most countries have provided positive incentives to support work by luring people off welfare. Perhaps the most common work incentive is wage subsidies, often through the tax code.[36]

The concern that the offer of welfare benefits can capture people who are fully capable of working is based on more than sociological theory. The classic view of economists is that you get more of what you pay for, including leisure. To put it crudely, if you pay people not to work, some of them will accept the offer. For those who prefer empirical evidence, consider the case of the U.S. After the welfare reform law of 1996 was enacted, the rolls fell from around 4.8 million families in 1995 to 2.3 million families by 2000 and 1.9 million families by 2006.[37] Studies of families leaving welfare in several states show that at any given moment, about 60 percent of those leaving the rolls were employed and over the year after leaving, about 70 percent had held a job.[38] Simultaneously, the poverty rate for black children and children in female-headed families fell to their lowest level ever.[39]

Programs for the Unemployed

Benefit programs for the unemployed are the fourth potential drain on employment. The principles upon which unemployment programs are constructed are widely accepted. Almost everyone in Europe and America agrees that people who lose their job through no fault of their own – often due to company downsizing or closure, inevitable and permanent problems with capitalist economies – should receive government help. The justification for public help is often strengthened by the fact that many nations base their unemployment program at least in part on insurance principles. Thus, workers, employers, or both pay into a government-maintained account out of which worker benefits are paid if they become unemployed through no fault of their own. These programs are public in the dual sense that the payments, whether made by employers or by employees, are required by government policy and because the money in the accounts is often not sufficient to pay all the benefits required, in which case many nations use tax-supported benefits to pay the difference. The public nature of unemployment programs once again reinforces the solidarity principle, both because public dollars are used in most programs and because the entire approach is based on what amounts to creating a pool of funds from a portion of the wages of all workers and using the pool to help those who lose their jobs.

It would seem reasonable to treat the unemployed and the able-bodied on welfare differently. By definition, the unemployed have proven themselves capable of finding, qualifying for, and engaging in work. None of these three achievements are necessarily true about adults on welfare. Nonetheless, if the U.S. experience is any indication, a very substantial fraction of the adults on welfare are capable of finding job openings (perhaps with help from government programs), interviewing for a job, and actually working. Yet again, it is useful to think of people on unemployment and welfare programs as falling along a continuum that ranges from complete dependency and inability to hold down a job to job ready and fully capable of steady work. The latter, of course, are easier to help get off welfare or unemployment.

However, economic theory implies that if people without jobs are given benefits, they might stay unemployed longer and use more government-provided or employer-provided benefits. Indeed, in one of the first models of the impact of unemployment benefits on employment rates and benefit receipt, in 1977 Dale Mortensen held that unemployment payments would lengthen unemployment spells. His model also predicted that those not covered by unemployment payments would leave an unemployment spell sooner and those who are covered would tend to increase their rate of leaving unemployment as they approach the exhaustion of benefits.[40] Bruce Meyer of the University of Chicago, in a detailed review of the empirical literature on these and related issues, found that on the whole studies tend to confirm the Mortensen model.[41] Similarly, there is experimental evidence showing that the length of time workers are unemployed and the length of time they draw unemployment benefits can be reduced by both cash rewards for finding another job quickly and job search programs that help the unemployed find work and enforce work search rules. Equally important, job search experiments in the U.S. produced modest evidence that the unemployed are better off because their earnings increase when they quickly find work and government and employers are better off because the savings in payment of unemployment benefits exceed expenditures on the job search program.[42] More recently, Michael Elsby, Bart Hobijn, and Ayşegűl Şahın report that research shows there is a “strong positive relationship” between the maximum duration of unemployment benefits and the duration of unemployment spells.[43]

The point is not to conclude that unemployment benefits should be eliminated because they lengthen spells of unemployment. However, programs that require benefit recipients to look for work reduce the length of unemployment spells and often save government money. Given survey data showing that the average unemployed worker searches for employment only 12 minutes per day in Europe and only 41 minutes per day in the U.S., it is clear that neither the European nor American workforce programs are very insistent about job search. The implication is that more serious job search requirements could further reduce time between jobs.[44] Lest it be thought that shortening unemployment spells is not a major concern during recessions and Great Recession, it should be realized that last year, with unemployment hovering around 10 percent in the U.S., an average of over 4 million people a month found jobs.[45] Capitalist labor markets are dynamic – even during recessions.

Sickness and Disability Programs

A fifth drain on employment is policies that allow people with disabilities or sickness to leave the labor force, sometimes temporarily and sometimes permanently. All of the nations we focus on here have extensive policies that provide income to individuals who have physical or mental problems that limit work. The politics of limiting these programs – usually by offering incentives for returning to work or by requiring stronger evidence of an actual sickness or disability that inhibits work – can be risky, as those supporting the limitations can be charged with refusing to extend a helping hand to the sick and disabled. Such a charge often begs the question of whether everyone who qualifies for disability benefits truly has a condition that is serious enough to justify taxing fellow workers to provide the person with a benefit.[46]

Richard Burkhauser of Cornell University has assembled interesting evidence from the U.S. on this point. Based on the National Health Interview Survey, Burkhauser shows that the percentage of representative samples of Americans who told interviewers they were in fair or poor health remained virtually constant year after year between 1997 and 2006. Given this result, it is no surprise that when asked whether they had a health condition that limited their ability to work, there is a similar stability over the period. And yet over this identical period, the disability caseload of the Supplemental

Security Income and the Social Security Disability Insurance programs increased every year.[47] Over the decade, the combined rolls increased by about 25 percent, well over twice the rate of population growth.[48] This example shows that enrollment in disability programs is based on more than the actual disabling conditions experienced by recipients.

The suggestion from Burkhauser's work, of course, is that disability programs could be tightened up by requiring better evidence that an actual work-limiting disability is present or by increasing the incentives for people who have mild and moderate disabilities to try to work. A clear example showing that enrollment in disability programs is responsive to policy changes is provided by the Netherlands. After the Disability Insurance rolls rose from 860,000 in 1995 to 982,000 in 2003, at which point over 13 percent of the work force (aged 15-64) was on disability, the Dutch government introduced reforms in 2006 that imposed stricter rules on the definition of disability. By 2009, the rolls were down to 765,000, a decline of 20 percent since 2003 and by over 10 percent in just the three years after the reforms were introduced.[49] Although experience in several countries shows that the politics of reducing disability rolls is often politically risky,[50] it can be expected that disability programs will be on the table for curtailments as financial reality continues to shape the spending programs of the Western democracies.

All of these programs through which workers drain from the productive economies of the Western democracies are costly to their respective governments, employers, and taxpayers. Even so, nearly all the U.S. and European programs have long and honorable pedigrees, and all serve to mitigate the age-old income problems of human societies, and in particular Henry Morgenthau's "malign effects" of capitalism. To provide a concrete idea of the characteristics of these programs, the Appendix contains an overview of selected programs in Germany, the Netherlands, the U.K., and the U.S. that provide assistance to the destitute (welfare programs; Appendix Tables 1, 2 and 3), the disabled (Appendix Tables 4 and 5), and the unemployed (Table 2 below) . Without question, the programs reviewed in the Appendix, and similar programs in other western European and Scandinavian countries, relieve a lot of misery. But the moral hazards and financial costs are undeniable. As is so often the case with government, the key to policymaking is finding the golden mean, that ever-changing sweet spot in the balance between solidarity and personal responsibility.

Success in Promoting Work while Achieving Solidarity

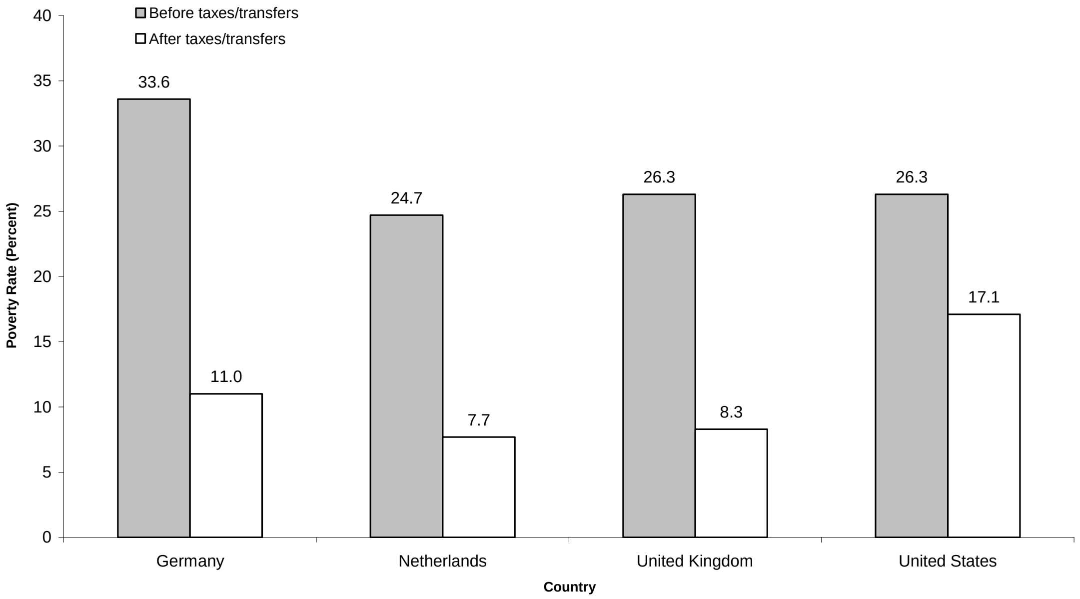
If the solidarity programs of the Western democracies have been as successful as I have claimed, we should be able to find evidence of this success in both their ability to reduce poverty and increase work rates. In addition, we should expect to see increases in labor force participation in recent years as a result of the various activation policies implemented in most western European countries.

Poverty

Of the many general indicators of well-being used to measure the success of social programs in the Western democracies, none is used as frequently or to better effect than poverty rates. Comparisons of the European and Scandinavian countries with the U.S. are complicated by the fact that the official poverty measures of the former are fundamentally different than the latter. More specifically, the U.S. official definition is an absolute measure, meaning that the threshold against which poverty is measured changes only with inflation over time but not with growth of the economy or of personal income. By contrast, the typical European and Scandinavian measures are relative measures of poverty. The primary difference between absolute and relative measures is that relative measures reflect changes in the poverty threshold relative to some definition of changes over time in the average income of the respective nations. OECD poverty measures, for example, are often given as the share of the population with incomes below 40 percent, 50 percent, or 60 percent of median income in the various nations. Except during times of recession, thresholds of relative poverty increase more rapidly than absolute thresholds, and are therefore more difficult for low-income families to rise above – or for policy initiatives to push them above.

Figure 1 provides definitive evidence of the effectiveness of all four countries in using policy to reduce poverty rates. Life in the state of nature, so to speak, reveals that in Germany, the Netherlands, the U.K., and the U.S., between one-third and one-quarter of the populations would live in poverty were it not for government-provided benefits. But because of the solidarity policies of these nations, poverty is reduced by an average of 60 percent. Another important generalization from Figure 1 concerns work activation and poverty. As we will see, especially by the mid-2000s, all four nations were emphasizing work activation policies. Yet their solidarity programs continued to be effective in substantially reducing poverty.

Figure 1
Relative Poverty Rate Before and After Taxes and Transfers in Germany, the Netherlands, the United Kingdom, and the United States in the mid-2000s

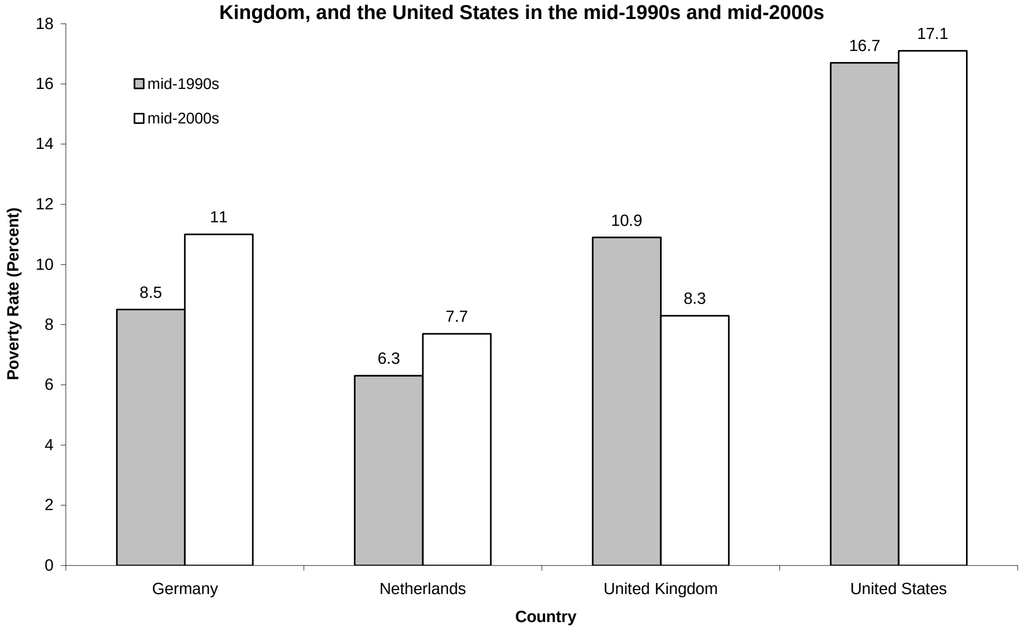


Note: Poverty threshold used here is 50 percent of median income; poverty rates are based on median household income in the respective countries.
Source: OECD Stat Extracts (http://stats.oecd.org/Index.aspx?DataSetCode=POVERTY).

Although only Germany has a higher poverty rate before taxes and transfers than the U.S., American solidarity policies nonetheless reduce before-tax and before-transfer poverty much less than the other countries. Based on OECD data using a relative poverty measure (50 percent of median household income), Figure 2 shows the after-transfers relative poverty rate in all four nations in the mid-1990s and the mid-2000s. The U.S. rate is always at least 50 percent higher than the rate of any of the three European nations.

Despite this difference, the U.S. has made important progress against poverty in the last three decades. Specifically, two groups have experienced notable declines in poverty, both due in large part to changes in government policy. Expansions of Social Security payments and the creation of the Supplemental Security Income (SSI) program in 1972 legislation greatly reduced poverty among the elderly. More specifically, using the official U.S. poverty measure, in the decade after 1968, poverty among the U.S. elderly fell by almost 45 percent to 14 percent and has continued to fall since, although at a slower rate. By 2008, the poverty rate among the elderly was 9.7 percent.[51] Nearly all of the decline in elderly poverty is due to increased Social Security and SSI payments.[52]

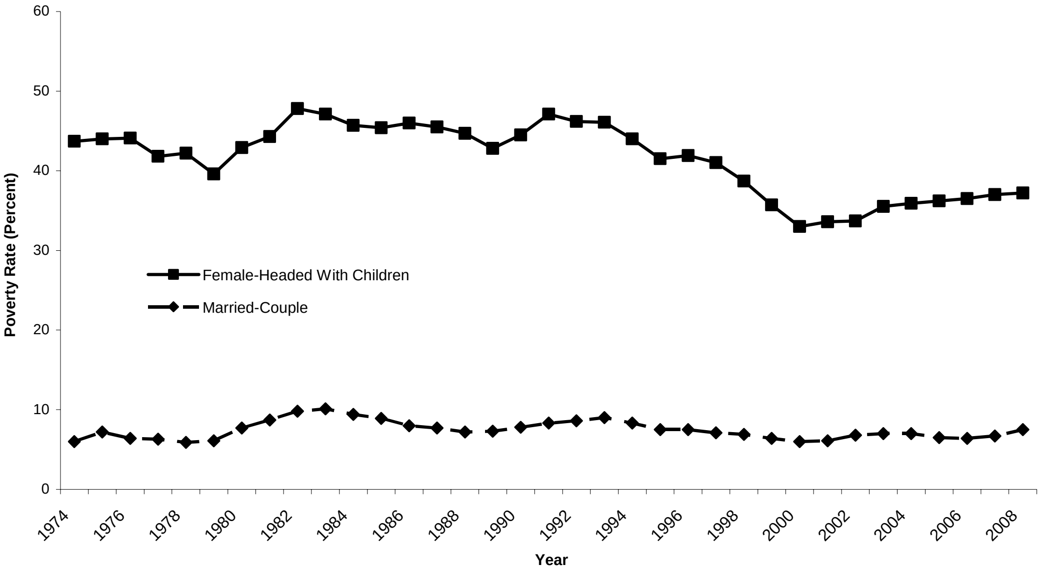
Figure 2
Relative Poverty Rate after Taxes and Transfers in Germany, the Netherlands, the United Kingdom, and the United States in the mid-1990s and mid-2000s



Note: Poverty threshold used here is 50 percent of median income; poverty rates are based on median household income in the respective countries.
Source: OECD Stat Extracts (http://stats.oecd.org/Index.aspx?DataSetCode=POVERTY)

The second group that experienced impressive declines in poverty was single mothers and their children. This group is especially important in the U.S. because poverty rates among single mothers and their children are so high. Anyone hoping to have major impacts on poverty in the U.S. must have a plan that pays special attention to single mothers. An example of such a plan was the 1996 welfare reform bill in the U.S. Immediately preceding and following passage of the welfare reform law, millions of mothers on welfare and eligible for welfare entered the labor force and found jobs. Between 1995 and 1999 there was an unprecedented increase of more than 40 percent in the number of never-married mothers, the poorest of the poor, who found employment.[53] As shown in Figure 3, in part due to this increased employment of never-married mothers, poverty among single mothers and their children fell substantially. Between the mid-1990s and 2001, poverty among female-headed families fell by about one-third and reached its lowest level ever while poverty among married mothers who did not experience a major increase in employment held steady. Similarly, poverty among black children, who live disproportionately in female-headed families, reached its lowest level ever (not shown). This example demonstrates what is possible if government policy encourages and even pressures adults to go to work and then subsidizes the incomes of those who earn low wages. This chapter in the welfare-to-work saga ends on a high note, but additional chapters – perhaps with different results – are now being written.

Figure 3
Poverty in Female-Headed and Married-Couple Households with Children in the United States, 1974-2008



Source: U.S. Census Bureau, "Historical Poverty Tables - Families," Table 4. Poverty Status of Families, by Type of Family, Presence of Related Children, Race, and Hispanic Origin: 1959 to 2008, http://www.census.gov/hhes/www/poverty/data/historical/families.html

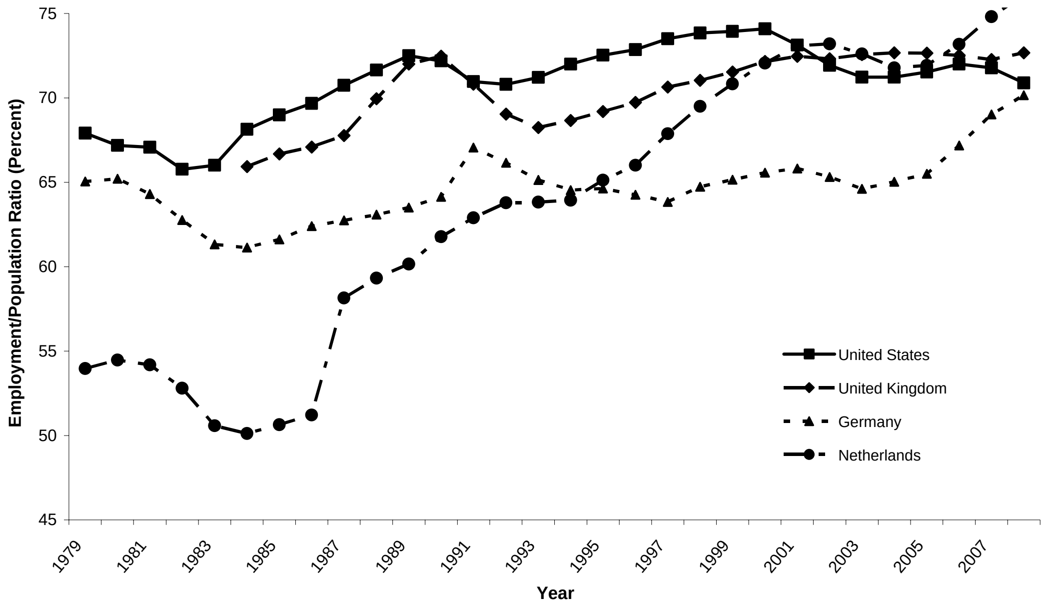
Work

An equally basic measure of the success of work activation policies is the employment-to-population (E/P) ratio. By expressing the percentage of the entire adult population who hold jobs, the E/P ratio is the most useful measure of a nation's success in maximizing employment. Consider the ratio for all workers and for female workers in Germany, the Netherlands, the UK, the U.S. and the OECD average (Figures 4a and 4b respectively). In Figure 4a we see that the trend over the last three decades in the E/P ratio is mostly upward for all four countries, especially since the mid-1980s. This upward direction is especially the case if we ignore the recession year of 2009. Between 1984 and 2008, Germany experienced a 15 percent increase in the proportion of the population with jobs, the U.K. experienced a 10 percent increase, and the Netherlands experienced an astounding 52 percent increase. For all three countries, employment of females led the way with an increase equal to about twice the increase for the population as a whole.[54] Although the U.S. fell off more than any other country after 1999, over the entire period the average yearly E/P ratio for the U.S. was 70.8, which was higher than the annual average for any other country. So steep was the U.S. decline, however, that by 2009 all three of the other countries – each of which started out below the U.S. – had surpassed the U.S. ratio. Nor is this impressive performance by the European countries due entirely to the impacts of the recessions of 2001 and 2007, both of which seem to have hit the U.S. harder than the other countries. The Netherlands and the U.K. surpassed the U.S. in the early 2000s and remained higher every year thereafter. Even Germany, which was considerably below the U.S. almost every year after 1983 surpassed the U.S. in 2009. Something seems to be going on in Europe.

Thus, the overall commitment to active workforce policies by both the U.S. and the European nations (see Table 2 below) appears to be paying off, especially in the case of women. The drop off for males and for the U.S. is worrying and difficult to understand, but if these nations are to continue boosting their E/P ratios, focusing their policies on males may be a good idea.

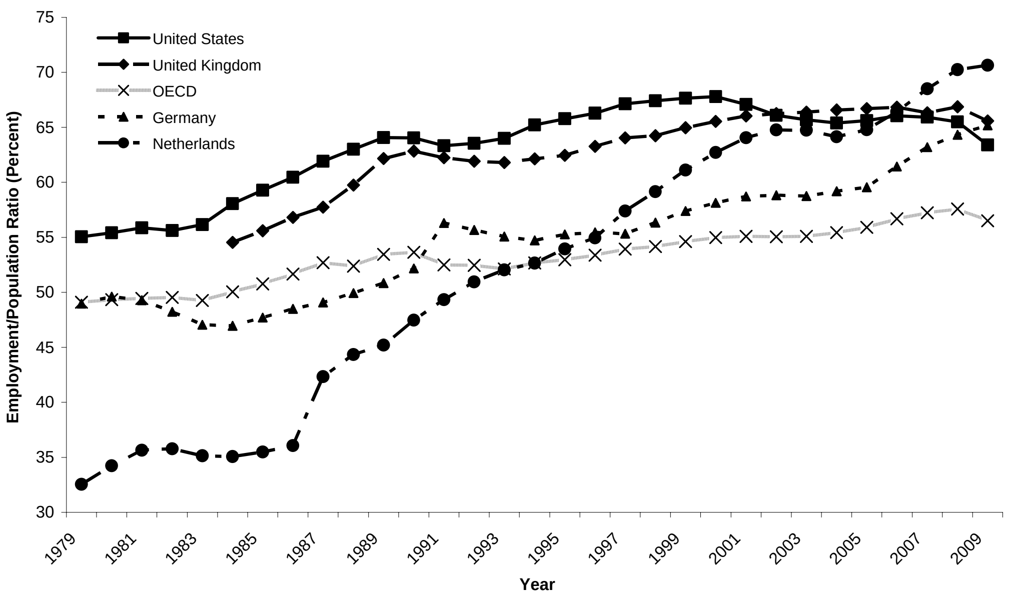
The notable performance of the Netherlands, certainly the most dramatic increase in the E/P ratio of any nation over the last three decades, deserves careful study. Consider the data in Table 1, which is an updated version of a table in the indispensible book about the "Dutch Miracle" by Jelle Visser and Anton Hemerijck.[55] Both Table 1 below and the table in the Visser/Hemerijck volume show the amazing economic progress the Netherlands has made and showing why the Netherlands provides an example of policy actions that can lead to strong GDP growth, increased employment, falling unemployment, and declining use of welfare, unemployment, and disability programs. The authors are careful to point out that no two nations are the same, from which it follows that the policy mix leading to increased employment and declining reliance on solidarity programs should be expected to vary from nation to nation. Even so, a careful study of the Dutch case can provide clues to the type of reforms that can lead a nation out of what Esping-Andersen has characterized as "welfare without work."

Figure 4a
Employment/Population Ratios for Germany, the Netherlands, the United Kingdom, and the United States, 1979-2009



Note: These are employment-population ratios for the population between the ages of 15 and 64.
Source: OECD Stat Extracts (http://stats.oecd.org/Index.aspx?DatasetCode=LFS_SEXAGE_I_R)

Figure 4b
Female Employment/Population Ratios for Germany, the Netherlands, the United Kingdom, the United States, and OECD Countires, 1979-2009



Note: These are employment-population ratios for the female population between the ages of 15 and 64.
Source: OECD Stat Extracts (http://stats.oecd.org/Index.aspx?DatasetCode=LFS_SEXAGE_I_R)

Table 1

Economic Performance of the Netherlands in Comparison with the European Union, 1991-2009

Economic Measure	Netherlands (percent)	European Union (percent)
GDP Growth (Average Annual Growth)	2.29	2.09
Employment Growth (Average Annual Growth)	1.45	0.81
Unemployment Growth (Average Annual Growth)	-0.36	1.57
Unemployment Rate (Average)	3.36	8.45
Employment/Population Ratio (Average)	70.48	64.18

Source: Author Analysis of OECD.statExtracts. See http://stats.OECD.org.

Note: This table is an updated version of most of the measures summarized in *A Dutch Miracle*, Table 1, p. 11. All figures are for Netherlands and OECD category EU 15 from 1991-2009 except for GDP, which is from 1991-2008; private consumption, which is from 1996-2009 and the EU figure is for the EU 27 category, and the unemployment rate, which is from 2000-2008 and the EU figure is for the EU category.

Visser and Hemerijck attribute the Dutch miracle to three critical types of reforms. First, through tough but ultimately successful negotiations between government, business, and labor unions, an agreement on wage moderation was reached. The moderation of wages was key because it allowed Dutch goods to be more competitive on the international market and because it allowed greater profitability margins for Dutch companies. According to the authors, there was nearly universal understanding among businesses, labor leaders, and politicians that to achieve a higher level of investment and more jobs, “a higher level of profitability was required.”[56] Second, government spending and taxation was too high. Thus, a wide array of policies designed to reduce spending on social programs were enacted over a period years. This included a freeze on benefit levels; an overhaul of unemployment benefits, especially by shortening the maximum period of benefit eligibility; and considerable tightening of disability and sickness programs, primarily by stiffening the requirements for program qualification. Third, by lowering the minimum wage, focusing services and especially job search on lower skill workers, and reorganizing and improving the efficiency of the public employment service, the Netherlands provided one of the most thorough and successful examples of European work activation policy. Table 1 attests to the success of these reforms.

But no good deed goes unpunished. Visser and Hemerijck give a thorough account of the political consequences of these sweeping reforms, characterizing the political process as one of reaching “unpleasant decisions” that had “painful consequences.”[57] Not least of the painful consequences was a loss of seats in parliament by the two major Dutch political parties (the Christian Democrats and the Social Democrats) who were “credited” with these reforms. Indeed, within a few years following the major reductions in disability and sickness benefits, the Social Democrats lost one-third of their members; losses for the Christian Democrats were even greater[58]. It is impossible not to admire the kind of political courage required to enact these reforms. A comparison is instructive. As of this writing, the U.S. is in the midst of a deficit crisis that most analysts predict will eventually lead to bankruptcy of the federal government. The logic of the emergency requires federal policymakers to enact some mix of spending cuts and revenue increases. Yet neither party has had the political will and courage to seriously cut spending or increase revenues and the emergency continues to deepen. In this context, the Dutch economic miracle appears to be a political miracle as well and leads to the question of whether the U.S. and many European nations will find the courage to reform their social programs along the trails blazed by the Dutch before they bankrupt themselves.

Although the discussion in this section is too broad to allow conclusions about the effectiveness of work activation policies, my purpose has been more limited. I think the data on poverty and increasing labor force participation rates in the U.S. and Europe, combined with the results of the Dutch miracle summarized in Table 1, should provide a circumstantial case that implementing work activation policies can be compatible with declines in poverty rates and that modern solidarity policies are not incompatible with high work rates. Indeed, the Dutch example suggests that these reforms can be undertaken in a manner that promotes economic growth while reducing government spending on social programs.

Components of a Strong Work Activation System

If the overall picture of work activation policies and solidarity outcomes seems encouraging, the next goal of this paper is to examine the specific policies that, taken together, would constitute a strong system of work activation and work support that improves the balance between work activation and solidarity. Nearly all western European countries have experience with each of these elements of a strong work support system, so a lot about work activation policy is already known. But there is a lot left to learn about policies that can more effectively help people get and hold jobs while simultaneously improving their economic circumstances.

Work Preparation and Requirements

As shown in Table 2, the U.S. and several western European nations have established programs that attempt to impose work requirements on recipients of welfare and unemployment benefits. These programs are a central thrust of the effort in both Europe and the U.S. to implement active labor market policies. Nearly all the beneficiaries of these programs are out of work and the goal is to get as many of them as possible either back into jobs or into work for the first time (in the case of some of those receiving welfare benefits). Programs in the four nations are remarkably similar. Typically, recipients must register with an agency that either directly provides workforce services or makes arrangements with another agency to conduct the workforce program. All the programs seem to be mandatory in the sense that if the recipient does not follow whatever work preparation the agency requires, they are subject to sanctions, usually in the form of temporary benefit reductions.

In the U.S., there is a large literature, both predating and following the 1996 welfare reform law, showing that work programs associated with welfare can result in significant increases in employment and even in some cases save government money. An early study by Lawrence Mead, conducted in the late 1980s, provided strong evidence that work requirements could significantly boost work levels, despite frequently-sited barriers such as lack of available jobs and lack of work experience used by critics as reasons welfare-to-work programs were destined to fail.[59] Another important early study, published in 1988 and based on large-scale studies of four state welfare-to-work programs involving thousands of recipients, found that welfare-to-work programs save money for federal, state, and local governments.[60]

Table 2

Comparison of Selected Aspects of Work Expectations in Germany, the Netherlands, the United Kingdom, and the United States

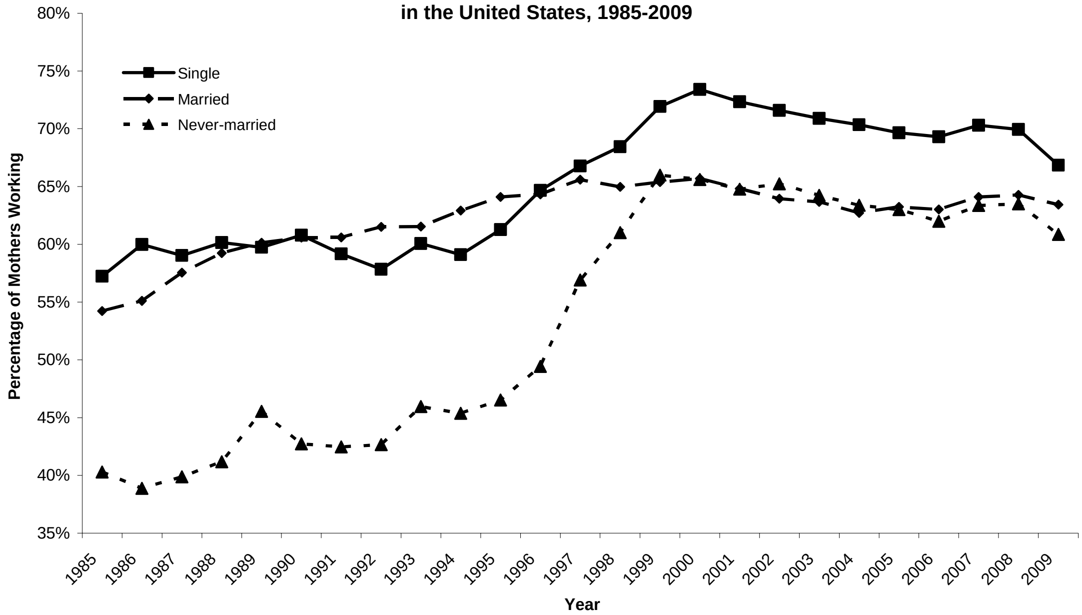
Provision	Germany (Unemployment Benefits II)	Netherlands (Social Assistance)	United Kingdom (Job Seekers Allowance)	United States[1] (Unemployment Insurance)	United States[1] (TANF)[2]
Behavioral Eligibility Criteria:					
Job Search	Yes	Yes	Yes	Yes	Yes
Registration	Yes	Yes	Yes	Yes	Varies by state
Integration Measures	Yes	Yes	Yes	Yes	Varies by state
Work Requirement	-	Varies by municipality	Yes	Yes	Varies by state
Action Plan	Yes, every 6 months	Varies by municipality	Yes, update quarterly	Varies by state	Varies by state
Interviews	Initial	Varies by municipality	Yes, initial and quarterly	Often	Varies by state
Confirmation of Circumstances	-	Varies by municipality	Every 2 weeks	Varies by state	Varies by state
Proof of Job Search	-	Varies by municipality	Every 2 weeks	Varies by state	Varies by state
Suitable Job Defined	Yes	Not explicit	-	Yes	Varies by state
Sanctions	10% initial and then 10%-100% for 1.5-3 months for repeat violations	Yes, including loss of benefits; Varies by municipality	100% for 2 weeks initial and then 100% for up to 26 weeks	Can include loss of benefit for several weeks	Varies by state but all states use sanctions, some withhold part of benefit, some terminate entire benefit, especially for multiple offenses

Source: Herwig Immervoll, "Minimum-Income Benefits in OECD Countries: Policy Design, Effectiveness, and Challenges," Paris: Organization for Economic Cooperation and Development, 2010, Table 6.

1 The Supplemental Nutrition Assistance Program (SNAP) and housing programs also have work requirements but they are relatively modest and tend not to be enforced.

2 Although state policies on work and sanctions vary greatly, all states require registration and job search and all or nearly all have work programs that include all of the characteristics listed in this table. However, the degree to which states aggressively implement their own policies also varies greatly.

Figure 5
Employment-Population Ratio for Single, Married, and Never-Married Mothers in the United States, 1985-2009



Notes: The sample includes mothers who are age 16 and over and have at least one never-married child under age 18 in their family. Single mothers include those who are divorced, separated, and never-married (widows are not included).
Source: Brookings tabulations of data from the Annual Social and Economic Supplement to the Current Population Survey, 1985-2009.

Despite the hopeful evidence from these early studies, the rapid rise in employment by single and never-married mothers during the welfare reform era of the mid-1990s was much greater than anyone had predicted (Figure 5). The major changes in welfare created by the 1996 legislation were to require nearly all welfare recipients to meet work requirements, to require states to impose financial penalties in the form of benefit reductions on any recipients who did not meet the work requirements, to make it easier for states to impose financial penalties by ending the legal entitlement to cash welfare, and to impose a 5-year time limit on benefit receipt. The intent of the legislation was to shock the welfare system that had previously been lax on requiring recipients to find employment. Given that these changes came in a bundle, it is impossible to know which particular policy contributed to such a massive response (in conjunction with an expanding economy and other programs, to be discussed below, that made low-wage work pay). There is little doubt, however, that the reforms demonstrate that government activation policies can dramatically increase employment, even for recipients who were previously considered to be incapable of finding and holding jobs.

Such work-inducing programs are not confined to welfare. All four of the countries in Table 2 also have work requirements for workers drawing unemployment benefits. Of course, there are usually serious differences between the way a government program is described on paper and how it actually works in practice. To be effective, a work activation system must have a means of enforcing its requirements, the topic to which we now turn.

Sanctions for Noncompliance

Many policy analysts and program administrators in the U.S. argue that recipients of both welfare benefits and unemployment benefits sometimes fail to invest serious effort in trying to find or prepare for jobs.[61] The survey data mentioned above showing that the average unemployed worker in Europe conducts job search for an average of 12 minutes a day while unemployed U.S. workers search for 41 minutes a day makes the point. In the case of welfare recipients, it is not so much that they reject the importance of self sufficiency; rather they appear to sincerely want to work, but somehow do not get jobs or when they do they soon quit or get fired.[62] In the case of the unemployed, who tend to be more job ready than welfare recipients, as we have seen there is good evidence that programs that give them incentives to find work or provide them with quality workforce services are successful in shortening unemployment spells. Conservative politicians often characterize unemployment insurance as "paying people not to work." Consistent with this view, American scholar Bruce Meyer notes: "Unemployment Insurance is not a completely benign transfer; it affects claimants' behavior."[63] The point of work activation policy is to overcome the half-hearted response some unemployed workers show to job search requirements.

One way to overcome people's reluctance to aggressively seek out work is to impose sanctions on those who do not meet work requirements. Programs that provide welfare or unemployment benefits can threaten to reduce or even eliminate benefits unless recipients meet whatever work requirements authorities judge to be appropriate. The first thing to say about the use of such sanctions is that most of the capitalist democracies have policies that allow their workforce agencies to impose sanctions on recipients. Whether the program requiring work is a welfare program or an unemployment program, recipients who do not meet the requirements for job preparation or job search can lose part or all of their benefits for noncompliance, at least on paper.

The authors of the U.S. welfare reform law believed that sanctions were an important part of getting welfare recipients to work.[64] As a result, they included a provision requiring all states to reduce the welfare benefits of recipients who did not fully cooperate with the work requirement designed by the states. States were free to design their own system of sanctions, but the approach had to include benefit reductions. As it turned out, most states used a graduated system of benefit penalties, usually beginning with a loss of part of the benefit for a few months and then, if the recipient continued to be in violation of the work requirement, moving to a loss of more benefits and for longer periods.

A total of 36 of the 50 states adopted policies that allowed them to eventually terminate the entire welfare check.[65]

Some data on the actual use of sanctions are available for the U.S. and Germany. Table 3 shows the use of sanctions in the TANF program in the U.S. every year between 2000 and 2008. Each year states sanctioned between 5 percent and 7 percent of their entire caseload (first two columns); for between 3.4 and 4.5 percent of the caseload these sanctions were imposed for violations of work requirements. The seriousness of sanctions is indicated by the column on cases closed due to "work sanctions." Of all the closed TANF cases, between 3.9 percent and 6.4 percent were closed each year because of work sanctions. It also appears that, over the period, states increased their use of "full check" sanctions that ended the entire welfare benefit.

Table 3
Percentage of Cases Receiving a Sanction in the U.S. Temporary Assistance for Needy Families Program (TANF), 2000-2008

	Caseload Data[1]		Closed Cases Data (Closed Due To):			
Year	Overall Sanction	Work Sanction	Federal Time Limit	State Time Limit	Work Sanction	Employment
2000	6.1	3.5	0.0	N/A	3.9	19.7
2001	6.3	3.9	0.0	N/A	4.5	19.4
2002	7.2	4.5	2.2	0.8	4.2	17.2
2003	6.9	4.3	1.1	0.8	4.2	17.9
2004	5.6	3.5	1.1	0.9	6.4	18.7
2005	5.8	3.6	1.0	0.9	6.1	19.2
2006	5.6	3.4	1.2	0.8	5.6	20.9
2007	5.7	4.1	1.5	0.7	5.4	22.1
2008	5.2	3.9	1.8	0.6	6.0	19.6

Source: HHS administrative data from Peter Germanis, e-mail message to author, June 21, 2010.

Note: States are required to submit both overall caseload data and data from their closed cases; data from both reports are presented here.

[1] Cases can be closed for many reasons including increased income from employment or other sources, not participating in the work program, not cooperating when welfare officials request information, not showing up for appointments, supplying inaccurate information, and others. The work sanction data presented here include only direct violation of some aspect of the work requirement.

Information on sanctioning recipients in Germany shows a similar, albeit lower, rate of imposing financial penalties on those who do not follow the rules. After major reforms of their unemployment program in 2004, the unemployed were placed on the nation's cash welfare program after receiving 52 weeks of unemployment benefits, paid directly by employers.[66] At that point, the German system makes no differentiation between welfare recipients and former unemployment recipients who have exhausted their 52 weeks of regular benefits. Both the unemployment and welfare programs have work requirements, although data on sanctioning were available only for the welfare program. For this combined group, between 2.4 percent and 2.6 percent were sanctioned each year between 2006 and 2010 for not meeting the work requirement. The German system includes first sanctions, which are equal to 30 percent of the benefit, second sanctions equal to 60 percent of the benefit, and third sanctions which terminate the entire benefit.[67] Thus, like the U.S., the German system of sanctions includes the termination of the entire benefit, although available data does not separate out these full-check sanctions from partial sanctions.

Sanctions appear to have played a relatively small role in the remarkable increase in employment in the Netherlands chronicled above. The Netherlands uses sanctions in the form of benefit reductions in its welfare programs, its unemployment program, and even its disability program. The sanctions increase in severity as the rule violation becomes more serious. Specifically, recipients get a 10 percent benefit reduction for 2 months for failing to meet any of several parts of the work requirements, a 20 percent reduction for 4 months for insufficient job search, and complete termination of benefits for refusing suitable work. However, these sanctions appear to have been used in less than 1 percent of the cases.[68]

Although the Dutch made sparing use of sanctions, the U.S. experience seems to indicate that sanctions, as well as rewards, have an impact on recipients' behavior. In addition to the impacts on benefit recipients who directly experience a sanction, the threat of sanctions could discipline the behavior of other recipients who may decide to meet requirements in order to avoid a sanction. It seems reasonable to conclude that sanctions are an important part of a demanding approach to getting the unemployed and welfare recipients back to work. But there is little evidence on how harsh sanctions have to be to influence behavior. If research showed that jobless benefit recipients respond well to mild sanctions, the use of sanctions that terminate benefits may be unnecessary.

Moreover, research in the U.S. shows that those thrown off the welfare rolls by sanctions experience a substantial drop in income and appear to face increased financial hardships. These hardships are not necessarily a reason for abandoning sanctions, but if sanctions lead to a major increase in hardships among these adults and children, the issue deserves more careful analysis.

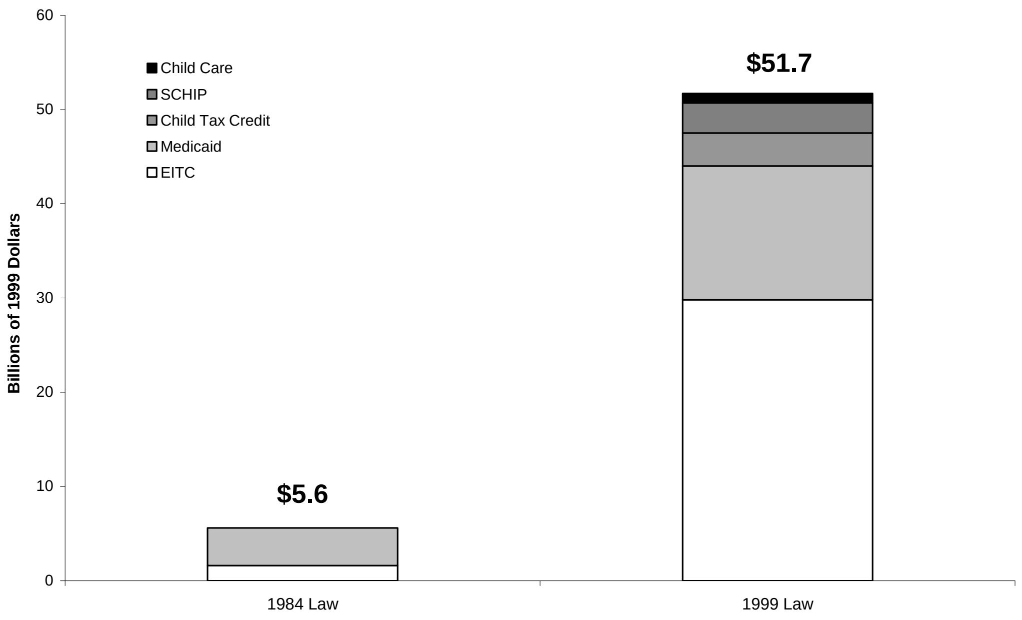
Work Support System

Until recently, America was quite appropriately known as "the great job machine." However, beginning with the mild recession of 2001 and even more dramatically after the onset of the Great Recession that began in December 2007, the American job machine has blown a few gaskets. Even before the machine began to sputter, it had a fundamental problem. Millions of jobs generated by the machine paid low wages. As mothers began to leave welfare in hordes after the welfare reform legislation of 1996, they took jobs that averaged about $10 an hour (in today's dollars).[69] If the mothers worked 35 hours a week for 50 weeks a year at this wage, their annual income would be $15,750. In 2010, this amount is only slightly above the U.S. poverty line for a mother and two children, despite the fact that the poverty line is lower than the line in the western European and Scandinavian countries. In other words, even under the cramped definition of poverty used in the U.S., these mothers and their children would be barely above the poverty line if they had to rely exclusively on the mother's earnings. If the poverty line were 50 percent or 60 percent of median income as frequently used by Eurostat, the European Statistical Office, the mothers and their children would need even more income to be above the poverty line.

So some substantial portion of the millions of poorly educated single mothers who in the past would have been likely to rely on welfare could now leave welfare or avoid it in the first place, work nearly full time, take care of their children and run their household, and still live in poverty. Solidarity this is not. The solution that America has devised, more or less deliberately, is to use both positive and negative incentives to lure or force these mothers into the work force and then to create a system of cash and in-kind programs that augment their income. Over a period of years beginning in roughly the mid-1980s and continuing until the present day, both the federal and state governments have been creating new programs and modifying old programs so that they would provide more support to low-income working families. Policymakers were motivated, not simply by the desire to help working families avoid poverty, but also by the understanding that making sure workers can escape poverty strengthens the incentive to work. A system based on the goal of "making work pay" boosts both income and work incentive.

Figure 6 provides a good idea of how successful American policymakers were in creating a system of programs that boosted income and work incentive. Based on a study conducted by the nonpartisan Congressional Budget Office (CBO), the bar graphs show how much money low-income working families would receive from the most important work support programs, first, as they existed in 1984 and, second, after all of them had been reformed or even created out of whole cloth, as they existed in 1999. Based on the actual characteristics of working families in the 1999 Current Population Survey, CBO modeled the benefits these families would receive under 1984 laws and then under 1999 laws. Under 1984 laws, working families would have received less than $6 billion in government work support benefits in 1999. But under 1999 laws, because of the legislated expansions of the work support programs, CBO estimated that the same families would receive nearly $52 billion to augment their earnings in 1999. Clearly, between 1984 and 1999 there had been a work-support revolution, longer-lasting and less dramatic perhaps than the welfare revolution of the mid-1990s, but nonetheless vitally important to understanding the effects of welfare reform.

Figure 6
Support for Working Families in the United States Increases Dramatically, 1984 and 1999



Source: Congressional Budget Office, "Policy Changes Affecting Mandatory Spending for Low-Income Families Not Receiving Welfare," 1998.

Anyone who followed Congress between 1984 and 1999 as the work support programs were created or expanded could not doubt that elected officials fully realized they were taking steps to help low-income working families by making work pay. In the huge and partisan budget battle of 1990, for example, a bipartisan compromise was killed by House Democrats specifically because it did not help low-income working families enough.[70] Leaders in the House then inserted an even bigger expansion of the Earned Income Tax Credit (EITC), a program that provides cash income subsidies based on earnings to low-income families with children,[71] than had been in the original bill. Given that the first President Bush had featured an expansion of the EITC two years earlier in his presidential campaign, and that he signed the final 1990 bill, this episode reinforces the fact that much of the legislation that led to expansion of the work support programs was bipartisan in conception and enactment.[72]

The treatment of low-income families by the U.S. tax code provides still more evidence of the commitment of a series of federal congresses and presidents of both parties to helping low-income working families. One of the most impressive and far-reaching actions occurred as part of the sweeping reform of the federal tax code in 1986 under a Democratic House and a Republican Senate and president.[73] In accord with the classic injunction of economists, the major achievement of the 1986 tax reform legislation was to broaden the tax base while reducing tax rates. Broadening the base refers to the amount of taxpayers' income that became subject to the federal income tax but not to increasing the number of taxpayers. Indeed, an explicit intention of the 1986 reforms was to remove poor families from the tax rolls by the simple expedient of increasing both the standard deduction (from $3,670 to $5,000 over two years for married couples) and the personal exemption (from $2,160 to 4,000 over three years for married couples).[74] Because of these two provisions, about 2.7 million fewer poor families were required to pay federal income taxes than before 1986 (but they still paid Social Security and Medicare taxes).[75] This action, of course, was a major step in making work pay. In addition, an important bipartisan feature of the 1986 reforms was that they included the first expansion of the EITC since its original enactment in 1975.

Congress again expanded the EITC as part of the huge 1990 budget deal, as we have seen. Not to be outdone by a Republican president, in 1993 President Clinton pushed through yet another expansion of the EITC, this one worth more to low-income working families than either the 1986 or the 1990 expansions. President Clinton and his aides explicitly tied the EITC expansion to the need to "make work pay" for mothers leaving welfare. Making work pay would in turn justify the strong measures both Clinton and Republicans were considering to encourage or even force mothers to leave welfare for work. Thus, created in 1975, by 1993 the EITC had enjoyed three major expansions in less than 20 years and by 2010 was worth well over $5,500 to a family with two children in the maximum earning range between approximately $12,500 and $16,400.[76] A series of reforms like this, all explicitly designed to help working families, with the biggest and most costly reforms tied specifically to helping mothers leaving welfare, shows the serious commitment federal policy makers have made to helping low-income working families. In accord with President Clinton's frequently stated goal, the U.S. government has done a lot to "make work pay."

And we are far from exhausting the tax code provisions designed to help working low-income families. In 1997, a new tax credit for children was enacted on a bipartisan basis. When fully phased in, the provision would provide families with a $1,000 credit for every child in their family. But the question arose of what to do about families that did not have enough tax liability to claim all or even part of the credit. Ironically, the 1986 tax reforms had removed so many low-income families from the income tax rolls that most of them could not receive much if any money from the child tax credit because they paid zero or very low federal income taxes.

Along came George Bush the Younger, elected in 2000, with his massive 2001 tax cut proposal. Bush and the Republican majority in Congress put tax reforms that would yield lower taxes for most American tax payers, especially the rich, at the top of their agenda. However, low-income families might lose out, as indeed they did in early drafts of the tax reforms written by the Bush administration and its Congressional allies. But thanks in large part to clever machinations by Olympia Snowe, a moderate Republican who was concerned about ignoring low-income families with children as the fury of cutting everyone else's taxes proceeded, Republicans accepted a provision that gave low-income families with no tax liability a refundable credit of 15 percent (phased in over several years beginning at 10 percent) of earnings over $10,000 up to a maximum credit of $1,000 per child when fully phased-in.[77] The child tax credit would provide families with about $25 billion per year (the 10 year cost was $172 billion) and would increase the incomes of the parents of more than 14 million children. In addition to these changes in the child tax credit, the 2001 legislation, famous for helping the rich, also expanded the 15 percent tax bracket for married couples, helping to reduce the tax penalty on marriage for middle-class families, and also created a new 10 percent bracket for those at the bottom of the 15 percent bracket. The 10 percent bracket would put more than $420 billion in the pocketbooks of mostly poor and low-income working families over the next decade.[78]

The combined effect of all these changes in the U.S. tax code was not only to eliminate millions of low-income families from the federal tax rolls, but to increase the number of families who actually received money from the tax code because of the various provisions on refundability. A recent study by the nonpartisan Joint Committee on Taxation, the authoritative source for tax estimates for the U.S. Congress, showed that as a result of these refundable tax credits, by 2009 nearly a quarter of tax returns received refunds in excess of the money they had paid into the Social Security system. In other words, many – perhaps even most – low-income taxpayers in America who worked during 2009 in effect paid neither federal personal income taxes nor Social Security and Medicare taxes because the amount withheld from their paychecks for these programs was more than offset by their returns from refundable tax credits.[79]

In addition to these changes in the tax code designed to help low-income families, since the mid-1990s there have been legislated expansions of funding for child care, changes in Medicaid and other government health coverage (including enactment of the State Child Health Insurance Program, an entirely new program) for low-income children that would allow mothers and children leaving welfare to retain their Medicaid coverage (the mother for at least one year and the children permanently). Further, in 2002 numerous changes in the Supplemental Nutrition Assistance Program (SNAP; formerly food stamps) proposed by President Bush and enacted by Congress made the SNAP benefits easier to get for low-income working families. Similarly, a series of reforms in the Child Support Enforcement program have led to a doubling of collections since 1996 and a substantial increase in child support payments to working single mothers.[80]

Taken together, these work support programs have a trifecta of desirable effects – increasing work incentive, making work pay, and reducing child poverty. There is, as we have seen, no question that the European and Scandinavian nations do more to relieve poverty than the U.S. Still, the U.S. strategy of encouraging or compelling more people to work, even at low-wage jobs, and then supplementing their income through the work support system, has proven to be effective in reducing poverty, especially among single mothers and their children. In 1991, before the U.S. welfare reform era at the state and federal level, poverty among children in female-headed families was over 47 percent. By 2000, after every state had implemented welfare reform and the welfare rolls had fallen by well over 50 percent since the year before welfare reform was enacted,[81] the poverty rate among children in female-headed families was down to 33 percent, a drop of one-third in less than a decade, with most of the drop occurring after enactment of welfare reform. Even through 2008, after the recession of 2001 and the leading edge of the Great Recession, poverty among children in female-parent families was still more than 20 percent below its peak in 1991.[82] Detailed analysis of income by source based on the Census Bureau's Current Population Survey shows that poverty fell primarily because mothers earnings, and especially earnings plus income from the EITC, increased so much. Income from welfare actually fell throughout the period.[83] The U.S. experience shows that an effective work support system can be a vital component of an overall strategy for reducing poverty while encouraging work in capitalist economies. The tough U.S. work requirements for families on welfare are both justified and compensated by the growing generosity of the work support system.

Privatization

Both European and the U.S. governments have a long record of using private sector contractors to provide everything from office supplies, to technical assistance, to full program operations.[84] Not surprisingly, there are claims and counter claims about whether private companies are more effective and cost effective in conducting employment programs than government agencies.[85] There are several advantages that private companies could potentially have over government agencies. One of the most important is that it is generally much easier to fire private than government employees. Not only does firing allow companies to replace poor performers, but the knowledge that an employee can be easily fired is bound to have some effect on the work effort of all employees. Similarly, it is usually easier for private companies to promote and give raises and bonuses to their employees than it is for government agencies.

Another major advantage of private firms is that they are often willing to enter into performance contracts in which their pay is based on performance. Such contracts are risk-sharing arrangements in which both the private contractor and the government agency agree to share both the potential gains and losses produced by the program. If companies working under performance contracts fail, government costs are lowered. By contrast, if the company exceeds expectations and qualifies for bonus payments, if the contract is well-written, the additional contract costs to government should be more than covered by program savings. Another possible advantage of performance contracting is that companies are highly motivated to provide high-quality services because without good services they could lose money. A more subtle advantage of private contracts is that government can fire poorly performing companies more easily than they can fire or even transfer their own employees. Stuck with the same personnel who failed the first time, government programs may have a more difficult time mounting effective new programs.[86]

Of course, there are strong denials from those who represent government, especially employee unions, that these potential advantages of private companies are realized in practice. Critics of private companies argue that the zeal for profits often leads companies to cut corners and deliver shoddy services provided by under-qualified employees who are not well paid. Companies can go bankrupt, and frequently do, which can leave government agencies in a difficult position if they suddenly lose their major source of service provision. Another argument is that companies make profits on the backs of the poor by accepting government money and then not providing high-quality services. Anyone who thinks these arguments against private companies are far-fetched should read Jason DeParle’s account of how Maximus, one of the most reputable international companies providing employment services, botched it’s welfare-to-work program in Wisconsin, and even seemed to engage in illegal practices.[87]

There is little doubt that privatization is growing in the U.S. and Europe and is here to stay. But there is a dearth of good research information on the most important questions, including whether private contracting actually saves government money, improves efficiency, delivers better and more accountable services, and avoids fraud. The war of anecdotes and seemingly logical arguments can go only so far. It would be a worthwhile investment for government to pay for high-quality research about the types of programs that can be effectively run by private companies, the specific types of contracts that would increase the chances that government gets what it’s paying for, and the types of regulation and oversight that would reduce fraud and mismanagement.

Employment and Training Programs

Modern, skill-based economies have all the employment problems that capitalist economies have always had such as recessions, an abundance of low-wage work, and the constant struggle to create opportunity for all, but now they have an additional problem that is a growing issue in many nations and that bears directly on the goal of balancing work activation, solidarity, and economic mobility. The additional problem can be summarized in one word: skills. Of course, skills have always been important to individual success in the labor market, but in large part because of technological changes and innovations in business organization, the proportion of high-paying jobs with employee benefits that requires high levels of skill has increased.[88] Any nation that wants to boost employment in jobs with good wages must figure out how to build skills in its workforce – and often, given the rapidly changing nature of modern economies, build them in individual workers more than once during their career.

The U.S. relies on a host of institutions to provide education and training for the next generation and to rebuild skills among workers who have lost their jobs. Here I will briefly examine five elements of the U.S. approach, although I do not make any claim that these elements work together to create anything like a system.[89] The first is what, to be frank, constitutes the typical path to the middle class. Children begin by doing well in the public or sometimes private schools, attend four-year colleges, and are then able to qualify for jobs that pay decent starting wages, usually accompanied by employee benefits such as health insurance, and provide access to job information networks and opportunities to move up the economic ladder. This is a tried and true path to success in America and western European nations and, from the perspective of solidarity, deserves at least one additional observation. One of the best ways to increase the economic and social mobility of young adults from poor families is to develop ways to get them to follow this first path and to emerge, usually in their early twenties at the beginning of their careers, with a four-year college degree. An excellent longitudinal study conducted at the University of Michigan shows that students from families in the bottom 20 percent of income nearly quadruple their chances of making it to the top fifth of income as adults by earning a four-year degree.[90] Equally important, they reduce their odds of staying in the bottom fifth like their parents by more than two-thirds. Perhaps the most important method of promoting this path to quality jobs is by providing funds in the form of grants, loans, and tax breaks to students from low-income families attending post-secondary institutions. In the 2008-2009 academic year, this funding, much of which went to students from low-income families, totaled $180.3 billion from both public and private sources, a very considerable sum of money that constitutes one of the nation's wisest investments in building skills in students from low-income families and thereby promoting equal opportunity.[91]

The second element of the American approach to education and training is federal programs that provide job training for low-income workers. The current version of the biggest program is called the Workforce Investment Act (WIA). Total funding for the program for 2009 was about $3 billion, which most analysts agree is not nearly enough to help all the low-income and unemployed youth and workers who could benefit from training services.[92] Even so, WIA programs train over 400,000 adults a year at an average cost of about $2,200 per trainee. There is good evidence from a random-assignment evaluation that a forerunner of the WIA, called the Job Training Partnership Act, had statistically significant if modest impacts by boosting earnings by 5 percent for adult males and around 10 percent for adult females who had been in the program as compared with controls. There were, however, no statistically significant impacts on the earnings of youth participants.[93] A second federal program, run by contractors to the federal government, is the Job Corps, a residential program offered in about 120 sites nationwide that often lasts as long as a year and can cost up to $25,000 per participant. A large-scale random-assignment evaluation showed that the Job Corps produced respectable short-term immediate impacts on employment and earnings.[94] However, a follow-up study on income about 4 years after youth finished the program showed a substantial decay in the earnings gains over time, leaving little question that the program's costs greatly exceed program benefits over the long term.

A third element of the employment and training system is the U.S. Employment Service (ES). Established in 1933, ES is the oldest cog in the U.S. approach to training, job matching, and job search. Annually about 19 million people register with the ES for job search and more than 200,000 employers report about 7 million job openings to ES. It is thought that around 19 percent of unemployed workers seeking work use ES. In addition to provides job matching services to anyone who comes through their doors, perhaps the central mission of the ES is to help recipients of unemployment benefits find jobs. States are strongly committed to this mission because, as we have seen, research shows that effective job search and job placement can reduce unemployment spells and thereby reduce state expenditures on unemployment benefits. Despite these numbers and the importance of their mission, the ES appears to be of declining importance in two respects. First, its budget has been cut by about half in constant dollars since 1984. Second, one of the most useful functions of the ES was to maintain an internet-based job-matching service, but in recent years the federal agency responsible for the ES has withdrawn its support for the job-matching service. As a result, private industry and the national organization that represents state workforce agencies have created their own internet-based job-matching system called JobCentral-NLX in which all states now or soon will participate.[95] Thus, although there is a clear need for an agency that can coordinate the various components of the U.S. approach to helping job seekers, the ES does not appear to play that role now and, given its funding problems, seems unlikely to play this role in the future.

In addition to these three approaches to education and job training, a fourth category is a diverse and often innovative set of training programs that are designed and conducted largely by state and local officials. One of the more remarkable programs in this category is Project QUEST conducted in San Antonio, Texas. Often involving adults for as much as 18 months, the program worked closely with local businesses to identify jobs for which trainees could qualify and then built their training programs to match the requirements of these jobs. Good but not random-assignment studies found that QUEST increased income of participants by between $5,000 and $7,500 per year.[96] An equally impressive state program was implemented in Portland, Oregon with parents on welfare. The project involved skills training for jobs available in the local economy and job search assistance after the completion of job training. A hallmark of the program was close cooperation between welfare officials, officials running the program, and local community colleges. A large random-assignment evaluation showed that the program increased employment by about 11 percentage points and increased earnings by 35 percent.[97] Yet another fascinating program, called Career Academies, was conducted in nine high schools around the U.S. The academies were organized as small schools within larger schools in which between 150 and 200 students took their classes together for the last 3 or 4 years of high school. A second major part of the intervention was that the academies featured a curriculum built around both academic subjects and technical subjects combined with real experiences in local businesses so that students could have work-based learning opportunities. A random assignment evaluation that followed students for 8 years following their expected high school graduation found that young men in the experimental group had earnings nearly $30,000 greater over 8 years than control boys. Boys who had been in the program were also 33 percent more likely to be married, an effect that may have been due in large part to their increased income and consequent desirability as a spouse and father.[98]

The fifth element of the American approach to education and training is community colleges. There are over a thousand community colleges in the U.S. with a total enrollment of 6.2 million students (about 35 percent of all post-secondary students). These institutions, which have lower tuition than four-year colleges, enroll a wide diversity of students and a much higher proportion of poor and minority students than four-year colleges.[99] Research shows that students who complete a two-year degree do in fact considerably upgrade their skills and increase their income significantly. Men with two-year degrees are estimated to earn about 15 percent more than their peers without degrees, while women increase their earnings by an impressive 48 percent by earning a two-year degree.[100] But the dropout rates are exceptionally high and the benefit of attending community college to most dropouts is close to zero unless they have completed at least a full year. If the dropout problem could be solved, community colleges could become an even more central link in the American attempt to promote educational opportunity and to reduce the fraction of workers receiving low wages.

In addition to this sprawling system of education and training supported in large part by public funds, many private businesses in the U.S. offer training to their employees. One of the most studied types of business training is apprenticeships in which workers take academic courses while working full time and acquiring experience and skills on the job. Research shows that employees who complete apprenticeship training receive an earnings boost that can be even greater than that provided by two-year community colleges, but there are very few registered apprenticeships in the U.S. and the federal government spends only $20 million helping to promote and register them.[101] Other types of training by employers add modestly to worker wages, but provide a substantial return on investment to employers.[102]

There is not much for European governments to learn from the American system of education and training. American universities, especially graduate schools, continue to provide some of the best education in the world, but the rest of the world, including or even especially Europe, have caught up with or surpassed the U.S. on most education measures. Similarly, there is little in the approach that the U.S. takes to training for Europe to emulate. Certain elements of the approach to training are successful in some locations, and there are many good ideas such as apprenticeships, job search assistance, and many of the two-year programs at community colleges that might inform training policy in other nations, but the western European nations already employ similar approaches.

Nonetheless, it is important to emphasize that education and training are the lifeblood of modern economies. There is little doubt that the U.S. will continue to reform its educational system and to invest huge resources in order to improve its somewhat stagnate world position. In addition, both the European nations and the U.S. need to continue their effort to find ways to help people who have limited education and skills improve both. Making progress in promoting opportunity and solidarity rests in large measure on better employment and training programs. Progress to date is moderate at best.

A Workforce Agency

Government agencies responsible for administering a nation's workforce programs have a vital role to play in work activation policy. There are variations across the agencies that currently administer the workforce programs, but their most important duties are to enroll benefit recipients into a program, to assess their labor-market preparation, to engage them in a work preparation program, to provide the assistance and motivation necessary to help recipients complete their program, to help them find a job, and to follow-up with needed help after recipients have started work. Few agencies provide follow-up services once a recipient has been placed, but the rate of job loss, especially for former welfare recipients, indicates that follow-up is sorely needed.

Arguably the most important program offered by workforce agencies is job search, a program in which the workforce agency helps recipients develop a resume, apply for jobs, and go for interviews. Especially when working with welfare recipients who do not have a strong work record, these programs often involve a few days of training in which recipients learn how to prepare their resume, how to dress for job interviews, and the importance of soft skills such as getting along with peers, following instructions, being respectful to supervisors, and showing up every day and on time. Some of the programs require recipients to apply for and interview for a specific number of jobs each week or month and to show evidence that they have complied with the requirement.

Job markets are not perfect. There are firms that want workers with certain characteristics that sometimes have trouble finding them. In the U.S. and Europe, government workforce agencies have often helped match potential workers with employers, a service that has value for both the employee and the employer. Workforce agencies that consistently perform this job-matching function come to be relied on by employers. Employers are especially appreciative if they can tell the workforce agency what type of worker they need and then are given contacts with potential employees who do in fact meet their requirements. But interviews with researchers and administrators at workforce agencies leave the impression that almost everyone agrees that workforce agencies could do a better job of helping match potential employees – including those from both unemployment and welfare programs – with employers. If this were done well, it could improve the efficiency of the job market, save employers money, increase the income of program participants, and save taxpayer dollars as well.

Problems of Balancing Work and Solidarity

The citizens of Western democracies have been willing to tax themselves to provide assistance to those who have been left behind by many previous societies and by many other nations in the world today. Some of the solidarity programs are based on insurance principles, but most are financed in whole or in part out of taxes collected by government and represent transfers from the better-off to the worse off. In this broad context, the recent emphasis on work activation by the European nations and the U.S. represents a coming to terms with financial realities. The evidence reviewed in this paper shows that every nation examined has adopted work activation policies and that they have often been successful in increasing employment among able-bodied adults, including some formerly considered too old, too frail, or too troubled to work. Remarkably, the poverty data shown in Figure 1 indicate that, despite the new emphasis on work activation policies, European solidarity policies are still effective in greatly reducing poverty while U.S. solidarity polices are less effective in reducing poverty but still reduce poverty by over one-third. Even so, systems designed by humans, especially when they are relatively new, have flaws. With an eye toward fixing these flaws, I next review several of the most important in the programs that are still undergoing change and development to increase the number of people working while ensuring the wellbeing of workers and their families.

Too Few Jobs

The Netherlands and the U.S. provide two fascinating stories about how many jobs a nation's economy can produce. The U.S. job machine jumped into gear following the recession of 1982. However, job growth during the 1980s, which could probably be called moderate, paled by comparison with the rapid growth of the 1990s. Between the mild recession of 1991 and the recession of 2001, the American economy added 24.3 million jobs[103] and the employment/population ratio zoomed from 61.4 to 64.3.[104] Since the recession of 2001, however, jobs have become a serious problem in the U.S. As we saw in Figure 4a, by 2009 the U.S. E/P ratio was lower than the ratio for Germany, the Netherlands, and the UK. It was not only the Great Recession that began in 2007 that caused the American job machine to sputter, however, because the U.S. has had a lower E/P ratio than both the Netherlands and the U.K. since 2001. Thus, the U.S. has already had an 8-year period (and projections are for at least another two or three years of modest job growth)[105] when many families could not find work. These developments raise important questions about the strategy of emphasizing jobs, even low-wage jobs, and expanding family income by providing cash and in-kind benefits from the work support system. Both the EITC and the child tax credit, two of the most lucrative work supports, can boost income only when people have earnings. They effectively increase income as more and more people find low-wage work, but they double down on family losses when unemployment expands because families lose both their earnings and the payments through the tax system that were based on earnings.

Recessions

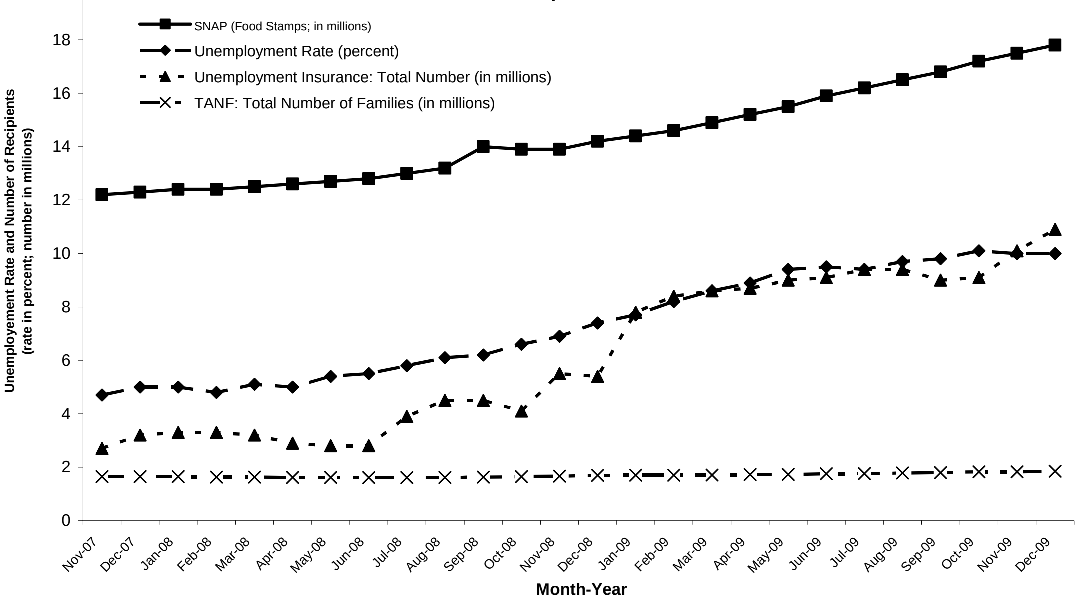
The most extreme cases of job shortages occur during recessions, one of the most serious flaws in capitalist economies. According to OECD data, between 1960 and 2010, the German economy had negative growth in 25 percent of the quarters, the Netherlands in 19 percent, the U.K. in 20 percent, and the U.S. in 14 percent.[106] Clearly, despite modern theory and practice of using fiscal and monetary policy to regulate economic growth, the economies of some of leading Western democracies are in recession an average of nearly 20 percent of the time. Even the U.S., which until recently had the best record of avoiding negative growth over the four decades, was in recession 14 percent of the time – and now is trying to leave the worst recession since the Great Depression of the 1930s.

All recessions are not created equal, but the hallmark of every recession is that unemployment increases. Unemployment for workers is usually accompanied by financial problems. This is especially the case when families carry large debt loads because losing income in the context of debt can lead to bankruptcy with possible long-term consequences for a family's credit. Even if families can avoid bankruptcy, unemployment typically causes several levels of misery, often starting with families being forced to reduce or eliminate luxuries such as eating out and entertainment, but then progressing to reduced spending on necessary purchases such as food and clothing, selling items of value, including the family's home, reduced family investment in education, and increasing debt. Particularly hard hit are those without unemployment insurance, especially in households with only one earner. Desperation can set in quickly when a household loses all its earnings and unemployment benefits run out. In some cases, the consequences include entire families losing their home and moving in with relatives or friends.

Recessions underline the tension between the growing demand for work activation and the desire to promote solidarity. If there is always difficulty knowing where to draw the line between expecting work and identifying people who are not able to work steadily, the line certainly shifts to include more people on the nonwork side during recessions. Some people do find jobs during recessions, but there are many people who either cannot find jobs at all or take much longer to find them. The two major tools the Western democracies have developed to help people during recessions are unemployment insurance and welfare. The duration of unemployment insurance varies across the Western democracies from 26 weeks to well over a year, but eventually coverage ends (see Appendix). At this point, the second tool – welfare – becomes available. The trick is to provide both unemployment and welfare without giving up on the idea that people should do everything possible to work. Even so, the work programs must have the flexibility to be implemented with more compassion during recessions.

Many critics of the post-welfare reform regime in the U.S. are arguing that the program has been a bust during the Great Recession (and to a lesser extent, during the recession of 2001). The critics have a point. Figure 7 shows that as the unemployment rate increased rapidly after the official onset of the recession in December 2007, the number of people receiving both food stamps and unemployment insurance payments increased dramatically. Of course, this relationship between rising benefits from welfare programs and rising unemployment is exactly what the welfare programs were designed to accomplish. By contrast, the number of people on TANF hardly rose at all and in some months actually declined in some states – all during the worst recession since the Great Depression.

Figure 7
Unemployment Rate and Number of SNAP, Unemployment Insurance, and TANF Recipients, 2007-2009



Source: "SNAP (Food Stamps)": http://www.fns.usda.gov/pd/34SNAPmonthly.htm; "Unemployment Rate": http://data.bls.gov/PDQ/servlet/SurveyOutputServlet?data_tool=latest_numbers&series_id=LNS14000000; "Unemployment Insurance," author analysis of weekly claims data available at http://ows.doleta.gov/unemploy/claims.asp; "TANF": http://www.acf.hhs.gov/programs/ofa/data-reports/index.htm.

Why the TANF program responded this way to rising unemployment is not clear. One thing that is clear, however, is that the authors of the 1996 welfare reform legislation anticipated that recessions would occur and that the number of people who qualify for cash benefits would rise during recessions. Because state governments – who are responsible for establishing the specific characteristics of the TANF program in their state – are given a fixed amount of annual funding to conduct TANF activities, the authors of the 1996 legislation reasoned that it would be difficult for states to come up with additional funds to pay for increased TANF enrollment during a recession. So they included a Contingency Fund that gave states additional money when unemployment or food stamp use increased by a specified amount. The fund was provided with $2 billion in guaranteed funding, thereby indicating how seriously Congress took the need for emergency funds to pay additional welfare benefits for those who couldn't find work during a recession. And yet, as Figure 7 shows so clearly, the Great Recession has hardly led to a rise in the number of families receiving TANF cash payments. Even when Congress enacted another pot of guaranteed funding as part of the American Reinvestment and Recovery Act of 2008, many states still did not provide cash welfare to additional families. This lack of response to the Great Recession is strong evidence that the TANF program should be reformed to help more destitute families during recessions.[107] The more general conclusion from this episode is that balancing work programs with solidarity programs requires the Western democracies to have flexible welfare programs that make access to benefits less difficult during times of economic distress.

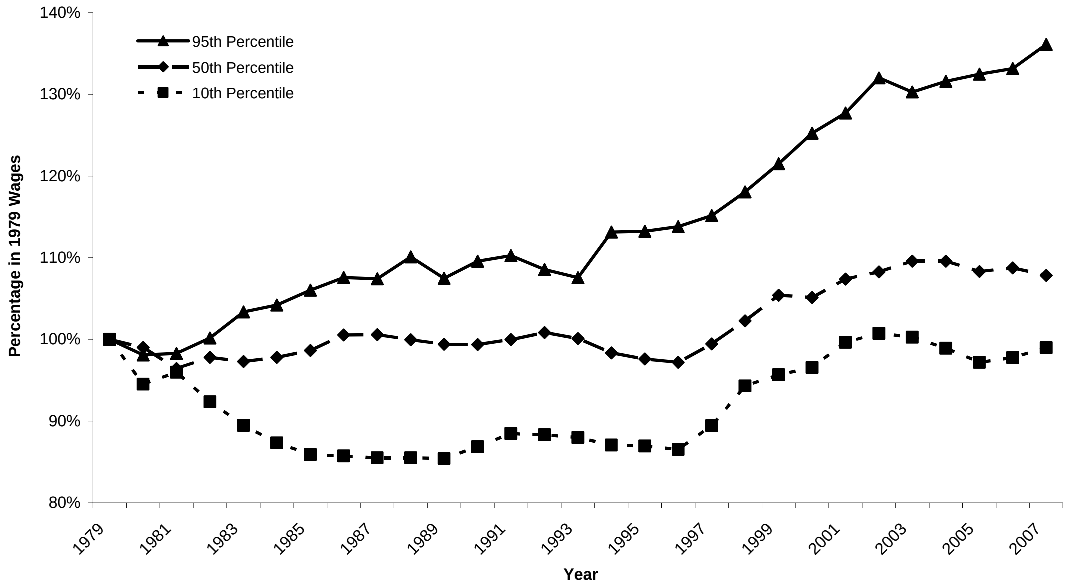
Recessions represent a kind of acid test of finding a balance between strong work activation policy and solidarity. The U.S. is failing this test in the Great Recession.

Low Wages

Another important problem of capitalist economies is that they generate lots of low-wage jobs that yield incomes that are difficult for a family to live on. The U.S. economy is especially vulnerable to this problem. Although recent research by Richard Burkhauser and his colleagues shows that the charge that only the rich have done well in recent decades in the U.S. is inaccurate because, at least during the economic expansion of the 1990s, the entire distribution of family incomes moved up, the wage data at the bottom of the distribution are nonetheless discouraging (Figure 8).[108] Wages at the 10th percentile, for example, did improve nicely during the 1990s, but they managed only to return to the level of 1979. Thus, in effect, U.S. wages at the bottom of the distribution have not improved in three decades while wages further up the distribution have enjoyed improvement, modest in the middle and large to very large at the top. Families with low wages boosted their income by sending additional workers into the economy or working more hours.

Although Europe also has a problem with low-wage jobs, recent studies indicate that European countries generally have fewer low-wage workers than the U.S. Based on an elaborate study involving both survey data and case studies sponsored by the Russell Sage Foundation,[109] Gerhard Bosch reports extensive data on low-wage employment in Denmark, France, Germany, the Netherlands, the U.K., and the U.S. Defining low-wages as two-thirds of the median hourly gross wage, Bosch finds that Germany, the Netherlands, and the U.K. have an average of about 20 percent of their employees working for low wages as compared with 25 percent for the U.S.[110] France and Denmark, with only 11.1 percent and 8.5 percent, respectively, of employees receiving low wages, offer an even greater contrast with the U.S. Bosch attributes the differences between the European nations and the U.S. to a complex web of factors. Roughly, he and his colleges believe that employers in Europe use innovative forms of work organization, invest more in training, and employ newer technologies, all of which boost the productivity of workers, thereby permitting higher wages. Based on case studies of call centers, food processing, retail outlets, hospitals, and hotels in all these countries, Bosch and his colleagues argue that collective bargaining agreements also play an important role in minimizing the number of low-wage jobs.

Figure 8
Trend in Real Hourly Wages at Selected Points in Wage Distribution in the United States, 1979-2007



Note: Hourly wages based on tabulations of Current Population Survey files, converted to constant dollars using the CPI-U-RS.
Source: Lawrence Mishel, Jared Bernstein, and Heidi Shierholz, *The State of Working America 2008-09*, Table 3.5.

The U.S. minimum wage may be a factor here. Although the minimum wage was increased by Congress in 2007, it has not kept up with inflation over the years, let alone with measures of economic growth such as GDP per capita.[111] There is a long-running battle among economists about whether increasing the minimum wage reduces job growth because employers cannot afford to hire people at a higher minimum wage. There may be some agreement that very modest increases – perhaps enough to keep up with inflation – would not have a major impact on jobs, but even here there likely would be some disagreement. This is an issue on which conservatives strongly assert that a higher minimum wage destroys jobs while liberals assert with equal fervor that the minimum wage can be raised without harming job creation.[112]

Conflicts over the minimum wage, however, must be considered in light of the fact that many low-wage workers, including most mothers leaving welfare, find jobs that pay well above the minimum wage. Surveys of mothers leaving welfare by several states in the years after the 1996 welfare reforms showed that, in say 1999, the average wage was roughly $7.15 per hour at a time when the minimum wage was only $5.15.[113] Some economists argue, however, that raising the minimum wage can have an effect on wages above the minimum due to a kind of domino effect in which raising the minimum has impacts all along the low-wage distribution. Again, whether this claim is accurate does not seem to be clarified by research as shown by the reviews cited previously.

An important issue raised by the debate over low wages is whether there could be a supply side effect on low wages if workers who fill these positions had more education. Labor economist Gary Burtless examined this issue in his 1990 edited book *A Future of Lousy Jobs?* Burtless argued that if low-wage employees had more education and skills, they would be able to raise their productivity and employers would be willing to pay them higher wages.[114] Additional training as a strategy for boosting wages resonates with the findings of the Russell Sage study reported by Bosch and his colleagues comparing low-wage employment in the U.S. and Europe. Even if this claim is true, however, it is not obvious how the U.S. or European nations could boost average education levels of those at the bottom. Both the U.S. and Europe have been trying for many years with only modest success, especially in the U.S. (see the section above on “Employment and Training Programs”). As we will see, a key here may be relying on employer-provided training, perhaps with government subsidies, rather than training sponsored by government. As James Heckman argues, employers know exactly the skills they need their employees to have and tailor their training to precisely these skills, thereby promoting efficiency while boosting skills and wages.[115]

In the end, it seems likely that some mix of collective bargaining agreements, more efficient forms of work organization, greater use of technology, higher levels of education, and employer training hold the answer to improving wages at the bottom of the distribution. As always, the particular mix is likely to vary from country to country. But it seems clear that low wages are another problem that is not being solved by market forces. Government intervention is a necessary ingredient of solving the low-wage problem as in fact many of the European nations have already demonstrated.

Disconnected Mothers

As we have seen, a problem with strong work requirements in welfare programs that has become more and more obvious in the U.S. is that many mothers lose their welfare benefit but are not steadily employed. Any nation that includes full-check sanctions that deprive recipients of their entire cash benefit runs the risk of increasing destitution. Clearly, if recipients lose their cash benefits and have no earnings, they are likely to have difficulty supporting themselves and their children. As Rebecca Blank and Brian Kovak have shown, based on the Current Population Survey, between 1990 and 2005 the percentage of all single mothers who had no cash welfare and no earnings increased from 9.9 to 20.0, representing a little more than a doubling of single mothers who are at great risk of becoming destitute.[116] Mothers can respond by employing various strategies identified by Edin and Lein under the old Aid to Families with Dependent Children Program in the U.S., such as living with someone who has an income like a boyfriend or relatives, getting money and goods from friends or relatives, and obtaining illegal income from selling drugs and similar activities. These strategies, however, tend to yield income that is unreliable and unstable and may pose risks as great as deprivation it-self.[117] The number rose, at least in part, because mothers who would have been on welfare and had a steady stream of cash income – modest to be sure, but steady nonetheless – before welfare reform were no longer on welfare.

Sanction policy undoubtedly plays a role here. To paraphrase Bruce Meyer, sanctions are not benign. In an early study, Rebecca London used data from the 1990 Survey of Income and Program Participation to trace the impact of partial and full sanctions on the living arrangements of welfare mothers. She found that among other effects, following the loss of their welfare cash benefit, many mothers were no longer able to maintain a separate household. As a result, they often moved in with their mothers.[118] Some might interpret this outcome as a step away from personal responsibility and financial independence. Similarly, a longitudinal study of welfare mothers followed for six years beginning in 1997 found that 9 percent of them became “chronically” (at least 25 percent of the time) disconnected (without cash welfare or earnings).[119]

Perhaps the greatest risk of sanctions policy is that when families that do not work lose their cash benefit, they could fall into deep poverty and experience hardships such as food deprivation, termination of household utilities, and housing loss. A study by the U.S. Department of Agriculture showed that between 1990 and 2004, families in deep poverty defined as below half the poverty level experienced a notable decline in total household income from all sources.[120] Using data from the Survey of Income and Program Participation and controlling for inflation, the authors found that these households, disproportionately headed by women, had total income of $1,033 in 1990, $805 in 2001, and $825 in 2004 (a 20 percent decline since 1990; incomes in all three years expressed in 2000 dollars). By far the biggest source of the decline was the fall in cash welfare benefits from $369 in 1990 to $97 in 2004, a decline of nearly 75 percent. This study does not show that sanctions were a cause of people falling into deep poverty, but a reasonable conclusion from the studies reviewed here is that a substantial number of families lose their cash welfare benefit due in large part to sanctions and that the adult in many of these families does not retain permanent employment. It is certain that whatever the cause of families with children falling into deep poverty, they were substantially worse off in 2004 than in 1990. Census data show that there was actually a slight decline in the number of mother-headed families in deep poverty after welfare reform in 1996,[121] but those who were in deep poverty were worse off after welfare reform than they had been before welfare reform.

Conclusion

The Western democracies have developed many effective policies and programs to temper the malign effects of capitalism. These policies and programs have always represented a balance between the desire of citizens to show solidarity with those who have trouble working and the need to encourage work which, after all, is the source of the money that transforms compassion into actual benefits. Faced with increasing difficulty in financing their solidarity programs and fighting stiff international competition for jobs, over the past two decades or so there has been a gradual shift in most of these nations to work activation policies that aim to increase the number of people working and to reduce the number of people dependent on government benefits. To a large extent, as work activation policies have increased the fraction of adults with jobs, poverty in all these nations has declined. Although not examined here, data from the Scandinavian countries also show that work activation and solidarity can be reconciled.[122] Financial necessity may push the Western democracies further in the direction of work activation policies to exert still more control over increases in government spending and to increase tax revenues. As these changes take place, the Western democracies have a lot to learn from each other's experience. Besides the fundamental finding of basic compatibility between work activation and solidarity, several additional lessons already seem apparent. Three of the most important are that innovative forms of work organization, investments in worker training, investments in efficiency-promoting technologies, and collective bargaining agreements can minimize the number of low-wage jobs; that tighter work requirements in welfare and employment programs and work incentives in disability programs have potential to increase work levels; and that even low-wage work can both increase work incentives and reduce poverty when combined with work supports such as wage supplements, child care, and other in-kind benefits. If these countries can continue finding new ways to increase work without undue sacrifices in solidarity before they bankrupt themselves, both the work and solidarity traditions can be maintained and even improved.

APPENDIX

Appendix Table 1

Overview of Selected Social Programs in Germany, Netherlands, U.K., and U.S.: Welfare Benefits

	Germany	Netherlands	United Kingdom	United States
Basic Principles	• Raise standards of living and help people attain independence from social assistance	• Provide financial assistance for citizens who cannot support self or family, aimed at restoring self-sufficiency	• Tax-financed income support for means-tested non-full time workers	• Help needy families achieve self-sufficiency • Monthly cash assistance to means-tested families who are completing work-related activities • Block grant program to states
Conditions	• Unlimited duration • Citizens or citizens of most other EU states residing in Germany • No age condition, although those over age 65 receive separate monies • Must engage in job search/placement assistance	• Unlimited duration • Must be Netherlands resident • Must be over age 18 • Recipients under age 57.5 must look for work (sanctions imposed if beneficiary does not look for work)	• Unlimited duration • No nationality requirements, but claimants living outside the U.K. for two years before claim must satisfy habitual residence test • Must be age 16 • Persons capable of working should claim unemployment; willingness to work is not a condition for income support	• Recipients must work as soon as they are job ready • Lifetime limit of 5 years in program (with some exceptions) • Families must cooperate with child support enforcement
Resources Taken into Account	• All income including other social benefits and most assets for claimant and spouse (or partner)	• All resources regardless of nature and origin except for assets up to € 5,455 for a single person (double that for a couple)	• Most income resources, social security benefits, and pension are taken into account	• Varies by state, but most have both income and asset tests
Benefits	• Regular payments at standard rates in various amounts for different family members including allowances for housing and heating • One-time benefits for expenses including clothing, birth, home furnishing including appli-ances, and clothing for multi-day school trips • Additional benefits at beginning of school year for supplies	• Regular payments to all people who meet means-tested requirement • Extra payments to those with exceptional needs • Some assistance given to those with income just above social minimum to be used for "incidental but necessary expenditure," i.e. school trips, furniture, home appliances	• Regular personal allowances with premiums for families, pensioners, disability (at various levels), and caregivers • Extra cold weather payment of € 29 for means-tested families with child who is disabled or under age 5 when average temperature is at or below 0°C for seven consecutive days during the winter.	• Monthly cash payments • Transitional services and job training or job placement help • Monthly cash assistance to means-tested families who are completing work-related activities
Average Rates (Monthly)	Calculated from personal allowance added to housing and heating assistance: • Single Person: € 359 • Couple with two children: € 1,148 • Single parent with two children: € 990 • Additional housing and heating payment depends on the number of people. 3 people receive € 524	• Single person: € 615.15 • Married couple with or without children: € 1,230.32 • Single Parent: € 861.22 • Single persons and single parents can get an additional allowance up to € 246.06 from the municipality	• Single Person: € 645 • Couple with two children: € 1,602 • Single parent with two children: € 1,389	• Benefits vary widely by state--as of 2004 monthly benefits for a single parent family of three ranged from $170 in Mississippi to $709 in Vermont
Associated Rights and Integration Measures	• Assistance with visiting social services and a job offer when reasonable given recipient's restrictions • Comprehensive health insurance • Costs of housing and heating covered	• Plan of action for job interviews made at outset • Some of part-time earnings not taken into account to stimulate finding employment • Beneficiaries under health insurance act pay 6.5% of old-age pension and 4.4 % of wages or supplementary pensions • Nominal premium • Housing cost theoretically covered by general rate (rent assistance may be available)	• Some income disregarded to encourage work • Personal advisor meetings compulsory for lone parents to help with job placement • Development of system to make sure people are better-off working • Continuation of benefits for some duration after starting work • Rent supports • Free National Health Service prescriptions, dental treatment, eyesight tests and glasses vouchers, help with travel costs to doctor, free milk for pregnant women	• Participation in work programs is required for entry • States help with work training and work placement • Recipients often eligible for other national programs like food stamps, housing assistance, etc. TANF offices may help enroll people in these other services

Source: European Commission, http://ec.europa.eu/employment_social/missoc/db/public/compareTables.do?lang=en; TANF information from http://www.acf.hhs.gov/opa/fact_sheets/tanf_factsheet.html; Benefit range from http://www.nationalaglawcenter.org/assets/crs/RL32598.pdf.

Appendix Table 2

Overview of Selected Social Programs in Germany, Netherlands, U.K., and U.S.: Family Benefits

	Germany	Netherlands	United Kingdom	United States
Basic Principles	• Universal tax-funded system with fixed tax refunds of parental income • No variation with income or age of child • Additional child-raising allowance for non-working or part-time workers who care for child during first 14 months	• Tax-funded system with universal fixed amount and additional benefits for those with low family income	• Tax-funded system with universal fixed benefits and additional tax credit for those with low family income	• No universal transfer program • Universal child tax credit • Earned income tax credit (EITC) for means-tested working parents
Conditions	• Child must be under age 18 generally, age 21 if the child is unemployed, age 25 if the child is in vocational/higher education, and no age limit if the child must be cared for due to disability beginning before age 25	• Child must be under 18 • Child must live with the parent in the EU	• Child must be under 16 or in approved training up to age 20 • Child must live in the U.K. with parent or parent living in the U.K. must be contributing to costs of child-raising	• Child must be 16 or younger for child tax credit; under 19 or a student under 24 for EITC • For EITC household income could not be above $40,295 for a single parent with two children (2009) • For child tax credit, must generally be U.S. Citizen or Resident Alien and must be related to the beneficiary •For both EITC and child tax credit, the child must have lived with the beneficiary for at least half of the past year
Benefit Levels	• € 164 monthly for first and second children, € 170 monthly for third child, and € 195 monthly for fourth and subsequent children • Child-raising allowance is 67% of income of parent claiming benefit amounting to no less than € 300 per month and no more than € 1,800 per month	• € 64.99 quarterly up to age 5; € 78.92 quarterly for ages 6-11; and € 92.85 quarterly for ages 12-18 • Additional benefits (€ 82.83 monthly for the first child, € 25.43 monthly for the second child, € 15.00 monthly for the third child, € 8.75 monthly for the fourth child, and € 4.17 monthly for the fifth and subsequent children) are available for those with household income below threshold dependent on the number of children	• € 101 monthly for eldest child; € 67 monthly for subsequent children • Additional means-tested (high limit of £ 50,000) tax credit dependent on child's age up to a maximum of £ 2,300	• Child tax credit up to $1000 per child • Maximum EITC benefit for 2 children is $5,028 • Child tax credit benefits begin to phase out for family income over $110, 000 for two-parent family • EITC begins to phase-out at $16,420 for married parents
Other Benefits	• Entitlement to unpaid leave from work to raise child under age 3 • Supplementary means-tested benefit for employed parents	• Additional child care allowance if parents are both employed • Amount of childcare award depends on household composition, type of care, expense of care, and income of parents up to a maximum of € 6.10 per hour	• Means-tested benefit of € 584 for new mothers • Means-tested education allowance of € 35 weekly payable to 16-19 year-olds participating in full-time education or training	• Large employers must allow up to 12 weeks unpaid leave to care for newborn children or dependents

Sources: Child tax credit information from http://www.irs.gov/newsroom/article/0,,id=106182,00.html; Family and medical leave from http://www.dol.gov/dol/topic/benefits-leave/fmla.htm; EITC http://www.irs.gov/individuals/article/0,,id=96466,00.html.

Appendix Table 3

Overview of Selected Social Programs in Germany, Netherlands, U.K., and U.S.: Other Programs

	Germany	Netherlands	United Kingdom	United States
Housing Support	• Transfer program with various ceilings	• Means-tested households must pay minimum amount, government transfers cover 100% up to a "quaility limit" and 75% up to a ceiling	• 100% of housing covered by government transfers for those below an income limit, benefit tapers off up to ceiling	• Public Housing--government-owned housing for means-tested, elderly, and disabled • Housing Choice Voucher Program--means-tested; provides voucher to help cover the cost of rent
Food Support	• No specific programs	• No specific programs	• No specific programs	• Program for all means-tested (adults without children generally must work), provides money for non-alcohol food and drinks on debit-card • Free and Reduced School Meals--federal cash subsidies to schools to provide (free meals for children from families with incomes below 130% of poverty, reduced for children from families with incomes below 185% of poverty) to provide free and reduced-price breakfasts and lunches to means-tested students (note that all in-school meals are subsidized to some level) • Women, Infants, and Children (WIC)--Federal grants to states for food support programs for means-tested pregnant and postpartum women and their children up to age 5 • Program to subsidize meals and snacks for children in preschool programs
Childcare	• German government provides significant grants to provide preschool education--it generally is not free, but is heavily subsidized • Means-tested families can often get free or reduced rates at preschools, but 36% of children from lowest income families do not attend kindergarten (ages 3-6 in Germany)	• Effort to roll out innovative programs on trial basis for study • Many schools are private but all receive full public funding, childcare heavily subsidized by government and employers, particularly for children from low-income families	• Childcare tax credit for low-income parents working at least 16 hours a week • Childcare is a universal right from age 4	• Dependent and Child Care Credit--tax credit for care purchased for spouse, child, or other dependent so that benificiary can work or look for work, can get credit of 35% of expenses up to $3,000 for 1 person's care, $6,000 for 2 or more • Head Start and Early Head Start--grants to local public and private schools to provide comprehensive child development services to means-tested children before entering kindergarten--Early Head Start is for those under age 3 • Child Care and Development Block Grants--Child Care and Development Fund (CCDF) disbursed $7 billion in 2009 for subsidized child care to provide means-tested families with vouchers to send their children to child care • Several additional programs specifically for the disabled
Workforce Training/Education	• Strong emphasis on vocational training as part of public education and use of apprenticeship programs • € 1.5 billion annually given to help disadvantaged workers complete vocational training of some sort	• Government is responsible for helping youth and unemployed workers achieve a level of training to allow for employability • Further training is at expense of employer and employee (may be tax-deductible)	• There are a variety of vocational training programs aimed at youth and adults, including the Work Based Learning for Adults program targeted at the long-term unemployed in particular • The New Deal for Young People, part of the welfare system, is aimed at getting people aged 18-24 who have been unemployed for six months or longer into a subsidized job, a place on the Environment Task Force, volunteer sector employment, or a full-time vocational or training program--those who refuse any of the work options face welfare benefit sanctions • The New Deal for Long-Term Unemployed (ND25+) is for workers over 25 who have been unemployed for 18 months or longer--employers recieve a subsidy for employing them--includes some provision for vocational training	• Many workforce training programs • Department of Labor Workforce Investment Act provides for a Workforce Investment Board in every state--core services are available to everyone with specialized services for displaced workers • Deparment of Education spents approximately $1.9 billion annually in three areas: Adult Education and Literacy, Career and Technical Education, and Community Colleges • Provisions in tax code to subsidize employment and training, especially for low-income workers

Sources: HCVP/Public Housing, http://breadforthecity.blogspot.com/2008/07/public-housing-vs-section-8-brief.html; Dependent care, http://www.irs.gov/newsroom/article/0,,id=106189,00.html; SNAP, http://www.fns.usda.gov/snap/rules/Legislation/about.htm; School Lunch Program, http://www.fns.usda.gov/cnd/; WIC, http://www.fns.usda.gov/wic/; Head Start, http://www.acf.hhs.gov/programs/ohs/; Child Care and Development Block Grant, http://www2.ed.gov/about/offices/list/oii/nonpublic/childcare.html and http://www.acf.hhs.gov/programs/ccb/ccdf/index.htm; Job Training, http://www.policyalmanac.org/economic/job_training.shtml; Non-US Housing Data, http://www.oecd.org/document/3/0,3343,en_2649_34637_39617987_1_1_1_1,00.html; German Childcare Programs, http://www.oecd.org/dataoecd/15/35/37424318.pdf; Netherlands Childcare, http://www.oecd.org/dataoecd/44/13/1942338.pdf; UK Childcare, http://www.oecd.org/dataoecd/44/17/1942377.pdf; Netherlands Workforce, http://www.eurofound.europa.eu/eiro/studies/tn0804048s/nl0804049q.htm; German Vocational Program, http://www.bmbf.de/pub/germanys_vocational_education_at_a_glance.pdf; UK Vocational Training, http://www.parliament.uk/documents/commons/lib/research/rp2003/rp03-013.pdf.

Appendix Table 4

Overview of Selected Social Programs in Germany, Netherlands, U.K., and U.S.: Sickness/Short-term Disability

	Germany	Netherlands	United Kingdom	United States
Basic Principles	• Compulsory social insurance with benefits as percentage of income • Continuation of wages and salaries	• Continuation of payment by employer for two years	• Compulsory social insurance with flat rate benefits • Statutory sick pay by employer	See appendix table 5
Beneficiaries	• Employees • Possibility of voluntary insurance • Income under € 44, 100 for employees privately insured, € 48,600 for others	• All employees under age 65	• All employees subject to employer coverage • Social benefits for all employed, self-employed, and unemployed	
Conditions	• Doctor certified incapacity for work from day 4 of illness	• Employee must stay at home until contact from inspector • Inspector must be allowed to make home visits (beneficiary must facilitate own recovery) • Employee must notify implementation institution of whereabouts within 24 hours • Keep appointment with medical insurance office of implementation institution	• Support based on doctor certification and "work capability assessment" • Various earnings and tax payment minimums in base period (three previous years) • 3 day waiting period	
Benefit Levels	Employer: • Continuation of payment for manual and white-collar workers for 6 weeks “Social Insurance” • For sickness--70% of normal salary but not exceeding 90% of the net salary • Up to 1 year--Wages and income from normal work (during last 3 months) as much as is subject to contribution. After one year, adjustment for pensions	Employer: • Continued payment of 70% of wages up to maximum of € 185.46 per day • Industrial boards can increase the percentage with minister's approval “Social Insurance” • 70% of wages up to maximum of € 185.46 per day	Employer: • Standard rate is € 92 per week • No benefit for earnings less than € 111 “Social Insurance” • If under 25 years of age, € 60 per week and if over 25, € 75 per week for first 13 weeks • € 75 per week with additional € 30 per week for those capable of work and additional € 36 for those requiring support	
Benefit Duration	• 6 weeks for employer benefit • Sickness benefit limited to 78 weeks over 3-year period for the same illness	• 104 weeks	• Employer benefits for 28 weeks • Social benefits in assessment phase during first 13 weeks; main phase thereafter	
Other Benefits	• Maximum of 10 working days (20 for single parents) if child under 12 is ill and needs super-vision or care • Maximum of 25 working days per year per insured parent (50 for single parent) • No maximum for dying children	• Supplementary benefit can be claimed if 70% of daily wage is less than social minimum • Death grant for 100% of wages for one month	• No other benefits	
Taxation and Contribution of Benefits	• Employer paid benefits subject to taxation • Sickness insurance benefits are not • Employer paid benefits subject to social security contributions • Sickness insurance subject to pension insurance and unemployment insurance	• Benefits subject to taxation • Various social insurance contributions	• Benefits subject to taxation (for older program--not for lower-level of income) • Employer benefits treated like earnings	

Source: European Commission, http://ec.europa.eu/employment_social/missoc/db/public/compareTables.do?lang=en; SSDI information from http://www.ssa.gov/dibplan/index.htm; SSI information from http://www.ssa.gov/pubs/11000.html#part2; SSI maximum benefit from http://www.ssa.gov/OACT/COLA/SSIamts.html; SSDI maximum from http://www.elderlawanswers.com/Elder_Info/Elder_Article.asp?id=700

Appendix Table 5

Overview of Selected Social Programs in Germany, Netherlands, U.K., and U.S.: Long-term Disability

	Germany	Netherlands	United Kingdom	United States
Basic Principles	• Compulsory social insurance financed by covered employees and some self-employed	• Emphasis is on rehabilitation with both employer and employee • Different acts cover permanently disabled and those aged 17-27	• Compulsory social insurance for employees and self-employed with flat-rate long-term benefit	• Supplemental Security Income (SSI) is tax-revenue supported program for means-tested disabled and elderly • Social Security Disability Insurance (SSDI) is compulsory social insurance with payment based on estimated lifetime income
Beneficiaries	• Same as sickness • No compulsory insurance for workers making under € 400 per month or working for less than 2 months or 50 days per year if not pursued as occupation and if corresponding renumeration does not exceed € 400/month	• Normal program is same as sickness • Permanently disabled under age of 65 who cannot work by age 17 or disabled after 17 and were students for 6 months of prior year	• Same as sickness • No contributions or benefits for those with income under € 111 per week or self-employed with income under € 5,927 per year	• SSI covers means-tested U.S. citizens over age 65, have a disability, or are blind • SSDI covers those who have worked a sufficient amount prior to disability, amount needed depends on age
Conditions	• Total incapacity pension for those unable to work at least 3 hours a day in the normal labor market • Partial incapacity pension for those unable to work at least 6 hours a day in the normal labor market • For workers who can work between 3 and 6 hours a day, total incapacity may be received if there is no appropriate work	• If a person cannot earn the same as healthy workers with similar training and equivalent skills earn at location where she most recently worked • Cause of incapacity is irrelevant	• Incapacity for work for reasons of physical/mental illness or disability in a period of incapacity for work where there has been entitlement, or deemed entitlement, to short term incapacity benefit for 52 weeks	• SSI beneficiaries must meet disability requirements (or be blind or over age 65) and meet a means-test • SSDI workers must meet prior work requirements, must not be able to work, and must be expected to remain in that condition for a year or longer
Benefit Levels	• Fully disabled receive same amount as old-age pension • Partially disabled receive some percentage (66%) of old-age pension	• 75% of last daily wage (for long-term fully disabled, less for others) up to maximum of € 185.46 per day • Partially disabled receive percentage of remaining earning capacity up to € 185.46 per day	• € 105 per week, additional € 18/7.65 per week if disability began before age 35/44 • Extra € 62 per week for spouse over 60 or dependent child	• SSI payment maximum is $674 per month for an individual and $1,011 for a couple • SSDI payment based on estimated lifetime income
Benefit Duration	• Temporary incapacity paid beginning in 7th calendar month after beginning of incapacity • Converted to standard pension at appropriate age • Maximum benefit of 3 years	• Most benefits last up to age 65	• After 1 year incapacity until pension age	• Benefits last as long as disability lasts
Rehabilitation / Retraining	• Benefits for rehabilitation, participation in labor market, and supplementary benefits exist	• Employers can receive contribution reduction for employees over age 50 • Employers who hire a person aged 55 and over who has been unemployed for at least 52 weeks can receive compensation for wage costs • Any employer who employs a disabled worker or assigns them to a more suitable position can receive compensation for all costs involved or facilities to maintain, restore, or improve a disabled person's capacity for work • Facilities may be granted to help improve living conditions	• Preventative health care, rehabilitation, and therapy provided by national health service • Vocational assessment, rehabilitation, and supported employment are provided by statute	• Try to help people apply to food stamps and Medicaid • Have work incentives to help people return to some level of work while still receiving SSI/SSDI benefits
Taxation and Contribution of Benefits	• Gradual transition to deferred taxation from 2005-2040 • If pension is only income, amount below € 16,460 not taxable (double that for married couple) • Pensions contribute to social security	• Pensions subject to taxation • Social insurance and social security are deducted from benefits	• Long-term incapacity benefit is taxable • Severe disability benefits are not taxable • No contributions to social programs	• Some percentage of benefits are taxable depending on income
Preferential Employment of Disabled	• Cause of incapacity is irrelevant	• Legislation in preparation	• Discrimination is illegal (including failure to make reasonable accommodation)	• Discrimination is illegal

Source: European Commission, http://ec.europa.eu/employment_social/missoc/db/public/compareTables.do?lang=en; Extra information about Germany and Netherlands, https://www.facworld.com/FacWorld.nsf/doc/nldedis/$file/dischdene.pdf

Notes

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3 Anton Hemerijck, "Recalibrating Europe's Semi-Sovereign Welfare States" (discussion paper, Social Science Research Center Berlin, Berlin, Germany, 2006), http://bibliothek.wzb.eu/pdf/2006/i06-103.pdf.

4 Ron Haskins, *Work over Welfare: The Inside Story of the 1996 Welfare Reform Law* (Washington, DC: Brookings, 2006); Ron Haskins, "Effects of Welfare Reform on Family Income and Poverty" in *The New World of Welfare*, edited by Rebecca M. Blank and Ron Haskins (Washington, DC: Brookings, 2001); Ron Haskins, "What Works is Work: Welfare Reform and Poverty Reduction," *Northwestern Journal of Law and Social Policy* 4 (Winter 2009).

5 Timothy Casey, "The Sanction Epidemic in the Temporary Assistance for Needy Families Program," *Legal Momentum: The Women's Legal Defense and Education Fund* (August 2010), http://www.legalmomentum.org/assets/pdfs/sanction-epidemic-in-tanf.pdf; Michael Wiseman and Katharine Kairys, "Workfare in the United States: What Time Has Told," draft, *George Washington Institute of Public Policy* (June 2010); Jason DeParle, *American Dream: Three Women, Ten Kids, and a Nation's Drive to End Welfare* (New York: Viking Adult, 2004).

6 Ron Haskins, "The Social Safety Net: Impact of the Recession and of the Recovery Act," testimony before the Committee on the Budget, U.S. House of Representatives: 2009 Committee Meetings (December 9, 2009, http://budget.house.gov/hearings2009.aspx.

7 There have been hundreds of books, chapters, and journal articles about the 1996 reforms. Here is a small selection of important examples: Douglas J. Besharov and Douglas M. Call, editors, *Poverty, Welfare, and Public Policy*, Journal of Policy Analysis and Management Classics Series (Wilmington, DE: Wiley, 2009); Committee on Ways and Means: U.S. House of Representatives, "Appendix J: The Experimental Evidence of Welfare-Related Initiatives," in 2008 Green Book (Washington, DC: U.S. Government Printing Office, 2008), http://waysandmeans.house.gov/singlepages.aspx?NewsID=10490; Rebecca M. Blank and Ron Haskins, editors, *The New World of Welfare* (Washington, DC: Brookings, 2001); James P. Ziliak, editor, *Welfare Reform and Its Long-Term Consequences for America's Poor* (New York: Cambridge University Press, 2009); Kristin S. Seefeldt, *Working after Welfare: How Women Balance Jobs and Family in the Wake of Welfare Reform* (Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 2008); Jeffrey Grogger and Lynn A. Karoly, *Welfare Reform: Effects of a Decade of Change* (Cambridge, MA: Harvard University Press, 2005);

Gregory Acs and Pamela Loprest, *Leaving Welfare: Employment and Well-Being of Families that Left Welfare in the Post-Entitlement Era* (Kalamazoo, MI: Upjohn, 2004); Carolyn J. Heinrich and John Karl Scholz, editors, *Making the Work-Based Safety Net Work Better: Forward-Looking Policies to Help Low-Income Families* (New York: Russell Sage, 2009).

8 This heading is a reference to the Kok Report on work activation in European countries which asserted that "Policies to promote economic growth must be backed up by structural reforms to make labour markets more flexible and work more attractive, to extend working life and develop human resources;" see Wim Kok, "Jobs, Jobs, Jobs: Creating More Employment in Europe," Report of the Employment Task Force (November 2003), http://www.mol.fi/mol/en/99_pdf/en/90_publications/employment_taskforce_report2003.pdf.

9 Of the voluminous literature on these issues, here are several articles which study the negative personal consequences of unemployment: Paschal Sheeran, Dominic Abrams, and Sheina Orbell, "Unemployment, Self-Esteem, and Depression: A Social Comparison Theory Approach," *Basic and Applied Social Psychology* 17, no. 1 (1995): 65-82; Lars Iversen and Svend Sabroe, "Psychological Well-Being Among Unemployed and Employed People After a Company Closedown: A Longitudinal Study," *Journal of Social Issues* 44, no. 4 (1988): 141-152; Nick Carroll, "Unemployment and Psychological Well-Being," *Economic Record* 83, no. 262 (2007): 287-302.

10 LaDonna Pavetti, "Policies to Time-Limit AFDC Benefits: What Can We Learn from Welfare Dynamics?" Urban Institute, paper presented at the Institute for Social and Policy Studies, Yale University (November 30, 1994): Table 1, Distribution of Total Time on Welfare; See also Mary Jo Bane and David T. Ellwood, "Slipping Into and Out of Poverty: The Dynamics of Spells," *Journal of Human Resources* 21, no. 1 (1986): 1-23.

11 Leslie J. Turney, Sheldon Danziger, and Kristin S. Seefeldt, "Failing the Transition from Welfare to Work: Women Chronically Disconnected from Employment and Cash Welfare," *Social Science Quarterly* 87, no. 2 (2006): 227-249.

12 Harry J. Holzer and Robert I. Lerman, "The Future of Middle-Skill Jobs," CCF Brief #41 (Washington, DC: Brookings, February 2009).

13 A recent study on the wages of employees in the U.S. and European nations found that 25 percent of employees in the U.S., 22.7 percent of German workers, 21.7 percent of the employed in the U.K., 17.6 percent of employees in the Netherlands, 11.1 percent of workers in France, and 8.5 percent of employees in Denmark received wages less than two-thirds of the national median of gross hourly wages; see Gerhard Bosch, "Low Wage Work in Five European Countries and the US," Geneva: International Labor Organization, Conference on Regulating for Decent Work: Innovative Labor Regulation in a Turbulent World, July 8-10, 2009, http://www.ilo.org/public/english/protection/condtrav/pdf/rdwppt45a.pdf.

14 For good reviews of the quality of jobs mothers leaving welfare actually got; see Robert B. Reich, "Perspective on Employment: Springboards Instead of Safety Nets," *Los Angeles Times*, February 14, 1995, p. B7; Tracy Thompson, "Welfare's Fast-Food Solution: Some See Industry as One Way to Put Recipients to Work," *Washington Post*, July 2, 1995, p. B1; Jason DeParle, "Compassion Play: Less Is More: Faith and Facts in Welfare Reform," *New York Times*, July 2, 1995, p. 4.1.

15 Barbier, *Welfare to Work Policies in Europe: The Current Challenge of Activation*; Betzelt, "'Activating' Labour Market Policies and Their Impact on the Welfare Triangle and Social Inequality."

16 On paper, parents are almost always better off working than on welfare, especially in the U.S. However, one study found that almost 50% of welfare leavers have lower income a year after leaving welfare than they did on welfare; see Maria Cancian, "Before and After TANF: The Economic Well-Being of Women Leaving Welfare," *Social Service Review* 76, no. 4 (2002): 603-639; also see Heinrich and Scholz, editors, *Making the Work-Based Safety Net Work Better: Forward-Looking Policies to Help Low-Income Families*.

17 All the countries under study here have been enacting government programs that "make work pay." In the U.S. a low-income working family, with an entitlement to the EITC, the Child Tax Credit, SNAP, and Medicaid plus possible access to child care and housing, could easily cost government more off welfare than on welfare.

[18] Domestic Social Policy Division, *Cash and Noncash Benefits for Persons with Limited Income: Eligibility Rules, Recipient and Expenditure Data*, FY2002-FY2004, RL33340 (Washington, DC: Congressional Research Service, March 2006), p. 5.

[19] Robert Rector, Katherine Bradley, and Rachel Sheffield, "Obama to Spend $10.3 Trillion on Welfare: Uncovering the Full Cost of Means-Tested Welfare or Aid to the Poor," Heritage Special Report no. 67, Heritage Foundation (September, 2009), 3 http://www.heritage.org/Research/welfare/sr0067.cfm.

[20] For a succinct review of comparative social spending in the U.S. and Europe; see Jens Alber, "What the European and American Welfare States Have in Common and Where They Differ: Facts and Fiction in Comparisons of the European Social Model and the United States," *Journal of European Social Policy* 20, no. 2 (2010): 102-125; Irwin Garfinkel, Lee Rainwater, and Timothy M. Smeeding, "A Re-examination of Welfare States and Inequality in Rich Nations: How In-kind Transfers and Indirect Taxes Change the Story," *Journal of Policy Analysis and Management* 25, no. 4 (2006): 897-919.

[21] Adam Carasso, Gillian Reynolds, and C. Eugene Steuerle, "How Much Does the Federal Government Spend to Promote Economic Mobility and For Whom?" Pew Charitable Trusts (February 2008), http://www.economicmobility.org/assets/pdfs/PEW_EMP_FEDERAL_SPENDING.pdf.

[22] Ron Haskins, "Governors and the Development of American Social Policy," in *A Legacy of Innovation: Governors and Public Policy*, edited by Ethan G. Sribnick (Philadelphia, PA: University of Pennsylvania: 2008).

[23] Jens Alber, "The Rise and Relative Decline of the U.S. Educational System," seminar presentation at the Free University of Berlin, November 27, 2009.

[24] Lei Zhou, "Revenues and Expenditures for Public Elementary and Secondary Education: School Year 2007-08 (Fiscal Year 2008)" (NCES 2010-326), National Center for Education Statistics, 2010.

[25] In the United States, 1996 marks a renewed emphasis on work by both the federal and state governments with the passage of federal welfare reform legislation that resulted in millions of adults, primarily mothers, leaving the welfare rolls, most of them to work. In the early 1990s in Europe, the European Commission published several papers that "highlighted the adverse effects of social benefits and called for a redirection of economic and social policy in the EU (European Union)," Alber, "What the European and American Welfare States Have in Common and Where They Differ: Facts and Fiction in Comparisons of the European Social Model and the United States," p. 119. Perhaps an even more definitive statement of the rejection of socialism and the emphasis on individual responsibility and work was the 2005 Lisbon Agenda refinement and review by the Kok Committee which, among other recommendations, directed the European nations to: "Create more and better jobs; attract more people into employment; and modernise social protection systems;" see Kok, *Jobs, Jobs, Jobs: Creating More Employment In Europe*; also see Europa Glossary, "Lisbon Strategy," http://europa.eu/scadplus/glossary/lisbon_strategy_en.htm.

[26] Many people in the United States date the beginning of the women's rights revolution with the publication of Betty Friedan's *The Feminine Mystique* (Norton) in 1963.

[27] Children in female-headed families are four or five times as likely to live in poverty as children in married-couple families; see Haskins, "What Works is Work: Welfare Reform and Poverty Reduction." In one of the first studies that summarized the literature on post-divorce financial status of custodial mothers and non-custodial fathers, Lenore Weitzman reported that mothers and children experienced, "a 73 percent decline in their standard of living," while their former husbands experienced, "a 42 percent rise in their standard of living;" see Lenore J. Weitzman, *The Divorce Revolution: The Unexpected Social and Economic Consequences for Women and Children in America* (New York: Free Press, 1985), p. xii.

[28] I use OECD data for the U.S. for consistency in comparing different countries. Note that data from the U.S. Bureau of Labor (BLS) statistics on employment-population ratios yields significantly lower figures. The figures that OECD uses for population include only the working population—those under age 64, while BLS includes all Americans in their population figures. The two data sets do agree on significantly increased female employment over the latter half of the 20th century—the BLS data shows a female employment-population ratio of 35 percent in 1960 and around 55 percent in 2009.

[29] OECD Statistics, "LFS by Sex and Age-Indicators: Employment/Population Ratio, Women, Total, (http://stats.oecd.org/Index.aspx?DatasetCode=LFS_SEXAGE_I_R [July 2010]); Bureau of Labor Statistics, "Labor Force Statistics from the Current Population Survey: Seasonally Adjusted Employment-Population Ratio, Women, 16 Years and Over," LNS12300002 (http://bls.gov/data/#employment [July 2010]).

[30] World Bank Database, "World Development Indicators: Life Expectancy at Birth, Total (Years)," SP.DYN.LE00.IN (http://databank.worldbank.org/ddp/home.do [July 2010]).

[31] Social Security Online, Actuarial Publications, "Table IV. B2.-Covered Workers and Benificiaries, Calendar Years 1945-2085," Historical Data and Intermediate Assumptions. (http://www.ssa.gov/OACT/TR/2009/lr4b2.html#3, [July 2010]).

[32] OECD Statistics, "LFS by Sex and Age-Indicators: Netherlands Employment/Population Ratio, All Persons, 55-64" (http://stats.oecd.org/Index.aspx?DatasetCode=LFS_SEXAGE_I_R [July 2010]).

[33] Thomas Hobbes, Leviathan (New York: Penguin Books, 1985), Chapter XIII.

[34] Bane and Ellwood, "Slipping Into and Out of Poverty: The Dynamics of Spells;" Turney, Danziger, and Seefeldt, "Failing the Transition from Welfare to Work: Women Chronically Disconnected from Employment and Cash Welfare;" Lawrence Mead, *Beyond Entitlement: The Social Obligations of Citizenship* (New York: Free Press, 2001).

[35] For an overview of the programs across several European countries; see Herwig Immervoll, "Minimum-Income Benefits in OECD Countries: Policy Design, Effectiveness, and Challenges," *OECD Social, Employment, and Migration Working Papers* N º100 (January 2010); Anders Forslund and Peter Fredriksson, "Income Support Systems, Labour Supply Incentives, and Employment—Some Cross-Country Evidence," (working paper 2009: 32, Institute for Labour Market Policy Evaluation, Uppsala, Sweden, 2009); and Ivar Lodemal and Heather Trickey, editors, *An Offer You Can't Refuse: Workfare in International Perspective* (Bristol, UK: Policy Press, 2001).

[36] Center on Budget and Policy Priorities, Policy Basics: *The Earned Income Tax Credit* (Washington DC: Author, December 2009), http://www.cbpp.org/files/policybasics-eitc.pdf; Elaine Maag and Adam Carasso, "Taxation and the Family: What is the Earned Income Tax Credit?" in *The Tax Policy Briefing Book* by the staff and affiliates of the Tax Policy Center (Urban-Brookings Tax Policy Center, updated 2010), http://www.taxpolicycenter.org/briefing-book/key-elements/family/eitc.cfm; Forslund and Fredriksson, "Income Support Systems, Labour Supply Incentives, and Employment—Some Cross-Country Evidence."

[37] U.S. House of Representatives, 2008 Green Book, Table 7-8, p. 7-27.

[38] Acs and Loprest, *Leaving Welfare: Employment and Well-being of Families that Left Welfare in the Post-Entitlement Era*, pp. 27, 41.

[39] Haskins, "What Works is Work: Welfare Reform and Poverty Reduction."

[40] Dale T. Mortensen, "Unemployment Insurance and Job Search Decisions," *Industrial and Labor Relations Review* 30 (1977): 505-517.

[41] Bruce D. Meyer, "Unemployment and Workers' Compensation Programmes: Rationale, Design, Labour Supply and Income Support," *Fiscal Studies* 23, no. 1 (2002): 1-49. But for a somewhat contrary view; see Orley Ashenfelter, David Ashmore, and Olivier Deschênes, "Do Unemployment Insurance Recipients Actively Seek Work? Randomized Trials in Four U.S. States" (working paper 6982, National Bureau of Economic Research, Cambridge, MA, 1999).

[42] Bruce D. Meyer, "Lessons from the U.S. Unemployment Insurance Experiments," *Journal of Economic Literature* 33 (1995): 91-131; see also Forslund and Fredriksson, "Income Support Systems, Labour Supply Incentives, and Employment—Some Cross-Country Evidence."

[43] Michael Elsby, Bart Hobijn, and Ayşegűl Şahın, "The Labor Market in the Great Recession," prepared for the Brookings Panel on Economic Activity, April 15, 2010, p. 28.

[44] Alan B. Krueger and Andreas Mueller, "Job Search and Unemployment Insurance: New Evidence from Time Use Data," (Discussion Paper 3667, IZA Discussion Paper Series, Institute for the Study of Labor, Bonn, Germany, August 2008).

[45] Based on data from the Job Openings and Labor Turnover Survey by the U.S. Department of Agriculture, Total US Nonfarm Hires, Level-In Thousands, Seasonally Adjusted, Series JTS00000000HIL (A) (http://www.bls.gov/jlt/ [July 2010]).

[46] For example, in the 1996 reforms of SSI, the definition of disability was tightened so that only children with, "marked and severe functional limitations," would be covered. See Haskins, *Work over Welfare: The Inside Story of the 1996 Welfare Reform Law*, p. 234.

[47] The SSDI program is for the disabled covered under the Social Security program for the disabled; the SSI program is for the poor elderly and the disabled who are destitute and have not worked enough – or in the case of children, have not worked at all – to be covered under SSDI; see U.S. House of Representatives, *2008 Green Book*, Sections 1 and 3.

[48] Between 1997 and 2006, the population of the U.S. increased from 272.9 million to 298.8 million, an increase of about 9.5 percent. See Office of the President, *Economic Report of the President* (Washington, DC: U.S. Government Printing Office, February 2010), p. 371.

[49] Dick Vink, *Privatisation and Decentralisation of Employment Services in the Netherlands* (Cuijk, Netherlands: Dick Vink Advies, March 2010).

[50] See Haskins, *Work over Welfare: The Inside Story of the 1996 Welfare Reform*, especially Chapters 6 and 8.

[51] U.S. Census Bureau Poverty Tables, "Table 3: Poverty Status of People, by Age, Race, and Hispanic Origin: 1959 to 2008," http://www.census.gov/hhes/www/poverty/data/historical/hstpov3.xls.

[52] Gary V. Englehardt and Jonathan Gruber, "Social Security and the Evolution of Elderly Poverty," in *Public Policy and the Income Distribution*, edited by Alan J. Auerbach, David Edward Card, and John M. Quigley (New York: Russell Sage Foundation, 2006).

[53] The percentage increase is based on our analysis of data from the Annual Social and Economic Supplement to the Current Population Survey. The percentage of never-married mothers employed in 1995 was 47; by 1999, the percentage had increased to 66.

[54] OECD Statistics, "LFS by Sex and Age-Indicators: Employment/Population Ratio, Women, (age) Total, and Employment/Population Ratio, (sex) Total, (age) Total (http://stats.oecd.org/Index.aspx?DatasetCode=LFS_SEXAGE_I_R [July 2010]).

[55] Jelle Visser and Anton Hemerijck, *A Dutch Miracle: Job Growth, Welfare Reform and Corporatism in the Netherlands* (Amsterdam: Amsterdam University Press, 1997).

[56] Visser and Hemerijck, *A Dutch Miracle*, p. 13.

[57] Ibid., p. 180.

[58] Ibid. p. 18 and Chapter 6.

[59] Lawrence M. Mead, "The Potential for Work Enforcement: A Study of WIN," *Journal of Policy Analysis and Management* 7, no. 2 (1988): 264-288.

[60] David A. Long, "The Budgetary Implications of Welfare Reform: Lessons from Four State Initiatives." *Journal of Policy Analysis and Management* 7 (1988): 289-299.

[61] Lawrence M. Mead, *The New Paternalism: Supervisory Approaches to Poverty* (Washington, DC: Brookings, 1997); Rector, Bradley, and Sheffield, "Obama to Spend $10.3 Trillion on Welfare: Uncovering the Full Cost of Means-Tested Welfare or Aid to the Poor."

[62] Mead, *The New Paternalism: Supervisory Approaches to Poverty*.

[63] Bruce D. Meyer, "Lessons from the Unemployment Insurance Experiments," *Journal of Economic Literature* 33 (1995): 91-131, p. 124.

[64] Haskins, *Work over Welfare: The Inside Story of the 1996 Welfare Reform*.

[65] Grogger and Karoly, *Welfare Reform: Effects of a Decade of Change*, see Table 2.8, pp. 29-32.

[66] Markus Wörz, *Social Protection in the Event of Unemployment: Provisions and Institutional Changes Since the 1980s*, unpublished manuscript (Berlin, Germany: Social Science Research Center Berlin, 2010).

[67] http://www.pub.arbeitsagentur.de/hst/services/statistik/interim/analytik/kennzahlensgbii/daten.shtml; I thank Markus Wörz of the Social Science Research Center Berlin for his help in obtaining these statistics.

[68] Vink, *Privatisation and Decentralisation of Employment Service in the Netherlands*.

[69] Acs and Loprest, *Leaving Welfare: Employment and Well-being of Families that Left Welfare in the Post-Entitlement Era*, p. 35.

[70] After prolonged negotiation, Republican and Democratic leaders reached a compromise on the 1990 spending and revenue bill, one of the major attempts to balance the federal budget. But the House Democratic caucus rejected the deal because distribution tables computed by the Congressional Budget Office at the request of progressive Democrats on the Ways and Means Committee showed that low-income families did not do well under the compromise. At that point new provisions expanding the EITC for low-income workers were inserted and the bill subsequently passed on a bipartisan vote. Personal Communication from Wendell Primus, senior Democratic staffer (present for rejection of compromise bill by Democratic Caucus), September 3, 2010.

[71] The application of the EITC is based on the number of children in the family and the marital status of the parents. In 2010, the EITC was available to families with annual incomes below about $35,000 to $48,000. The maximum level of the credit was $5,566 for a family with three or more children and the credit began to phase out for single parents at $16,450 annual income and for married couples at $21,460 annual income. The EITC is supplemented by statewide versions in 23 states and Washington, DC. There is also a very small credit available for both childless individuals and couples at extremely low levels of income (below $18,470 for a couple); see Maag and Carasso, "What is the Earned Income Tax Credit?"

[72] The 1990 bill, which included both the EITC expansion and tax increases was intended to balance the budget, was heavily opposed by a group of Republicans led by Newt Gingrich. The group objected to the tax increases, which were contrary to Bush's campaign pledge of "no new taxes." Some believe that the new taxes combined with the vigor with which Republicans objected contributed heavily to Bush's 1992 loss to Bill Clinton; see Dan Balz and Serge F. Kovaleski, "Gingrich Divided GOP, Conquered the Agenda; Revolt Gave Party a Glimpse of Its Future Series," Mr. Speaker: The Rise of Newt Gingrich Series, no. 4 *Washington Post*, December 21, 1994, p. A01; Bruce Bartlett, "A Budget Deal that Did Reduce the Deficit," *Fiscal Times*, June 25, 2010.

[73] Jeffrey Birnbaum and Alan S. Murray, *Showdown at Gucci Gulch: Lawmakers, Lobbyists, and the Unlikely Triumph of Tax Reform* (New York: Random House, 1987).

[74] The standard deduction is an amount that all tax payers can subtract from their income before multiplying by the percentage appropriate for their tax bracket to arrive at taxes payable. Obviously, increasing the standard deduction reduces taxable income and therefore reduces taxes owed. Similarly, the personal exemption is the amount that taxpayers can deduct from income for each qualifying person in the household. As compared with the former standard deduction and personal exemptions, after the 1996 reforms a low-income mother and father with two children could deduct about 55 percent more than under previous law before computing their taxes. An impressive result of these reforms was that virtually no families under the poverty level would be required to pay personal income taxes (although they would still be required to pay taxes for both Social Security and Medicare from the first dollar of income); see Chris Atkins, "Tax Reform and Revenue Neutrality: President's Panel Should Avoid the Redistribution of 1986," *Fiscal Facts*, The Tax Foundation (2005), http://www.taxfoundation.org/news/show/777.html.

[75] Joel Slemrod, "Did the Tax Reform Act of 1986 Simplify Tax Matters?" *Journal of Economic Perspectives* 6, no. 1 (1992): 45-57.

[76] For tax years 2009 and 2010, the Obama administration, as part of the American Recovery and Reinvestment Act, added another tier to the EITC in which families with three or more children would be eligible for additional benefits. For tax year 2009 and 2010, these families would be eligible for a tax credit of 45 percent of their income over the threshold value, increased from 40 percent, up to a maximum EITC of $5,666, increased from $5,028; see Tax Policy Center, "2010 Budget Tax Proposals: Permanently Expand the Earned Income Tax Credit," *Tax Topics*, Urban-Brookings Tax Policy Center (2010), http://www.taxpolicycenter.org/taxtopics/2010_budget_EITC.cfm.

[77] Snowe's position was immensely strengthened because in May of 2001, Vermont Senator Jim Jeffords resigned from the Republican Party, dropping total Republican votes in the Senate from 51 to a very precarious 50. Because Jeffords agreed to vote with Democrats in most cases, on important

votes like the 2001 Bush tax bill, the count was likely to be 50 Republicans for the bill, and 49 Democrats and one Independent (Jeffords) against the bill. Under the Constitution, in these cases Vice President Cheney would decide the issue, reliably in favor of Republicans. Thus, Republicans could maintain control of the Senate, but only if they could control all of their 50 votes – hence the power of Senator Snowe in the tax battle.

78 For details on these reforms and cost estimates; see Len Burman, Elaine Maag, and Jeff Rohaly, *The Effect of the 2001 Tax Cut on Low- and Middle-Income Families and Children* (Washington, DC: Tax Policy Center, 2002), http://www.urban.org/publications/410465.html.

79 Letter from Bernard A. Schmitt, Deputy Chief of Staff, to Dave Camp, Ranking Republican Member of the House Committee on Ways and Means and Kent Conrad, Chairman of the Senate Budget Committee, May 28, 2010, Joint Committee on Taxation, U.S. Congress.

80 David M. Cutler and Jonathan Gruber, "The Effect of Medicaid Expansions on Public Insurance, Private Insurance, and Redistribution," *Health Economics* 86, no. 2 (2001): 378-383.

81 Author's analysis of U.S. Department of Health and Human Services, "Table TANF 1: Trends in AFDC/TANF Caseloads, 1962-2001," in *Indicators of Welfare Dependence: Annual Report to Congress*, 2003, Appendix A. Program Data (Washington, DC: U.S. Department of Health and Human Services, 2003), http://aspe.hhs.gov/HSP/indicators03/apa.htm#ttanf1; Administration for Children and Families, "Caseload Data 2000-2008," *Office of Family Assistance: Temporary Assistance for Needy Families (TANF)* (Washington D.C.: Author, 2010), http://www.acf.hhs.gov/programs/ofa/data-reports/caseload/caseload_recent.html.

82 U.S. Census Bureau, "Poverty Status by Type of Family, Presence of Related Children, Race and Hispanic Origin, 1959 to 2008," Table 4, Female Householder, No Husband Present, All Races—With Children Under 18 Years, http://www.census.gov/hhes/www/poverty/data/historical/hstpov4.xls.

83 Haskins, "What Works is Work: Welfare Reform and Poverty Reduction." The official definition of poverty in the U.S. does not include income from the EITC in calculating family income. If the EITC and in-kind benefits such as food stamps are counted as income, poverty fell even more than shown by the figures used in the text.

84 Jody Freeman and Martha Minow, *Government by Contract: Outsourcing and American Democracy* (Cambridge, MA: Harvard, 2009).

85 Several of these arguments were suggested to me in a memo and discussion with Jason Turner of Turner Government Operations International.

86 There are a host of additional possible advantages to the involvement of private companies in running employment programs, including ease of getting cooperation from private employees as compared with government workers, the sometimes superior ability of private companies to recognize problems quickly and create solutions, and the relative ease of innovation because of greater flexibility in deploying resources and personnel as compared with the necessity of many government agencies to deal with unions and rigid work rules.

87 DeParle, *American Dream: Three Women, Ten Kids, and a Nation's Drive to End Welfare*.

88 Claudia Goldin and Lawrence F. Katz, *The Race between Education and Technology* (Cambridge, MA: Belknap Press, 2008).

89 My five categories of training programs are a modification of the categories used by Paul Osterman, one of the most respected experts working on U.S. employment and training programs; see Paul Osterman, "Employment and Training Policies: New Direction for Less-Skilled Adults," in *Workforce Policies for a Changing Economy*, edited by Harry Holzer and Demetra Nightingale (Washington, DC: Urban Institute, 2006).

90 Ron Haskins, Harry Holzer, and Robert Lerman, "Promoting Economic Mobility by Increasing Postsecondary Education," Pew Charitable Trusts (May 2009), http://www.urban.org/publications/1001280.html; Ron Haskins, "Education and Economic Mobility," in *Economic Mobility in America*, edited by Julia B. Isaacs, Isabel V. Sawhill, and Ron Haskins (Washington DC: Brookings, 2008): Chapter VIII, http://www.brookings.edu/reports/2008/02_economic_mobility_sawhill.aspx.

[91] College Board, *Trends in Student Aid 2009* (New York: College Board, 2009) .

[92] Author analysis of U.S. Department of Labor, "Training and Employment Services," *FY2010 Department of Labor Budget in Brief* (Washington, DC: Author, 2009), http://www.dol.gov/dol/budget/2010/PDF/bib.pdf.

[93] Howard S. Bloom and others, "The Benefits and Costs of JTPA Title II-A Programs: Key Findings from the National Job Training Partnership Act Study," *Journal of Human Resources*. 32, no. 3 (1997): 549-576.

[94] Peter Z. Schochet, Sheena McConnell, and John Burghardt, *National Job Corps Study: Findings Using Administrative Earnings Records Data*, Final Report (Princeton, NJ: Mathematica, 2003), http://www.mathematica-mpr.com/publications/pdfs/jobcorpsadmin.pdf.

[95] Christopher J. O'Leary and Randall W. Eberts, "The Wagner-Peyser Act and U.S. Employment Service: Seventy-Five Years of Matching Job Seekers and Employers," Center for Employment Security Education and Research, National Association of State Workforce Agencies (December 2008), http://www.workforceatm.org/sections/pdf/2009/WagnerPeyserOE2009a.pdf.

[96] Paul Osterman and Brenda A. Lautsch, *Project Quest: A Report to the Ford Foundation* (Boston, MA: M.I.T. Sloan School of Management, 1996).

[97] Another program in Detroit, Michigan was evaluated similarly to the program in Portland. The Detroit program used a skills-first approach (as opposed to the Portland program's work-first approach) and demonstrated much more modest successes—a 4 percent increase in employment and a 9 percent increase in earnings over the control group; see Susan Scrivener and others. Implementation, Participation Pattersn, Costs, and Two-Year Impacts of the Portland (Oregon) Welfare-to-Work Program (New York: MDRC, 1998), http://www.mdrc.org/publications/121/execsum.html; Mary Farrell, *Implementation, Participation Patterns, Costs, and Two-Year Impacts of the Detroit Welfare-to-Work Program*, (New York: MDRC, 2000), http://www.mdrc.org/publications/202/execsum.html.

[98] James J. Kemple. *Career Academies: Long-Term Impacts on Labor Market Outcomes, Educational Attainment, and Transitions to Adulthood* (New York: MDRC, 2008), http://www.mdrc.org/publications/482/full.pdf.

[99] National Center for Education Statistics. *The Condition of Education: Special Analysis 2008*, Community Colleges (Washington, DC: Author, 2008), http://nces.ed.gov/programs/coe/2008/analysis/index.asp.

[100] David Marcotte and others. "The Returns of a Community College Education: Evidence from the National Education Longitudinal Survey," *Educational Evaluation and Policy Analysis* 27, no. 2 (2005): 157-175.

[101] Robert I. Lerman, "Are Skills the Problem? Reforming the Education and Training System in the United States," in *A Future of Good Jobs? American's Challenge in the Global Economy*, edited by Timothy J. Bartik and Susan N. Houseman (Kalamazoo, MI: W.E. Upjohn Institute, 2008).

[102] One study showed that firms received an annualized rate of return of over 40 percent on training that lasts 60 hours or more; see Harley Franzist and Mark A. Loewenstein, "Reexamining the Returns to Training: Functional Form, Magnitude, and Interpretation," *Journal of Human Resources* 40, no. 2 (2005): 453-476.

[103] Based on data from the Current Employment Statistics survey of employers, the trough for job loss in the 1991 recession was reached in May 1991 when 108,196,000 people had jobs. The next peak was reached in February 2001 when 132,530,000 people had jobs.

[104] Data from the Bureau of Labor Statistics based on the Current Population Survey; see U.S. Bureau of Labor Statistics, "Employment-Population Ratio (Seasonally Adjusted), Age 16 and Over, Both Sexes," *Current Population Survey* (Washington DC: U.S. Bureau of Labor Statistics, 2010).

[105] Some believe it could take far longer—for example, Reinhart and Reinhart find that it could take until 2017 for the American economy to fully rebound from the current recession and the *Atlantic* magazine cites several prominent economists including Nobel prize winner Paul Krugman of the *New York Times*, Paul Zandi of *Moody's Economy.com*, and Christina Romer, former chair of President Obama's Council of Economic Advisors, all of whom espouse varying degrees of pessimism about the road to recovery—none forecasting a quick recovery; see Carmen M. Reinhart and Vincent R.

Reinhart, "After the Fall," draft presented at the Federal Reserve Bank Jackson Hole Symposium (August 17, 2010), http://www.aei.org/docLib/Reinhart-After-the-Fall-August-17.pdf; Don Peck, "How a New Jobless Era Will Transform America," *Atlantic Magazine*, March 2010.

106 Author's analysis of OECD Statistics, "Quarterly National Accounts, VPVOBARSA: Millions of US dollars, volume estimates, fixed PPPs, OECD reference year, annual levels, seasonally adjusted," (http://stats.oecd.org/index.aspx [June 30, 2010]).

107 Sharron Parrot and Ron Haskins, "TANF, the Recession, and the Contingency Fund," memo (Washington, DC: Center on Budget and Policy Priorities and Brookings, Center on Children and Families, January 15, 2009). Parrot and Haskins sent this memo to senior members of the House and Senate leadership (and other interested parties) to provide them with information on the need for emergency funds during the recession to help states pay for additional cash welfare.

108 Richard V. Burkhauser, Takashi Oshio, and Ludmila Rovba, "How the Distribution of After-Tax Income Changed Over the 1990s Business Cycle: A Comparison of the United States, Great Britain, Germany, and Japan," Michigan Retirement Research Center Research Paper no. WP 2006-145, SOEP paper no, 35 (August 2007); available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1095314.

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