

Redistribution through Work

Millions of American workers live between dependency and self-sufficiency. Despite significant effort, they cannot earn enough to support themselves and their families. Policymakers have not ignored the plight of those workers who must struggle to make ends meet. A number of recent federal policy changes have multiplied and enhanced the opportunities for needy workers to combine earned income with means-tested tax and transfer benefits. State-level policy choices vary, but many state governments have also created or expanded programs to assist needy workers. These programs are referred to collectively as the work support system.¹

The work support system serves three overlapping target groups: low-wage workers, low-income workers, and people making the transition from welfare to work. It has two related objectives: to discourage welfare dependency and to help needy workers escape poverty and achieve self-sufficiency. With those purposes in mind, we define the work support system as follows: a collection of policies and programs that redistribute income by providing material assistance (in the form of cash or in-kind benefits) to low-wage workers, low-income working families, and families making the transition from welfare to work. On the basis of this definition, we analyze the following work support policies and programs (we explain program selection in detail in chapter 2): state and federal minimum wage rates; state and federal earned income tax credit (EITC) programs and the child tax credit; medical assistance programs, including transitional medical assistance (TMA), Medicaid, and

1. Sawhill and Haskins (2002a, 2002b); Sawhill and others (2002); Zedlewski (2002); Greenstein and Guyer (2001); Haskins (2001); Sawhill and Thomas (2001).

state Children’s Health Insurance Programs (CHIP); food programs, including food stamps and free or reduced-price school meals; Temporary Assistance for Needy Families (TANF) earned income disregards; child care grants; and rental assistance.

This book describes and evaluates the work support system in theory and in practice. Although the system is quite significant in terms of theory because it challenges and reforms many of the ideas that have influenced U.S. social policy, in practice the system is performing far below its potential. We describe work support programs and estimate the benefits that selected programs provide in the fifty states and the District of Columbia. We evaluate the system’s performance at the national and state levels and discuss its potential and limitations as a means to alleviate poverty and realize self-sufficiency among needy working families. (We typically use the terms “needy workers” or “needy working families” to refer to the combination of the work support system’s three target groups.)

Our research addresses the following questions:

- What is the work support system and how has it changed over time?
- Who is eligible, under what circumstances, to receive work support benefits?
- How do benefits vary from state to state? How do benefits vary with work effort, family composition, and contact with the welfare system?
- Do work support benefits, in conjunction with earned income, provide an adequate living for needy workers and their families?
- Is the work support system a complementary set of policies and programs that meets the needs of struggling workers? Or is it merely a disjointed collection of programs that fails to provide adequate income support for many needy workers and their families?

Redistribution through Work

The work support system was shaped by the influential social policy trends of the 1990s. The “devolution revolution” empowered states to make significant policy choices, especially in the areas of cash welfare payments, child care grants, and medical assistance programs.² As a result, significant variation exists in the nature and generosity of work support programs from one state to another. The development of the work support system also reflects the “personal responsibility” movement.³ Policymakers used program benefits as

2. Winston (2002); Meyers, Gornick, and Peck (2001).

3. Mead (1986, 1997); Handler (1995); Melnick (1994).

leverage to encourage people to behave responsibly. Although personal responsibility was demanded in many areas, such as education, child support, and teenage pregnancy, the notion was expressed most often as an expectation that able-bodied people must work. By linking the receipt of means-tested benefits to earned income, policymakers intended to encourage and reward work. However, they also (perhaps unintentionally) linked the well-being of needy workers to the performance of the economy, especially to the employment prospects of workers at the bottom of the labor market. If employment contracts in an economic downturn, needy workers may find their job loss compounded by the loss of work support benefits.

Despite the influence that devolution and personal responsibility have had on the structure and development of the work support system, in many ways the system's recent history contrasts with the welfare policy trends that dominated the 1990s. First, while the welfare system was reshaped by the devolution of policymaking authority to the states, the work support system was influenced by devolution, the expansion of national programs, and the creation of federal mandates to the states.

Second, whereas welfare benefits were reduced at the state and federal levels, many work support benefits grew more generous. These gains were evident both in terms of eligibility to receive benefits and the value of benefits provided. Decisions to enhance benefit generosity were made by both the federal and the state governments. In addition, whereas cash assistance welfare payments were reduced and time limited, some of the cash assistance benefits from the work support system, benefits that can be enjoyed indefinitely, were made more generous. Finally, the widespread fear that devolution of welfare policy would initiate a destructive "race to the bottom" was not borne out for work supports. Many states used their discretion to enhance the value of the means-tested benefits they provided to needy workers.

Third, although welfare recipients were disciplined by reforms that created work requirements and time-limited benefits, they were also granted privileged status as work support beneficiaries. People who make the transition from welfare to work enjoy exclusive eligibility for some work support benefits and priority eligibility for others.

Finally, as welfare recipients were told to leave the welfare system and enter the labor market to earn their own keep, the opportunities to combine means-tested benefits with earned income were expanded and enhanced. The ability to receive means-tested benefits while working, or to continue to receive means-tested benefits after making the transition from welfare to work, calls into question the association between the receipt of means-tested benefits

and dependency that motivated critics of the welfare system and animated its reform.

Rethinking Dependency and Self-Sufficiency

Many American workers live between dependency and self-sufficiency because the income and benefits they receive from the labor market are insufficient to support their families. These workers are beyond dependency because they work, but they do not earn enough to be self-supporting. They require material assistance to make ends meet, and the work support system provides that assistance in a variety of different ways. However, the programs that compose the system are not welfare traps; work supports combat poverty and promote self-sufficiency simultaneously by redistributing income through work.

Redistribution through work may be a provocative idea to some readers, because it challenges influential views of dependency and self-sufficiency. Some social policy analysts have identified receipt of means-tested benefits with dependency: you are dependent if you receive means-tested benefits, you are self-sufficient if you do not. Charles Murray has associated participation in means-tested programs with the irresponsible, antisocial behaviors (particularly, failure to work) that result in dependency and perpetuate the cycle of poverty.⁴ Work, on the other hand, is associated with self-sufficiency. Lawrence Mead has claimed: “If low-income men and welfare mothers worked regularly, the underclass would be well on its way to dissolution.”⁵ While it is doubtlessly true that some welfare clients use means-tested benefits as a way to evade work responsibilities, it is also true that millions of needy working families combine means-tested benefits with earned income to mitigate the limitations of their earning power.

The distinctive nature of redistribution through work is reflected in the welfare dependency literature. The Department of Health and Human Services, in response to the Welfare Indicators Act of 1994, convened a bipartisan advisory board to define welfare dependency in relation to cash assistance—Aid to Families with Dependent Children (AFDC) and TANF—food stamps, and Supplemental Security Income (SSI). Three criteria for determining welfare dependency were proposed:

1. The extent to which means-tested benefits contribute to family income: families are more dependent if they receive a larger share of their total income from means-tested government benefits.

4. Murray (1984).

5. Mead (1986, p. 70).

2. The length of time benefits are received: families are more dependent if they receive means-tested benefits for a long period of time.

3. The exclusion of work-related benefits: work supports received by the family are not counted as contributions to welfare dependency.

According to the Department of Health and Human Services' report to Congress: "A family is dependent on welfare if more than 50 percent of its total income in a one-year period comes from AFDC/TANF, Food Stamps and/or SSI, and this welfare income *is not associated with work activities.*"⁶

The definition implies that means-tested programs contribute to dependency when receiving benefits is an alternative to work. However, when means-tested benefits complement and support work, the link between participation in means-tested programs and dysfunctional, antisocial behavior—the link that defined the underclass and the welfare dependency problem—is broken.⁷

It is difficult to defend the proposition that means-tested benefits are an alternative to work in the wake of welfare reform and the expansion of the work support system. As eligibility for means-tested benefits is linked to work requirements and as means-tested benefits become available to needy working families, it is no longer plausible to consider means-tested programs and work as alternatives. Recent policy changes have subjected welfare programs, such as cash assistance and food stamps, to ever more demanding work requirements. At the same time, programs that provide child care and medical assistance support people who are moving from welfare to work. In addition, millions of needy workers receive means-tested cash benefits through the earned income tax credit; millions of children from low- and moderate-income families receive medical assistance benefits through state Children's Health Insurance Programs. Beyond this, many middle-class and upper-middle-class families receive the child tax credit, a conditionally refundable means-tested tax benefit—no one would call these families "dependent"; the adults are working, paying taxes, and struggling to support their families.⁸

Although workers strive to be self-sufficient, the income and benefits they command in the labor market may not allow them to be fully self-supporting. When work is not enough, work support programs can help needy working

6. Department of Health and Human Services (1997, p. I-3), emphasis added.

7. On the underclass, see Wilson (1987); on welfare dependency, see Murray (1984), Mead (1986).

8. According to Internal Revenue Service publication 972 ("Child Tax Credit"), in 2004 married couples filing jointly could receive the credit if their modified adjusted gross income is less than \$110,000.

families to make ends meet. In that sense, work supports contribute to self-sufficiency: a family is minimally self-sufficient when the combined income and benefits it receives from work and work support programs meet its needs.⁹ As work support programs become more generous, opportunities for needy working families to escape poverty and privation are created. By combining means-tested benefits with work, the work support system can alter the established relationships among work, welfare, and poverty and create new possibilities for redistribution in the United States.

Work, Welfare, and Poverty

In one sense, the relationship between work and poverty in the United States is clear—workers are much less likely to be poor than nonworkers. The Census Bureau reports that in 2001 only 5.6 percent of American workers were poor, but 20.6 percent of nonworkers were poor.¹⁰ Families with at least one worker had a poverty rate of 7.6 percent as compared to a poverty rate of 30.5 percent for families in which no one worked. This relationship is consistent, regardless of family type, implying that work is a powerful means of avoiding or escaping poverty. However, two important facts are obscured by this clear relationship: many poor people work and many workers are poor.

The Department of Labor (DOL) estimates the number of “working poor” on the basis of income and workforce participation. The working poor are “individuals who spent at least 27 weeks in the labor force (working or looking for work), but whose incomes fell below the official poverty level.”¹¹ Although the number of working poor declined in the late 1990s as conditions in the labor market improved, 6.4 million people still fit this definition in 2000.¹² Women, young people, and members of minority groups were more likely to be among the working poor. Those with low educational achievement, those who worked in the service sector, and those with children were also more likely to be among the working poor. Although full-time workers were less likely to be poor, full-time work was not always a ticket out of poverty; three-fifths of the working poor were full-time workers.

9. We consider two different need standards to assess self-sufficiency: the federal poverty standard and basic family budgets. See Bernstein, Brocht, and Spade-Aguilar (2000); Boushey and others (2001).

10. Census Bureau (2002b).

11. Bureau of Labor Statistics (2002).

12. The definition of income used by the Department of Labor in this estimate does not include taxes or transfer programs that may benefit the working poor and increase family income.

Gregory Acs, Katherin Ross Phillips, and Daniel McKenzie have identified and described low-income working families using data from the 1997 Survey of America's Families.¹³ Although they considered several possibilities, the definition they prefer includes people in families with incomes below 200 percent of the federal poverty standard, with the adults working an average of at least 1,000 hours per year. Acs, Phillips, and McKenzie doubled the poverty standard because many families above the poverty level are eligible for a variety of means-tested government benefits and still struggle to make ends meet. Moreover, they argue that the federal poverty standard is too low to identify all of the working poor, because it does not account for the additional expenses incurred when working, such as for child care and transportation.¹⁴ Their standard for work also excludes people who are merely "looking for work."

Using these criteria, Acs, Phillips, and McKenzie estimate that 16.7 percent of all nonelderly persons in the United States live in low-income working families. Low-income working families are likely to contain young children; 82.1 percent of people in low-income working families live in families with children. Low-income working families are likely to be headed by a person with low educational attainment; 68.1 percent of people in such families live in a family headed by a person with a high school education or less. Although work effort among the primary earners in low-income working families is significant, such families are less likely to have secondary workers; most of the primary earners in low-income working families work full time (an average of 2,080 hours per year).

Using data from the Panel Study on Income Dynamics, Anthony Carnevale and Stephen Rose found that 32 percent of all workers were "low earners"; that is, they made less than \$15,000 in 1998.¹⁵ A majority of low earners had limited education, having attained a high school diploma or less. Women and members of minority groups were more likely to be low earners. Most low earners suffered from both low wages and limited work opportunities (less than full-time, year-round employment). Although many low earners were secondary income sources in more affluent families, the authors estimated that 15.6 million low earners were responsible for providing a significant contribution to total family income in low-income families; more than one-third of such families had children to support.

13. Acs, Phillips, and McKenzie (2001).

14. Research on basic family budgets estimating the income required for a decent, minimal standard of living in various localities around the United States suggests that even incomes of twice the poverty standard are insufficient. See Boushey and others (2001).

15. Carnevale and Rose (2001).

Using different standards and data sources, these studies reach a common conclusion: for millions of working Americans, work income is not enough to make ends meet. Despite significant effort, many workers cannot escape poverty or achieve self-sufficiency. The studies also agree on many of the common characteristics of needy workers: they are more likely to be women and minorities; most have limited educational attainment, which limits their ability to find gainful employment and to advance through the ranks when they are working; and many are struggling to support families with children.

Although there is widespread consensus that millions of working Americans cannot make ends meet, the studies also suggest that the choice of standard used to identify needy workers is an important consideration. One of the most commonly used is the federal poverty standard. However, by using the federal poverty standard one may understate the number of low-income people and families, because it does not really reflect the income required to live a decent life, and it fails to take into account the additional expenses that work requires.¹⁶ On the other hand, by using the federal poverty standard one may overstate the number of low-income people and families, because it does not take into account the income support provided by government transfer programs.¹⁷

The Census Bureau has developed a number of alternate measures of poverty that account for differences in the measured cost of living and in the composition of income. Originally, the poverty standard was based upon the Department of Agriculture's Thrifty Food Plan. A poverty-level income was defined as the cost of the Thrifty Food Plan multiplied by three, because middle-class families in the early 1960s paid about one-third of their income for food. As the cost of purchasing this food plan changed over time, the poverty level changed. Since 1969 the poverty threshold has been adjusted for changing living costs on the basis of the Consumer Price Index. The CPI measures living costs over time by tracking the retail costs of various products (such as housing, food, transportation, and electricity). However, the CPI has been criticized for overstating changes in living costs, in particular, housing costs. In 1983 the Bureau of Labor Statistics developed an alternative cost-of-living index that was based upon estimated differences in the cost of rental housing. When this measure was projected backward to create a consistent cost-of-living adjustment factor (the CPI-U-XI), the estimated increases in the

16. On income level, see Bernstein, Brocht, and Spade-Aguilar (2000), Handler (1995); on additional expenses, see Acs, Phillips, and McKenzie (2001).

17. U.S. House of Representatives, Committee on Ways and Means (2000) (hereafter, *Green Book*); Handler (1995).

cost of living were reduced, lowering the poverty threshold. This, in turn, reduced the estimated number of individuals and families living in poverty.¹⁸

The Census Bureau also has introduced alternative measures of income that do account for tax and transfer programs (including noncash income) and the effects of such benefits on estimates of poverty. When taxes, transfers, and in-kind benefits such as food, medical assistance, housing assistance are included, the incomes of beneficiary populations increase and estimates of the population in poverty decline.¹⁹ Estimates presented in the House Committee on Ways and Means' *Green Book* (which details a variety of means-tested government programs) suggest that adjusting the cost of living by using the CPI-U-XI index and accounting for noncash benefits reduces official poverty estimates by approximately one-third.²⁰ Most of this reduction comes from tax and transfer payments (including noncash income), suggesting that government programs are important antipoverty tools. These revised poverty estimates confirm that an accurate understanding of the relationship between work and poverty depends upon accounting for the government benefits that workers receive to supplement earned income.

Labor Market Rewards

The relationship between work and poverty reflects the income and benefits provided to workers at the bottom of the labor market, and since the mid-1970s these have been declining. Although real gross domestic product per capita grew 68 percent and real disposable personal income increased 59 percent between 1975 and 1998, prosperity was a blessing bestowed unevenly. During that same period, income and wage inequality increased because of declines in the rewards for low-wage and low-skill work.²¹ This inequality was mitigated somewhat in the late 1990s, when unemployment rates fell below what some perceived as their "natural" limit and gains in wage and income equality were realized; but for many workers these gains were insufficient to overcome decades of decline in real wages and incomes.²²

18. *Green Book* (2000).

19. Haskins (2001); Handler (1995).

20. *Green Book* (2000, p. 1291).

21. Blank (1997); Haveman (1997); Handler (1995); Solow (1994); Burtless (1994); Baily, Burtless, and Litan (1993).

22. Among economists it was widely believed that the economy will stabilize at an unemployment rate of approximately 5 percent. The performance of the labor market in the late 1990s suggested otherwise.

The struggles of needy workers in the face of aggregate prosperity are curious, because economic expansion is supposed to benefit poor and near-poor workers. Growth promotes employment opportunities. The poor and near-poor are more likely than others to be unemployed or underemployed; economic growth expands their opportunities and assists them by providing regular work, the opportunity to earn income. Because work is the primary income source in the United States, economic growth is expected to benefit low-income people who are willing to work. However, in the 1980s and 1990s, the link between economic growth and the material well-being of low-income workers was broken, undermining the idea that the struggles needy workers experience can be addressed exclusively by encouraging the economy to grow and encouraging people to work.²³

Rebecca Blank has examined the relationship between economic growth and poverty and concludes that recent economic history contradicts “trickle down” theory, the view that economic growth helps everyone, including the poor.²⁴ During the 1980s poverty declined only slightly while the economy grew and poverty remained higher than it had been during the 1970s. During the early 1990s, poverty actually increased during a period of economic expansion. Blank notes that this is unprecedented in modern U.S. economic history and asks, “What happened over these years that caused economic growth to decline as an effective antipoverty tool?” Blank examined the components of earned income: work effort and wages. She contends that work effort was not the problem: “Adults in low-income households took advantage of growing employment opportunities in the 1980s even more than they did in earlier decades. Work effort was *more* responsive to changes in the economy in the 1980s than in the 1960s.” That leaves wages. During the expansion of the 1960s, real wages increased throughout the entire income distribution. However, during the 1980s, among the poorest members of the population “real wages actually *fell* with economic growth.” In the 1980s the poor worked more but earned less. Blank concludes that “the difference between the responsiveness of poverty and of the income distribution to economic growth between the 1960s and the more recent decade is entirely due to these wage changes.”²⁵

Robert Haveman has documented inequality among working-age males (18 to 64 years old) and contends that growing inequality is due in part to wage declines and in part to reductions in work effort.²⁶ He reports that between 1973 and 1988, wages among male workers stagnated or declined,

23. Blank (1997); Haveman (1997); Burtless (1994).

24. Blank (1997). See also Haveman (1997).

25. Quotes are from Blank (1997, pp. 27, 31, 32).

26. Haveman (1997).

and both for all working-age males and for all male workers, income distributions in 1988 were less equal than those for 1973. However, his data also show two significant changes in the patterns of male employment between 1973 and 1991. First, there was a decline in full-time, year-round employment; the proportion of working-age males with this work pattern declined from 66.8 to 60.5 percent. Among working males, full-time, year-round employment declined from 72.3 percent in 1973 to 69.3 percent in 1991. During this same period, among all working-age males and male workers, part-time, year-round and part-time, part-year work patterns became increasingly common. Second, there was significant growth in the proportion of working-age males who reported no earned income. The proportion of males who did not work at all increased from 7.4 percent in 1973 to 12.7 percent in 1991. Haveman concludes that changing work patterns are contributing to the growth of wage and income inequality among males.

Gary Burtless has examined the interaction between low-wage work and the opportunity to earn income and argues that changing work patterns are correlated with participation in low-wage work.²⁷ “Contributing to the growth in annual earnings inequality has been a rise in the correlation between low weekly hours and low annual weeks at work, on one hand, and low hourly wage rates, on the other.” People who work irregularly (a few hours per week or a few weeks per year) are also likely to earn low wages. He concludes: “Men paid low hourly wages have not only suffered an absolute decline in their real wages, if they work, they have suffered declines in their ability to find work.”²⁸

Jared Bernstein and Heidi Hartmann argue that the U.S. labor market is becoming segmented.²⁹ The primary labor market offers decent wages; benefits linked to employment, such as health insurance and paid vacations; and possibilities for advancement. However, there is also a secondary labor market, characterized by low wages, few benefits linked to employment, irregular employment opportunities, and limited upward mobility. Whether work is the road up and out of poverty depends upon whether you are employed in the primary labor market. Bernstein and Hartmann describe participants in the secondary job market in this way: “Compared to the overall workforce, low-wage workers are more likely to be women, minority, non-college-educated, nonunion, in the retail trade industry, and in low-end sales and service occupations.”³⁰ Participants in the secondary labor market have a difficult time earning enough to lift themselves out of poverty even when aggregate wages

27. Burtless (1994).

28. Quotes are from Burtless (1994, pp. 19, 20).

29. Bernstein and Hartmann (2000).

30. Bernstein and Hartmann (2000, p. 23).

are rising, because they are more likely to suffer unemployment, limiting their work hours. Bernstein and Hartmann report that job “churning” is common in the secondary labor market. However, in contrast to the primary labor market, this tendency of workers to move from one job to another does little to contribute to upward mobility unless they are able to make the transition from the secondary to the primary labor market. Unfortunately, the secondary labor market has been growing. Bernstein and Hartmann find that the proportion of workers earning wages at or below the poverty level increased from 23.7 percent in 1973 to 28.6 percent in 1997. They attribute growth in this segment of the labor market to two factors: declines in the demand for low-wage workers and declines in the institutions that support their economic well-being, such as minimum wage laws, trade unions, monetary policy, and trade regimes.

Is being a low-income worker a stage through which people pass on their way to prosperity, or are some workers likely to be low earners for extended periods of time? Carnevale and Rose have analyzed the prospects of low earners (people earning less than \$15,000 annually) and observe that although some are young people who are seeking their niche in the labor market, “many low-earners never break out of low-paying jobs.”³¹ They examine the income dynamics among low earners for five- and ten-year periods and conclude that many low earners “have only isolated bad years” and are able to earn larger incomes over time.³² About half of male low earners had improved their earnings within five years, but about one-third continued to earn less than \$15,000 annually; after ten years, about one-fourth remained low earners. More than half of low-earning women were still low earners five years later; however, after ten years only about one-fifth of female low-earners were still low earners. The authors estimate that 5 percent of all workers who are responsible for a significant share of family income are permanently mired in low-earning jobs.

Lower lifetime earnings are particularly likely for poorly educated young males. Daniel McMurrer and Isabel Sawhill report that young men have experienced “a precipitous drop” in average earnings.³³ “Men born between 1940 and 1949, who were ages 25 to 34 in 1974, had average incomes of almost \$30,000 that year (in 1994 dollars). Men born between 1960 and 1969, by contrast, who were 25 to 34 in 1994, averaged less than \$23,000.” The authors attribute this change to slower economic growth (in particular, slower pro-

31. Carnevale and Rose (2001, p. 46).

32. Carnevale and Rose (2001, p. 58).

33. McMurrer and Sawhill (1998, p. 39).

ductivity growth) since 1973 and to growing inequality. They conclude that the rate of economic growth and rising earnings inequality since the 1970s have diminished social mobility and lifetime earnings for all males and particularly for younger, less-educated males.

Although they examine different market segments at different points in time, these analysts agree that there are serious problems at the bottom end of the labor market. Despite aggregate prosperity, there was a decline in the rewards the labor market provided to many workers—wage and income inequality grew as real wages, benefits, and work opportunities for low-wage workers declined. Consequently, for a large number of Americans, work is not enough to avoid or escape from poverty.

From Welfare to Work

Ignoring the apparent problems at the bottom of the labor market, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) put in place a national policy to end welfare dependency and make welfare recipients self-sufficient by encouraging them to work. The clear message was, “Get a job, any job.” Instead of acknowledging the plight of low-income workers, the PRWORA promoted work as a solution to the problem of welfare dependency.³⁴ By some measures the PRWORA was a roaring success; welfare caseloads declined so much that political leaders now compete to claim credit for this accomplishment. But this policy placed faith in the labor market as a means to achieve self-sufficiency even as the plight of low-income workers grew.³⁵

Ironically, many provisions of the 1996 “welfare reform” reflect the established historic relationships among work, welfare, and poverty. Joel Handler observes that the core of the U.S. social contract is that people will work to support themselves and their family.³⁶ Consequently, the U.S. welfare system is and always has been premised on the idea that poor women, even poor women with young children, should work. Not working is viewed as deviant behavior that is related to other forms of deviancy, such as crime and vice; not working is a threat to the social and economic order; not working is a personal moral failure; not working makes the able-bodied poor unworthy of assistance. These core beliefs imply that means-tested programs must discipline

34. Joel Handler (1995) reports that the original meaning of self-sufficiency in the Work Responsibility Act of 1994 (President Clinton’s welfare reform proposal) was the absence of cash assistance welfare participation.

35. Solow (1998); Haveman (1997).

36. Handler (1995).

and direct adults (no matter what the consequences for their children), and that the welfare system must be so miserly and demeaning that people will prefer to work rather than receive government assistance.

Those people who make the transition from welfare to work typically join the ranks of low-income workers, and consequently many former welfare recipients cannot earn enough to escape poverty despite their work effort.³⁷ In their study of the consequences of welfare reform, McMurrer and Sawhill found that although most former welfare clients who found jobs in the late 1990s earned between \$7 and \$8 per hour, few gained full-time, year-round employment. As a result, annual earnings for former welfare clients were typically between 70 and 95 percent of the federal poverty standard. Although some former welfare clients managed to move up and earn their way out of poverty, others were slow to climb the economic ladder. Many former welfare recipients, particularly minority females with little education, were likely to work low-wage jobs “for extended periods with little or no increase in pay.”³⁸

Pamela Loprest has examined the economic prospects of people making the transition from welfare to work and concludes that despite significant work effort, many former welfare recipients have difficulty making ends meet.³⁹ Using data from the National Survey of American Families, she reports that about 50 percent of those who had left welfare since 1997 were still working when they were interviewed for the survey in 1999. Because many former welfare clients had little education and experience, they were often employed “in low-wage jobs with few benefits.” More than two-thirds of these former welfare recipients were employed for thirty-five hours per week or more; they earned a median hourly wage of \$7.15. She notes that this wage, in conjunction with the EITC, provides an annual income of nearly \$17,000, more than the federal poverty standard for a family of three. Other programs, such as food stamps and Medicaid, can also help. However, she also reports that only a fraction of those making the transition from welfare to work receive such benefits: 23 percent receive food stamps, while 34 percent of former recipients and 53 percent of their children receive Medicaid. Loprest concludes that “a substantial number of former recipients and their families remain in poverty after going off welfare.”⁴⁰

Vicki Lens summarized the literature on the success of TANF in this way: “Virtually every study conducted by individual states tracking former recipients has found that these recipients remain mired in low-paying employment

37. Lens (2002); Loprest (2002); Brauner and Loprest (1999).

38. McMurrer and Sawhill (1998, p. 57).

39. Loprest (2002).

40. Loprest (2002, p. 20).

that does not provide enough to live on.” Lens attributes this failure to achieve self-sufficiency to the structure of TANF itself and argues that the “insistence that work, not training and education, is the route to self-sufficiency” is the root of the problem.⁴¹

The work support system is the programmatic link between welfare and work. In their survey of programs in twelve states, Acs and his coauthors report that a half-time, minimum-wage worker who combines her earnings with cash welfare, the EITC, and food stamps can increase her income by more than 50 percent when making the transition from welfare to work.⁴² Sheila Zedlewski has examined the effects of several work support programs on low-income families and observes that the “patchwork of income support policies can have a major effect on family income,” but the “picture is less rosy for families that do not receive these supports.”⁴³ However, Zedlewski reports that although the EITC was widely used, participation in other programs, such as TANF, food stamps, and Medicaid, decreased between 1996 and 1998. For the lowest-income families, two changes were evident during this period: (1) low-income families received fewer government benefits, and so gained a larger share of their total income from private sources; and (2) income gains from the combination of earned income and government benefits were about 7 percent, significantly less than the possibilities estimated by Acs and coauthors. Clearly, the extent to which the work support system is realizing its potential to assist needy workers, including those making the transition from welfare to work, is an important question.

Although welfare caseloads have been reduced, the continuing struggles of former welfare clients to escape poverty and achieve self-sufficiency have caused some to rethink the wisdom of policies that emphasize quick job search and placement.⁴⁴ Self-sufficiency may be better achieved by strategies that consider retention and advancement during the initial job placement.⁴⁵ Training and work support services also can help to keep former welfare clients on the job.⁴⁶ Earnings supplements are another important part of the picture; such supplements as the EITC and child care grants encourage work and defray some of the costs of working.⁴⁷ Programs that reward low-income

41. Lens (2002, pp. 281, 283).

42. Acs and others (1998).

43. Zedlewski (2002, p. 60).

44. Lens (2002).

45. Rangarajan (2001).

46. Lens (2002); Strawn and Martinson (2001).

47. Lens (2002); Strawn and Martinson (2001); Michalopoulos (2001)

workers and their dependents and encourage work can be an important part of efforts to combat welfare dependency and recidivism.⁴⁸

The Work Support System

The work support system aims to “make work pay” by providing cash and in-kind benefits to needy workers. Although most work support programs have been in place for a long time, the scope and generosity of the system were expanded significantly during the 1990s. During the Reagan presidency in the 1980s, by contrast, there was little change. Targeting needy workers for means-tested government benefits was inconsistent with Reagan’s social policy agenda; benefits to the working poor were reduced in order to concentrate assistance on the “truly needy.” Although the 1986 Tax Reform Act did enhance the generosity of the EITC and indexed benefits and eligibility standards to inflation, other tax policy changes, in particular the expansion of payroll taxes as part of the plan to restore fiscal solvency to the Social Security system, diminished the gains enjoyed by needy workers and their families.

Expansion of work support system generosity was initiated in earnest during the presidency of George H. W. Bush through several key policy changes. First, EITC generosity was enhanced. Second, the minimum wage was increased. And third, the federal government mandated changes in Medicaid eligibility that allowed more low-income children to enjoy access to medical assistance (though this change was phased in gradually over several years).

The pace of work support system development increased later in the 1990s. President Clinton’s social policy agenda tried to link expansion of the EITC, access to health care, public employment, and child care subsidies to welfare reform.⁴⁹ Although Clinton’s health care reform foundered in Congress and the public employment provisions he favored were not included in the PRWORA, several national policy changes during his presidency did enhance the generosity of the work support system. The federal minimum wage was increased. The EITC was made more generous, especially for low-income workers with children.⁵⁰ As part of the 1993 budget agreement, provisions requiring that 50 percent of income be “earned” were dropped, making more recipients of means-tested benefits eligible for the EITC; benefit generosity was increased; and EITC benefits were excluded from income in the determination of eligibility for most means-tested transfer benefits.⁵¹ Moreover,

48. Haskins (2001); Greenstein and Guyer (2001).

49. Handler (1995).

50. Zedlewski (2002); Greenstein and Guyer (2001).

51. Handler (1995).

several important policy developments influenced access to medical assistance for needy workers. The PRWORA extended medical assistance to low-income working families moving from welfare to work.⁵² Access to health care for low-income children was enhanced further in 1997 by the creation of the Children's Health Insurance Program.⁵³ Beyond this, the PRWORA also enhanced needy working families' access to child care by consolidating programs and increasing federal financial support. At the same time however, the PRWORA repealed the entitlement to child care assistance of people making the transition from welfare to work.

Although the pace of development has slowed since the 1990s, recent federal policy changes continue to expand work support system generosity. President George W. Bush's tax reductions included a more generous child tax credit that is conditionally refundable and reduced marginal tax rates for low-income workers. In addition, the Farm Security and Rural Investment Act of 2002 took several significant steps to reform the Food Stamp Program to encourage participation among low-income workers.

There is substantial evidence that during the 1990s the states also embraced the mission of supporting low-income workers. Marcia Meyers, Janet Gornick, and Laura Peck have examined interstate variation in "the subset of policies that influences the economic resources and poverty risks of families with children" between 1994 and 1998.⁵⁴ Through analysis of eleven different programs that feature substantial state-level discretion over program finance, eligibility, benefit generosity, and administration, they identify several state policy regimes. Although they document variation in state social policies, Meyers, Gornick, and Peck see a pattern in recent state policy changes: "States appear . . . to be moving in directions that contract traditional, welfare-based assistance, and expand support for the working poor."⁵⁵

We agree with their conclusion; state discretionary policy decisions are an important influence on work support system generosity. However, the program set that we examine in this research differs from that examined by Meyers, Gornick, and Peck in two important ways: we focus on means-tested programs that are connected to work and we include programs that are governed by national eligibility and benefit standards. The work support system combines state discretionary and national programs. It is important to understand the mix of national and state discretionary programs that composes the

52. Zedlewski (2002); Greenstein and Guyer (2001).

53. Gruber (2003).

54. Meyers, Gornick, and Peck (2001, p. 457).

55. Meyers, Gornick, and Peck (2001, p. 477).

work support system when considering how the system performs at the state level.

Many state governments have used their discretion to increase the generosity of the work support system. Several states have established minimum wage rates higher than the federal requirement. Several states have created and funded EITC programs to provide refundable tax credits to low-income workers or otherwise reduced the tax liabilities of low-income workers. Welfare reform also created opportunities for recipients in a number of states to make the transition from welfare to work with medical assistance and TANF earned income disregards. Beyond this, many states have used the flexibility provided by welfare reform to establish diversion grants to help low-income workers stay in the labor market or to expand child care funding.⁵⁶ Finally, many states have helped low-income workers by expanding eligibility for medical assistance beyond federal requirements.⁵⁷

More of the Same?

Readers who are familiar with U.S. social policy may suspect that the work support system is little more than a new label for “workfare” programs that promote or require work among the able-bodied poor. Although work requirements for welfare recipients are not new, creating or expanding opportunities to link means-tested benefits to work for people inside and outside the welfare system does put a new twist on an enduring policy debate about the relationships among work, welfare, and poverty.⁵⁸ To what extent are people responsible for working and earning their keep in the marketplace? In what circumstances should government intervene to protect people from privation? Do means-tested programs undermine the incentives for people to work and care for themselves and their families? Do means-tested programs create a haven that insulates participants from the labor market? Do means-tested programs create a trap that contributes to poverty among participants? If means-tested benefits complement rather than compete with the rewards that the labor market provides, new and unexpected answers to these questions are possible.

56. Adams and Rohacek (2002); Zedlewski (2002); General Accounting Office (2002b). According to the Urban Institute’s *Assessing New Federalism* project, by July 2000 twenty-six states and the District of Columbia had established formal diversion programs that allowed a family to receive a lump sum payment in lieu of TANF benefits; eligibility requirements and benefits vary from place to place.

57. Broaddus and others (2002).

58. On work requirements, see Wilensky (2002); Handler (1995).

In particular, three influential ideas must be reexamined in light of the new possibilities created by the work support system: the “less eligibility” principle, the doctrine of *laissez-faire*, and the distinction between the deserving and the undeserving poor. The less eligibility principle holds that the material condition of welfare clients must be worse than that of the lowest worker.⁵⁹ A miserly, demeaning welfare system disciplines and motivates the poor to work by preventing them from living better on welfare than they could live as workers. Welfare recipients are redeemed by work; through work, they can escape welfare dependency and join the social and economic mainstream. Handler’s observation that the lives of many welfare recipients are inconsistent with this belief—many welfare recipients do work and yet cycle in and out of the welfare system as their job prospects rise and fall; and because labor market prospects of welfare recipients are so limited, their work efforts are unlikely to allow them to escape poverty or end welfare dependency—has not diminished the influence of the less eligibility principle. As he notes, it shaped the debates concerning welfare reform during the 1990s.⁶⁰

Laissez-faire doctrine views the market and the government as alternative means of distributing income and material rewards and divides the world into two distinct groups: “amply productive workers,” capable of supporting themselves; and “wholly unproductive” people, who require charity or public assistance to survive.⁶¹ The doctrine implies that the rewards of work come exclusively from the market (the income and benefits provided by employers), and government intervention must be constrained and carefully targeted so that people who can work will work. The extension of means-tested benefits to people who are able to work undermines work incentives, creates a dependent population, and perpetuates the cycle of poverty: The more generous the benefits, the greater the problem.⁶² However, Edmund Phelps identifies a third category of people that is overlooked by the dichotomy that undergirds *laissez-faire* doctrine: “workers whose employment and wage prospects are too poor to support a lifestyle remotely approaching that of the middle class.”⁶³ Although they are willing and able to work, the opportunities these workers are offered in the labor market do not provide enough to support their families.

59. Handler (1995); King (1995); Piven and Cloward (1993).

60. Handler (1995).

61. Phelps (1997); Tullock (1997); Okun (1975). The categorization is from Phelps (1997, p. 17).

62. Murray (1984).

63. Phelps (1997, p. 17).

Laissez-faire doctrine and the less eligibility principle converge in their presentation of work and means-tested programs as alternative, mutually exclusive sources of income, so that one can be used only at the expense of the other. The work support system denies this dichotomy by providing redistributive benefits that complement rather than compete with income earned through labor market participation. This creates two important new possibilities for redistribution. First, the poor can be motivated to work by the generosity of the work support system, instead of by the harshness of the welfare system. Unlike welfare benefits, generous work support programs are in harmony with the less eligibility principle; redistributive generosity in support of work is not constrained because an effective work support system alters and improves the lowest conditions in the labor market. Second, the less eligibility principle and laissez-faire doctrine imply that the generosity of the welfare system can and must be evaluated relative to the rewards of work. By complementing the rewards that marginal workers receive from the labor market, a generous work support system opens the possibility of increased welfare generosity for those who do not work. As the rewards of work are enhanced, the rewards of welfare participation decline in comparison. A generous and effective work support system makes it unnecessary to reduce the generosity of the welfare system in order to maintain work incentives.

U.S. politicians benefit from bashing the welfare system because welfare recipients are isolated in programs that can be identified as serving the undeserving poor.⁶⁴ Popular opinion in the United States is thought to be hostile to redistribution because programs to assist the poor are thought to conflict with core American values, such as individualism and self-reliance. Ladd and Bowman report that both in 1985 and again in 1996 a majority disagreed when the National Opinion Research Center asked if “reducing the differences in income between people with high incomes and those with low incomes was a government responsibility.”⁶⁵ There is a well-established norm of distinguishing the deserving and undeserving poor on the basis of work: workers are seen as deserving, whereas the unworking poor are not.⁶⁶

Another reason Americans may disfavor redistribution is because they think only the poor benefit from it. Although redistributive programs transfer income or services from the more affluent to the less affluent, the overall distribution of benefits is less clear-cut. Redistribution that promotes responsible behavior can combat social ills such as idleness, crime, substance abuse,

64. Wilensky (2002); Handler (1995); Jencks (1992).

65. Ladd and Bowman (1998).

66. Wilensky (2002); Handler (1995); Piven and Cloward (1993); Gilens (1999).

and delinquency that affect rich and poor alike.⁶⁷ Phelps argues that only the private benefit of employment is reflected in labor market rewards (the income and benefits employers provide), and the private benefit fails to account for the social benefits of employment and the social consequences of unemployment and idleness. This suggests that work is not only a personal, moral responsibility; it is also a public good.⁶⁸ Work regulates life and assigns social roles and status within communities and families.⁶⁹ Work is a source of personal identity that creates expectations and models lives for children.⁷⁰ Work creates and shapes attitudes and interests through social experience and the identification of individuals with larger social institutions. The isolation of those outside the work world contributes to antisocial behavior.⁷¹ In this way, affluent people and poor people alike benefit from redistribution that encourages work.

William Julius Wilson observes that because Americans favor individualistic over structural explanations of poverty, they tend to blame the poor for their circumstances.⁷² However, most Americans distinguish “aiding the poor” from expanding “welfare.” From 1983 to 1991, National Opinion Research Center surveys found that a majority of respondents felt too little was being spent to help the poor, but only about 20 percent felt too little was being spent on welfare. “Paradoxically, it would seem that helping the poor is good, but helping them through established channels—that is, through welfare—is not.”⁷³ If Wilson is correct, the public’s attitude toward aiding the poor reflects, in part, the nature of the programs that government uses to accomplish redistribution. Redistribution through work is likely to be viewed more favorably.

The work support system promotes a new, more positive image of redistribution by providing means-tested benefits to needy workers and people making the transition from welfare to work. This can bring about a fundamental shift in public perceptions of poverty, work, and welfare, replacing the powerful image of the welfare queen with the working mother struggling to support her family and make ends meet.⁷⁴ The politics of redistribution can be transformed by connecting means-tested assistance to the American

67. Wilson (1997); Phelps (1997).

68. Phelps (1997).

69. Wilson (1997); Handler (1995); Piven and Cloward (1993); Mead (1986).

70. Handler (1995); Phelps (1994).

71. Wilson (1997); Mead (1986).

72. Wilson (1997).

73. Wilson (1997, p. 162).

74. Winston (2002).

impulse to assist the working poor.⁷⁵ However, this transformation is dependent upon the current work support system effectively delivering material assistance to needy workers and their families: whether it can do so is the central question of this book.

Outline of the Book

Our argument is presented in three parts. Part 1 describes the work support system. Chapter 2 elaborates on our definition of the work support system, describes federal and state work support policies and programs, and provides a historical overview of program development with emphasis on recent policy changes that have affected the generosity of the work support system. Chapter 3 examines the basic functions and design of work support programs and explains how the various components of the system strive to balance income supports and social controls.

Part 2 presents estimates of work support program benefits. The benefits provided by work support programs vary from place to place and according to earnings, family structure, family size, and work patterns. Of course, the extent of participation in work support programs is also a crucial factor. We present benefit estimates as nominal values and as values transformed to account for cost-of-living differences at the state and the substate levels. Cost-of-living differences are important because high cost-of-living states tend to use their discretion to provide nominally more generous benefits and low cost-of-living states tend to do the opposite. However, analysis of cost-adjusted benefits suggests that the influence of state-discretionary policies is limited, because the more generous benefits provided by high-cost states are insufficient to compensate needy workers for higher living costs. This implies that federal programs that feature national eligibility and benefit standards influence the generosity of the work support system by raising the bottom rung of the economic ladder regardless of state policy choices.

Chapter 4 presents nominal estimates of the income and benefits that workers can gain from minimum wage work and work support program participation in the fifty states and the District of Columbia. Chapter 5 revises the nominal estimates to more accurately reflect the real value of work support program benefits by adjusting them to reflect cost-of-living differences. Chapter 6 examines the effectiveness of the work support system as a means to encourage welfare recipients to make the transition from welfare to work.

75. Weir (2004).

Part 3 evaluates the performance of the work support system. Chapter 7 evaluates the work support system at the national level, in terms of the assistance it provides to poor and near-poor working families, including families making the transition from welfare to work. Chapter 8 evaluates the performance of the work support system at the state level. We construct a state work support system generosity index and present a regression analysis to explain the variation in generosity. We conclude that residents in states that have done nothing to enhance the generosity of work support benefits are likely to enjoy more generous work support benefits. This counterintuitive result follows from the fact that many of the most important work support programs (such as the EITC, school meals, and food stamps) have national eligibility and benefit standards that provide (with few exceptions) consistent benefits across the nation.⁷⁶ States that do nothing to enhance work support benefit generosity also tend to have low living costs. When the estimates of benefit generosity are adjusted to reflect differences in living costs, residents in “do nothing” states receive more generous benefits because the benefits provided by national programs are worth more in low-cost-of-living states and the adjusted national program benefits outweigh the generosity of state-discretionary benefits provided by other states.

We present our conclusions and proposals for reform in chapter 9. Our main conclusion is that the work support system is a work in progress. Despite the fact that the system serves the deserving poor, there is significant overlap between the welfare system and the work support system, and consequently work support programs have not been able to separate themselves from the “welfare mess.”⁷⁷ Although strides have recently been made to enhance the generosity of the work support system, our evaluation suggests that few needy working families enjoy the full benefits the system has to offer.

76. Melnick (1994). These programs are important because they provide generous benefits and enjoy widespread participation in comparison to many other work supports.

77. Wilensky (2002).

