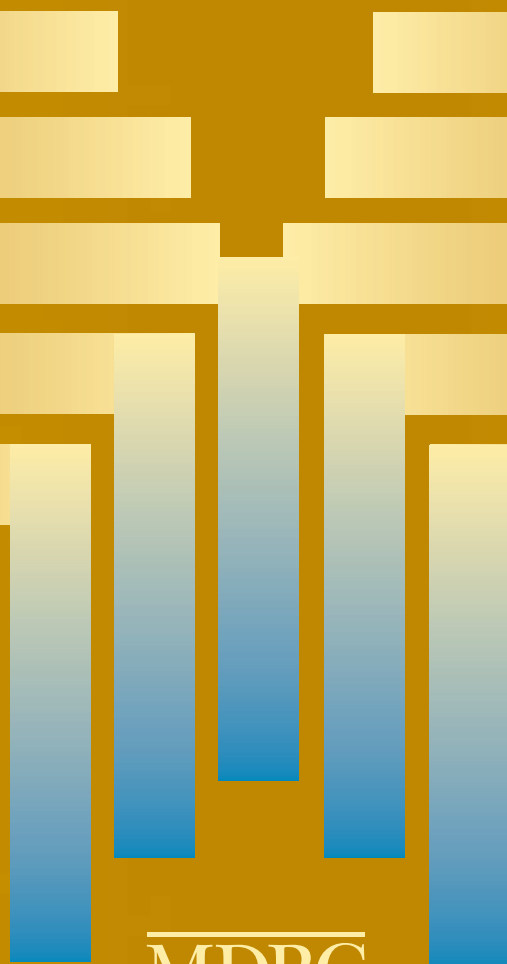


# Encouraging Work Reducing Poverty

The Impact of Work Incentive Programs

Gordon L. Berlin



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March 2000

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**This monograph was prepared  
with the support of the  
Annie E. Casey Foundation.**

The monograph is being distributed through MDRC's ReWORKing Welfare technical assistance project, which is funded by the Annie E. Casey Foundation, Charles Stewart Mott Foundation, David and Lucile Packard Foundation, Ford Foundation, George Gund Foundation, and James Irvine Foundation.

Distribution is also supported by MDRC's Public Policy Outreach funders — the Ford Foundation, Ambrose Monell Foundation, Alcoa Foundation, and James Irvine Foundation.

The findings and conclusions presented herein do not necessarily represent the official positions or policies of the funders.

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## PREFACE

The early 1990s began as a flashpoint for welfare policy but soon became a watershed. The Democratic candidate, Bill Clinton, had campaigned for the presidency on a promise to “end welfare as we know it.” Republicans introduced the Contract With America soon after, and the long battle for the control of welfare policy had been joined, ending ultimately with passage of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996. Throughout this period, the nation’s welfare rolls were climbing, and new alarm about the growing problem of welfare dependency dominated the policy debate.

While this debate transfixed the country, a small community-based coalition of concerned activists in Milwaukee, Wisconsin; the governor and state legislature of Minnesota; and the Canadian government, in partnership with the provinces of British Columbia and New Brunswick, went against the grain. They were as concerned about poverty reduction and the problem of stagnant earnings among low-skilled workers as they were about welfare dependency. While the policy and program responses designed by each entity differed, they shared the goal of “making work pay” by providing cash payments to supplement the earnings of low-wage workers. The resulting initiatives — Milwaukee’s New Hope Project, Minnesota’s Family Investment Program, and Canada’s Self-Sufficiency Project — laid the groundwork for a new approach to welfare, one that supported people when they worked rather than when they did not.

This monograph summarizes and synthesizes early evidence on the effectiveness of these and other experiments with making work pay. Based on 18 to 24 months of follow-up data, the results are

encouraging, especially for welfare recipients who had previously been on welfare for a year or more and for people who had not worked recently. Make-work-pay programs increased employment, earnings, and income; lowered the fraction of families with below-poverty-level incomes; and improved the well-being of children. Preliminary analysis of three-year follow-up data, including results for families and children, suggest that the findings reported here have held up over time. Reports due out later this year will describe these results in detail.

In the past, efforts to increase employment and lessen welfare dependency have succeeded: People worked more and received less in welfare payments, which lowered government budget costs. But these programs did not reduce poverty. Because starting wages for those with low levels of education and limited work experience were often lower than welfare payments, and because welfare benefits were reduced nearly a dollar for every dollar of earnings when someone took a job, welfare recipients and their families were generally no better off for having gone to work. Making work pay appears to change that equation: Employment and earnings rise, and so does income. But costs are generally somewhat higher for incentive programs than for traditional welfare-to-work programs.

Much has changed in the welfare environment since the early 1990s, when the programs began: Caseloads have plummeted, women’s labor force participation rates have skyrocketed, and welfare is now time-limited in most states. In this new context, what is the relevance of the lessons now emerging on the effectiveness of work incentive programs? What program design or policy changes, if any, should states make in the work incentives (typically, increased “earned income disregards”) they have built into current welfare

law? What do these results tell us about the federal and state Earned Income Tax Credit and other programs that build a new safety net around work?

This monograph summarizes and interprets research findings that contribute to answering these questions. It aims to help build a new body of knowledge about a set of policy options that have not previously received much attention. The hope is that states will find it useful as they continually redesign the safety net for welfare recipients who have joined the ranks of the working poor and for the hard to employ who remain behind.

Like all synthesis documents, this monograph builds on the work of others. Thus, it owes its greatest debt to the many people involved in the research and demonstration projects on which it is based. Special thanks are due the program people who conceived, designed, implemented, and operated the New Hope Project, the Minnesota Family Investment Program, and the Self-Sufficiency Project, and to the researchers who designed and implemented the studies, analyzed the data, and wrote the projects' reports, which served as the foundation for the present analysis. I am especially grateful to my colleagues at the Social Research and Demonstration Corporation and throughout Canada who helped to make the Self-Sufficiency Project a reality, and who taught me much about Canada's social welfare system.

At MDRC, Charles Michalopoulos was closely involved in all aspects of the project, from reviewing the numbers to rewriting sections of the document. He read and commented on several different versions and provided a terrific counterpoint on matters of interpretation. Ana Ventura was a wonderful data manager, assembling the tables, running all the New Hope numbers, fact-checking parts of the document, and drafting some of the material pertaining to New Hope. Virginia Knox and Cynthia Miller (on MFIP) and Johannes Bos (on New Hope) also offered critical advice about mat-

ters of interpretation and analysis. Dan Bloom and Judith Gueron made many helpful substantive suggestions, and Dan Bloom drafted some of the material summarizing projects not covered in the main analysis.

Several people outside MDRC also provided valuable feedback and input. Philip Robins, a member of the Self-Sufficiency Project team and coauthor of several SSP reports, reviewed an early draft and made many helpful comments and suggestions. Mark Greenberg of the Center for Law and Social Policy provided an extraordinarily comprehensive and thoughtful review of the document and was especially helpful in thinking about the findings' relevance to current welfare policy. Comments from Joel Kvamme of the Minnesota Department of Human Services helped connect the monograph's recommendations to new developments in Minnesota's welfare policy.

William Rust, Judith Greissman, and Robert Weber edited the manuscript and suggested both substantive and organizational changes. Stephanie Cowell did the publication-ready word-processing with good humor. Rosa De Los Santos was responsible for processing the earliest drafts and coordinating the reference material. Barbara Gewirtz, MDRC's librarian, assembled a wide range of relevant documents for review. Edward Rowe and his colleagues at Rowe Design Group designed the volume.

Finally, the monograph owes a great deal to the vision of Michael Larcy of the Annie E. Casey Foundation, who offered encouragement and provided support for synthesizing the lessons of work incentive programs for welfare policy.

Gordon Berlin

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## CHAPTER 1 INTRODUCTION AND A SUMMARY OF THE FINDINGS

The U.S. cash welfare system was originally designed in the 1930s to provide a safety net that would allow impoverished widows to remain home caring for their children without having to seek employment. Over the ensuing years, sweeping social and demographic changes saw a rapid rise in the number of never-married and divorced single parents, and concomitant increases in welfare receipt, even while there were dramatic increases in the share of women in the labor force. Struggling to adapt to these changes, policymakers repeatedly attempted to reform the welfare system by requiring welfare recipients to prepare for and search for jobs. But making patchwork attempts to promote work, while retaining a safety net system built to support people when they did not work, was problematic.

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### The Work Incentive Approach: MFIP, SSP, and New Hope

Searching for a way to resolve this long-standing dilemma, in the early 1990s, before the advent of time-limited welfare in the United States, a coalition of community groups in Milwaukee, Wisconsin; state policymakers in Minnesota; and a partnership between two provinces and the national government in Canada, all acting independently, set out to design and test alternatives to the decades-old safety net welfare systems that paid people when they did *not* work, aiming instead to support them when they did.

Not surprisingly, the resulting programs differed, but they shared the goals of encouraging work, increasing income, and reducing poverty by making

work pay. They also shared a common underlying approach to the problem: All three attempted to make low-wage work pay by providing work incentives in the form of monthly cash payments to supplement the earnings of low-income workers. These payments were made only when people worked (full time, in two of the programs), and the amount of each month's cash payment depended on the amount of that month's earnings. It is in this specific sense that the term *work incentives* is used throughout this monograph — that is, as a supplement to earnings.<sup>1</sup>

To characterize the programs briefly:<sup>2</sup>

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◆ **The Minnesota Family Investment Program (MFIP)** used the welfare system to reward work by changing the way the system treated earned income. First, MFIP increased the “earned income disregard” — the amount of earnings not counted (“disregarded”) when calculating a family’s welfare benefits. Second, MFIP increased basic benefits by up to 20 percent for those who worked. For long-term welfare recipients who were not working at least 30 hours a week, MFIP required participation in employment-focused services designed to help them find jobs. MFIP originally operated as a pilot program; in modified form, it became Minnesota’s statewide welfare program in 1998. (The pilot program is the version of MFIP reported on in this monograph.)

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◆ **The Canadian Self-Sufficiency Project (SSP)** was a full-scale demonstration project designed to test a work-based alternative to welfare that paid a substantial monthly earnings supplement,

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1. Though paid annually, through the tax system, the Earned Income Tax Credit (EITC) — often referred to as the Earned Income Credit (EIC) — also fits this definition, as discussed later. It is the largest work incentive program for low-income workers.

2. Fuller descriptions are presented in Chapter 3.

for up to three years, to long-term, single-parent welfare recipients who worked full time (at least 30 hours a week). Sponsored by the Canadian government, SSP was operated outside the welfare system, by private agencies, in Vancouver, British Columbia, and parts of New Brunswick. Participation was voluntary, but recipients could not receive welfare benefits and earnings supplement payments at the same time. The value of adding employment services to the incentive was tested in the SSP Plus variant of SSP. The project also included a special study of SSP's effects on welfare applicants, who, like long-term recipients, could not apply to SSP until they had been on welfare a year.

◆ **Milwaukee's New Hope Project** was a community antipoverty initiative designed to test a comprehensive set of financial and other supports for low-income workers (whether on welfare or not) who were willing to work full time. It was open to all low-income people living in two target areas and offered a package of incentives consisting of earnings supplements plus child and health care subsidies and — for people who could not find jobs — access to temporary community service jobs. Participants had to work at least 30 hours a week to receive New Hope's incentives package, and they could be eligible for up to three years.

In short, all three programs were designed to reward people when they worked, rather than when they didn't, and to increase the payoff of low-wage work through work-conditioned earnings supplements.<sup>3</sup> All three actively encouraged welfare recipients to work at least 30 hours a week, either by tying incentive payments to full-time work or by requiring those who were not working full time to participate in job preparation services. Further, in all three cases, aggressive outreach and communication about the value of the incentive were program hallmarks. Finally, in all three places, the welfare safety net system continued to operate. In SSP

3. In this monograph, the term *work-conditioned* is used rather than *work requirements* because, in discussions of welfare policy, work requirements usually refer to mandated employment and/or participation in a welfare-to-work program.

and New Hope, people who lost their job (and thus their work incentive payments) could return to welfare by reapplying,<sup>4</sup> while in MFIP, they would automatically be converted back to the traditional welfare benefit structure. The box below summarizes the types of work incentives discussed in this study.

The work incentive programs examined here were a package of policies and practices that included a work incentive and some combination of participation mandates, employment services, rules about the weekly hours of work required for receiving the incentive, targeting, and marketing. Moreover, the policies were set in a particular time and place, and influenced by the economy and other forces.

4. New Hope benefits, plus the full-time work condition, generally boosted people's income too high to qualify them for welfare, but in principle people could receive both sorts of assistance simultaneously.

## Types of Work Incentive Programs Discussed in This Monograph

### *Incentives for any amount of work*

*MFIP incentives-only program, for welfare applicants and new recipients. Incentive:* a monthly earnings supplement in the form of a basic benefit amount up to 20 percent higher for those working (a provision unusual among state welfare programs) plus a generous earned income disregard. In effect, MFIP rewarded work by allowing welfare applicants and recipients who took jobs to mix work and welfare.

*Earned Income Tax Credit (EITC), for all low-income workers. Incentive:* an annual cash payment made via the tax system and equal to a specified percentage of earnings to a maximum dollar amount (for example, in 1998, 40 percent of earnings up to \$9,390 for a family with two or more children, a maximum credit of \$3,756). The EITC is a "refundable" credit, meaning that the credit amount can exceed the amount withheld from the employee's paychecks (see page 7).

To help isolate the programs' effects — and, sometimes, the effects of the work incentive alone — the three programs were all evaluated by the Manpower Demonstration Research Corporation (MDRC), using reliable, random assignment research designs, in which a lottery-like process is used to assign eligible people to either a program group (which is then eligible for the special program) or a control group (which is not). Because the lottery-like process creates two groups that do not differ systematically, any differences that emerge over time in employment, earnings, or other relevant outcomes can reliably be attributed to the program. Such differences in outcomes between the two groups are called “impacts,” in the language of evaluations.

For comparison's sake, this monograph also includes findings from the Seattle/Denver Income Maintenance Experiment of the 1970s — part of a group of studies often referred to as the negative

income tax experiments. Providing a generous income guarantee to poor families whether they worked or not, these programs were designed to lift such families out of poverty and to measure the expected work *disincentive* effects on a wide range of low-income families. The Seattle/Denver program, too, was evaluated using a random assignment design.

Encouraging results are now emerging from the rigorous evaluations of the three work incentive programs, and the early findings constitute the first comprehensive body of evidence about the feasibility of work incentives and their effects on employment, welfare, poverty, and the well-being of children and families. The findings suggest that work-based alternatives to welfare can succeed where welfare-focused approaches have failed: effectively encouraging work while reducing poverty. The purpose of this monograph is to both summarize these early results and explore their implications for policymakers and program designers.<sup>5</sup>

Because the vast majority of states have included work incentives (that is, liberalized or expanded earned income disregards) within their own recently redesigned safety net programs — but without explicitly confronting the inherent contradiction between programs that support people when they do not work and programs that support them when they do — the implications are profound. At this juncture, states face a number of critical questions about design, targeting, costs, and tradeoffs — questions that are informed by this early experience with work incentive programs.

#### *Incentives for any amount of work plus mandatory participation in services for those not working*

*Full-MFIP, for long-term welfare recipients.*

*Incentive:* same as for the MFIP incentives-only program. An exemption from the participation requirement for long-term recipients who were working at least 30 hours a week may have encouraged full-time work.

#### *Incentives for full-time work only, testing alternatives to welfare and operated as voluntary, demonstration programs*

*New Hope, for all low-income workers.*

*Incentive, but only for full-time work:* monthly earnings supplement packaged with health and child care subsidies and access to a subsidized community service job.

*SSP, for long-term welfare recipients willing to leave welfare and work full time* (and SSP Plus, which added employment services). *Incentive, but only for full-time work:* generous monthly earnings supplement. SSP's effects were also tested for welfare applicants, who could not apply to SSP until they had been on welfare a year.

5. For SSP and MFIP, this monograph focuses exclusively on single-parent welfare applicants and recipients, the great majority of whom are women; MFIP, however, also included two-parent families. New Hope was open to a wide range of low-income adults but, to permit comparisons across programs, only certain New Hope groups are analyzed here: single parents on welfare, for comparisons with SSP and MFIP; and working single-parent and two-parent families, for comparisons with the predominantly working-poor population studied in Seattle/Denver. See pages 12-15.

## Main Findings and Conclusions

Early results from the three make-work-pay programs are striking, challenging previous assumptions about the inevitability of tradeoffs between poverty and dependency and between work and payments of public benefits. By conditioning incentive payments on work (full time in SSP and New Hope, part time — coupled with a mandatory participation requirement — in MFIP), the three work incentive programs effectively achieved their goals of increasing both work and income among single parents at risk of longer spells of welfare dependency, without incurring many of the unintended negative consequences on employment among the working poor that have plagued past policies. The employment and earnings gains among long-term welfare recipients were among the largest found in any previously evaluated welfare-to-work programs, and the income gains and accompanying poverty reductions were unprecedented.<sup>6</sup> More employable groups — welfare applicants and new recipients — also benefited, but not as consistently.

Among the specific findings:

- ◆ When work incentive programs were linked to participation mandates or were conditioned on full-time work, they substantially increased the employment, earnings, and total income of long-term welfare recipients.

- ◆ The increased income that long-term welfare recipients obtained typically led to a substantial decrease in poverty — both an increase in the percentage of people with incomes above the poverty line and a decrease in the size of the gap between a recipient's income and the poverty line.

- ◆ The increased income improved participants' well-being in the form of greater expenditures on

food, children's clothing, and housing and less reliance on food banks. Moreover, people took steps to increase their assets by opening savings accounts and taking other actions. The programs' benefits accrued in turn to children.

- ◆ Program designs that conditioned incentives on full-time work or coupled them with a participation obligation, when also combined with employment services, appear to have produced the largest impacts.

- ◆ For welfare applicants and new recipients, an incentives-only program model, without participation requirements or full-time work conditions, had more limited effects.

- ◆ In contrast to findings on traditional welfare programs, which provided benefits even when people did not work, there was little evidence here of unintended reductions in work effort among the working poor. They may have reduced the number of hours they worked (often by cutting down on overtime), but employment rates did not decline.

- ◆ There were positive impacts on earnings, on top of any gains that might have resulted from the federal Earned Income Tax Credit (EITC) program (which uses the tax system to pay cash supplements to low-income workers). This suggests that work incentive programs, particularly those targeted at welfare recipients, can be an efficient means of further increasing income and reducing poverty among single parents.

- ◆ Like the EITC and other policies that redistribute income, the work incentive programs analyzed in this monograph typically increased receipt of transfer payments, resulting in modest increases in government costs.

Fortunately, most states are attempting to make work pay by disregarding a significant share of earnings when calculating welfare benefits, a strategy that could have impacts like those just described. Unfortunately, work incentives can be effective only if welfare recipients know about and understand them. Yet “marketing” the work incentive message has not been a hallmark of

6. In random assignment studies of a program's effects (impacts), terms such as *increases* (or *gains*) and *decreases* (or *reductions*) refer to how the program group fared compared with the control group.

existing state incentive programs, suggesting that most state programs are mainly helping people who would have worked anyway.

Further complicating the communication challenge, state incentive policies are being implemented in conjunction with time-limited welfare policies (themselves poorly understood). Work incentives within welfare programs allow people to raise their income by combining work and welfare, thus, in effect, encouraging them to remain *on* the rolls. But the five-year lifetime limit on receipt of federal cash welfare — a cornerstone of the landmark 1996 federal welfare law — and states' own, sometimes shorter time limits were intended to push people *off* the rolls. The two policies in tandem can send contradictory messages to caseworkers and welfare recipients.

The 1996 law replaced the Aid to Families with Dependent Children (AFDC) entitlement program with Temporary Assistance for Needy Families (TANF) block grants to states for use in designing their own policies for low-income people. If the results reported here are sustained over a longer follow-up period, states may want to consider taking advantage of the flexibility granted in the recent TANF regulations to separate time limits from work incentives by creating a separate or “segregated” program for people who take full-time jobs. Thus, the TANF time-limit clock would tick only for people who do not work full time. This strategy might maximize the work-encouraging effects of both time limits and work incentives instead of having those policies at odds with each other. It would simultaneously permit time limits to discourage people from remaining dependent on welfare while permitting work incentives to reduce poverty by increasing the payoff of work.

The remainder of this monograph proceeds as follows: Chapter 2 offers a quick summary of the historical conditions and recent developments that have made incentives a central part of welfare policy, and ends with the key policy questions driving the entire

analysis. Chapter 3 describes the programs and research designs in more detail. Chapter 4 compares and contrasts the programs' effects, explaining differences in results by program. Because this chapter is more technical, each section begins with a summary of results. Chapters 5 and 6 stand back, drawing out the lessons and larger implications for policymakers and program designers. ♦

## CHAPTER 2

# A SHORT HISTORY OF WELFARE POLICY

For decades, social welfare policies for single mothers in America have been characterized by two contradictory impulses. On the one hand, Americans do not want families with children to be poor. To help lift them out of poverty, the nation has provided a range of cash welfare payments, tax credits, and other benefits. On the other hand, Americans do not want families with children to be primarily dependent on income transfer programs, particularly cash welfare.

This seeming contradiction has contributed to pendulum-like swings in policy between a concern for poverty and a concern for dependency. Unfortunately, progress in one area has often caused setbacks in the other: Providing more income to reduce poverty, for example, typically increased dependency and discouraged work. Reducing welfare benefits encouraged work, but after accounting for work expenses, single parents were seldom better off and possibly worse off financially when they left welfare for work, generally in entry-level and other low-wage jobs.

### Reforming Welfare with Work

Determined to sustain a basic safety net for poor families and children, while encouraging self-sufficiency, policymakers repeatedly attempted to reform welfare by imposing on welfare recipients increasingly stringent work requirements intended to reduce both dependency and poverty. Amendments to the AFDC program in 1967, 1973, 1981, and again in 1988 (through the Family Support Act) sought to make work the focus. These changes provided funding for job-preparation programs and required welfare recipients to participate

in employment and training services or to become employed as a quid pro quo for continued receipt of welfare benefits.

Even though the quid pro quo was never implemented for all recipients — budgets were inadequate, and many recipients were exempted from the requirement for health reasons or because they had young children — evaluation evidence demonstrated that the work-focused program states initiated in the 1980s and early 1990s were triple winners, increasing earnings, reducing welfare payments, and often saving government funds.<sup>1</sup> But many welfare recipients did not get jobs. And for those who did, these programs seldom made a difference in income or poverty. Families were still about as poor as they had been when they were receiving welfare and not working.

There were three principal reasons why welfare-to-work policies did not have a material effect on incomes and poverty rates among single parents in the 1980s and early 1990s:

1. After four months of work, recipients had their welfare benefits reduced nearly one dollar for every dollar of earnings, effectively leaving those who took jobs no better off than when they received only welfare.

2. The majority of welfare-dependent families were headed by single women with low basic skills, limited formal education, and intermittent work experience. These women did not reliably receive child support from the fathers of their children, and they were unable to earn enough on their own to lift their families' income appreciably. Moreover, they often lost health insurance when they left welfare for low-wage jobs.

1. Friedlander, Greenberg, and Robins, 1997; Gueron and Pauly, 1991; Bloom, 1997; Scrivener et al., 1998; Freedman et al., 1999.

3. Erosion on the demand side of the labor market had caused more than three decades of stagnant earnings for many low-skilled single parents. Then, in the late 1980s, a new “skills bias” began to dominate the labor market, forcing down the wages that poorly educated workers could command, even while the earnings of those with higher skills were increasing steadily.<sup>2</sup>

In short, welfare policy was fighting an uphill battle against a deteriorating low-wage labor market. Even in periods of strong economic recovery, employment grew for those at the low end of the income distribution, but not their wages or earnings. Employment growth without wage growth in the 1980s and first half of the 1990s was unprecedented.<sup>3</sup> Beginning in 1996, the benefits of growth did begin to trickle down, and earnings among low-income workers began rising,<sup>4</sup> though it remains unclear whether this signifies a resumption of long-term earnings growth for those at the bottom of the earnings distribution. In real terms, the recent uptick in earnings has still not made up for ground lost over the prior 25 years.<sup>5</sup> Moreover, although poverty rates had declined significantly by 1998, nearly one-quarter of Hispanic and African-American families remained poor, nearly one-third of all single-parent households were poor, and half of all children who were under age 6 and living in a single-parent household were poor. Finally, income inequality — the share of aggregate income going to the richest fifth versus the poorest fifth of all U.S. families — remained near its highest level in three decades.<sup>6</sup>

2. Levy, 1998; Murnane and Levy, 1996; Burtless, 1997; Blank, 1995; Berlin and Sum, 1988.

3. Blank, 1997.

4. Blank, 1998; Economic Report of the President, 1999.

5. In stark contrast, the lowest level of wages and earnings had grown by 50 percent in the quarter century before 1973. See Levy, 1998; Mishel, Bernstein, and Schmitt, 1999; Bernstein, 1999.

6. U.S. Census Bureau, 1999.

## Work Incentives and Time Limits

This combination of low and either stagnant or declining earnings, on the one hand, and a nearly dollar-for-dollar welfare benefit reduction rate, on the other, created welfare’s policy paradox. Searching for a way to reconcile these competing work, income, and dependency goals; dissatisfied with the adequacy of existing programs; and facing persistent poverty and rising welfare dependency rates in the late 1980s and early 1990s, policymakers pursued two additional strategies: work incentives and time limits — strategies that began to lay the foundation for a new safety net built around work rather than nonwork.

First, to reward work and reduce poverty, they significantly expanded the generosity of the EITC program, the universal income support program that uses the tax system to supplement the earnings of low-income workers. This recent expansion responded directly to federal policymakers’ concerns about the high payroll tax burdens confronting working-poor families, burdens that also contributed importantly to work’s not paying for many single parents with low-wage jobs. By 1998, taxpayers with two or more children could claim a credit equal to 40 percent of their earnings up to a maximum credit of \$3,756 — nearly three times the 14 percent, \$953 maximum credit available in 1990.<sup>7</sup> Qualified taxpayers receive a “refund” payment from the Internal Revenue Service even if the EITC amount exceeds the amount of taxes withheld by their employer. Thus, the EITC turns a wage of \$6.00 per hour into a wage of \$8.40 per hour. In addition, a number of states provide state supplements to the federal EITC.

Second, to fight dependency, new welfare reform legislation — the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996 — was enacted, placing a 60-month lifetime limit

7. Smeeding, Ross, and O’Connor, 1999; U.S. House of Representatives, 1998, Table 13-12, p. 867.

on the number of months federal funds could be used to pay most families' welfare benefits and requiring most recipients to work or be engaged in work activities. The act also ended the entitlement to cash welfare benefits for poor families by capping the federal funding commitment and providing those funds to states in the form of a Temporary Assistance for Needy Families (TANF) block grant. The block grant gave states substantial flexibility to design and define their own policies and programs.

States typically followed the federal lead, placing some kind of state time limits on receipt of welfare benefits. But cognizant of the difficult labor market for low-skilled workers, and thus the low earnings potential among welfare recipients, most states also used their new flexibility to initiate a new generation of financial incentives for welfare recipients that condition benefits on work.

The main form of the incentives (one used in MFIP) is liberalization of the earned income disregard. In effect, this allows welfare recipients to work and to continue receiving cash payments that supplement their earnings. While the rate at which welfare benefits are lowered as earnings rise varies from state to state, the overwhelming majority of states have used this welfare-based earned income disregard mechanism to "make work pay" (see the box, right). Of course, simply ending welfare, by definition, makes work pay better than (nonexistent) welfare, but in most states the coalition that supported enhanced earnings disregards also had the goals of combating low wages and reducing poverty.

States' efforts to use their TANF flexibility to make work pay were surprising. Throughout the prior 30 years of reform, attempts to change work's reward relative to welfare had played only a minor role in welfare policy. For example, amendments to the welfare law, passed in 1967, instructed states to disregard (not count) \$30 and one-third of the remaining monthly earnings when calculating welfare benefits, in effect helping to make work pay by allowing recipients to mix work and welfare. Reforms passed in 1981 reversed course, reducing the

value of the disregard by calculating it on net rather than gross income and limiting it to only four months, after which benefits were reduced by nearly a dollar for every dollar of earnings.<sup>8</sup> Contrary to expectations, evaluations of both the 1967 and the 1981 changes suggested that

8. U.S. House of Representatives, 1998, p. 404.

### Programs Combining Work Incentives and Time Limits

Several other ongoing random assignment evaluations of programs that include work incentives are not discussed in this monograph. The following are among the programs being studied:\*

- ◆ Connecticut's Jobs First program, a statewide welfare reform program implemented in 1996. Jobs First includes a 21-month time limit on cash assistance receipt and a very generous earned income disregard (all earned income is disregarded as long as earnings do not exceed the federal poverty level).
- ◆ Florida's Family Transition Program (FTP), a pilot project initiated in 1994 in Pensacola. FTP includes time limits on cash assistance receipt (24 or 36 months, depending on client characteristics), enhanced services, and an expanded earned income disregard.
- ◆ Vermont's Welfare Restructuring Project (WRP), a statewide program implemented in 1994. WRP includes a "work trigger" time limit as well as an enhanced earned income disregard and other changes in welfare eligibility rules.
- ◆ Iowa's Family Investment Program, a statewide demonstration begun in 1993. It combines strict participation requirements, development and execution of a "social contract" between the program and the recipient, and significant work incentives (a 100 percent earnings disregard for four months and a 60 percent disregard thereafter) with a new sanction policy — called the Limited Benefit Plan — for failure to follow the

neither change appreciably affected overall work behavior.<sup>9</sup> Some people reduced their work effort so they could remain on the rolls, while others, preferring to remain off welfare, worked more to make up for the lost benefits. The two effects offset each other.

9. Moffitt, 1984; 1993, p. 139.

### social contract. LBF leads to complete loss of benefits for six months.

All four programs have generated increases in employment and earnings. The three time-limit programs either increased or did not affect welfare receipt and payment amounts in the period before recipients began reaching the time limits, and all three resulted in decreased welfare spending thereafter. The Iowa program had no impact on welfare receipt, although benefit payment amounts declined slightly (4 percent in the second year).

The studies are not discussed in this monograph because none of them provides direct evidence on the impacts of work incentives that clearly make work pay. The Connecticut, Florida, and Iowa programs all include generous earned income disregards, but they also include many other major policy changes (such as time limits and full-family sanctions), and the evaluations are not designed to disentangle the impacts of the various components. The Vermont study is designed to do so, but the financial work incentives available to the two program groups are only modestly more generous than those available to the control group.

\*See Bloom, Andes, and Nicholson, 1998, for a description of the Connecticut program and evaluation; Bloom et al., 1999, for Florida; Bloom et al., 1998, for Vermont; and Fraker et al., 1998, for Iowa. For a comprehensive review of incentive programs, see Blank, Card, and Robins, forthcoming 2000. For a description of other state welfare demonstration programs, see U.S. House of Representatives, 1998, pp. 1439-1448.

These ambiguous results on the value of different earned income disregards were reinforced by findings from the negative income tax experiments, which tested several different guaranteed annual income plans, including a range of different disregard rates (discussed further in Chapter 3). Participants' work effort proved relatively indifferent to the disregard amount and its related "tax" or benefit reduction rate on earnings.<sup>10</sup>

## Policy Questions

This previous experience with incentives and the new state interest in them raise three important policy questions:

1. *How effective are work-conditioned incentives?* As noted above, modest work incentives have been a little-noticed part of welfare policy since 1967, and previous efforts to gauge their effectiveness suggested that incentives had little overall effect on work behavior. How are the new incentive programs different from those previously tested? How do the new policies differentially affect long-term and new welfare recipients? How can the policies best be designed to achieve their multiple goals?

2. *Do work incentives have unintended negative consequences?* Do they discourage work among the working poor? Do they encourage some low-wage workers to apply for welfare benefits just to become eligible for the incentives (so-called entry effects)?

3. *Where should work incentives targeted at welfare recipients fit in the current policy environment?* The policy world is bounded, on one side, by federal and state time limits on welfare receipt and, on the other side, by the universal EITC program, which rewards work by supplementing the earnings of all low-income workers. Time limits are intended to push people off the welfare rolls quickly. In contrast, welfare-based work incentives hold

10. SRI International, 1983.

recipients on the rolls by enabling them to continue receiving some benefits while they work. When implemented simultaneously, the two policies force welfare caseworkers to send contradictory messages and recipients to make sophisticated bets on their future circumstances — “Should I preserve my limited months of welfare receipt, or should I use up my months by staying on welfare and thereby supplementing my earnings?” Further, if the EITC already makes work pay, what would be gained by also incorporating work incentives within the welfare system?

Anticipating the importance of these questions, in the early 1990s MDRC and different state, community, and public agencies launched evaluations of the MFIP, SSP, and New Hope programs. Each evaluation began at the program’s inception. The present findings are based on relatively short follow-up periods of 18 to 24 months following each sample member’s date of random assignment to the program or control group. As a result, this summary should be considered an early scorecard on incentive programs — especially because the SSP and New Hope programs supplemented benefits for only three years. Thus, critical information about what happens to employment, earnings, income, and welfare receipt after supplement payments end is still lacking. Longer follow-up information, now being collected, will tell a more complete story. Evaluation reports covering longer follow-up periods will be released between 2000 and 2002. ♦

## CHAPTER 3 FOUR ANTIPOVERTY PROGRAMS

### Descriptions of the Programs

#### The Minnesota Family Investment Program (MFIP)

Initiated in April 1994 as a seven-county test of a revamped welfare system that would reward work while also providing basic benefits, MFIP combined two approaches to meet its goals of increasing families’ employment and earnings while reducing poverty:

1. *For long-term welfare recipients* — defined as those who had received welfare for at least two of the prior three years — MFIP (a) made work pay by allowing job-takers to receive a work incentive in the form of payment via the welfare system when they went to work, and (b) required recipients who were not working at least 30 hours a week to participate in job search and other work preparation and training programs.<sup>1</sup> Recipients who did not meet this requirement could have their welfare grants reduced by 10 percent, a relatively mild sanction.<sup>2</sup>

2. *For applicants (mainly new recipients)*, MFIP offered its work incentive, but without any work or participation mandates. Without regard to the number of hours worked per week, participants who took jobs were eligible to receive earnings-related benefit payments.

In practice, this means that MFIP really offered two different programs: (1) “full-MFIP” — a manda-

1. More precisely, they had to meet with an employment caseworker about enrolling in such a program. For single parents with children under age 6, the work threshold was 20 hours a week.

2. Prior to TANF, most sanctions equaled the adult’s share of the grant, about one-third of the total in a three-person family; since TANF, many states have implemented full-family sanctions, a complete loss of the grant.

### The Canadian Self-Sufficiency Project (SSP)

In operation between November 1992 and December 1999, SSP was sponsored by the Canadian government and operated by private social service agencies located in metropolitan Vancouver, British Columbia, and the lower third of New Brunswick. SSP offered to make work pay for a broad cross section of single parents who had been on Income Assistance (Canada's welfare system) for at least a year. To receive SSP's earnings supplement payments, a participant had to leave Income Assistance and work full time (at least 30 hours a week) within a year of being selected for the program. The decision to work was voluntary, however. SSP's monthly earnings supplement payments were tied to work effort and were paid on top of earnings from employment, for up to three years, as long as individuals worked full time and remained off Income Assistance.

Single parents who took full-time jobs and left welfare to enroll in SSP were usually \$3,000 to \$5,000 a year better off than if they had worked the same amount and remained on Income Assistance. SSP's work incentive did not vary by family size. As a result, when compared with Income Assistance, SSP provided small families with a bigger incentive to work than it provided to large families. In a special study, called SSP Plus, pre- and post-employment-related services (job search, job coaching, job development, and case management) were offered in conjunction with the incentive. SSP also included a separate study of the program's effects on applicants to welfare (actually, new recipients) primarily to determine: (1) to what extent the availability of such a program, with its one-year waiting period, keeps people on welfare longer so that they can become eligible for its earnings supplements (so-called entry effects), and (2) how the prospect of being able to apply for SSP in a year changed people's employment and other behavior during that year and beyond.<sup>5</sup>

tory program of participation requirements and work incentives that combined work and/or employment-related services for long-term recipients, and (2) an "incentives-only" program for applicants and new recipients.

Under MFIP, the basic welfare grant was increased by up to 20 percent for those who took a job, and benefits were simultaneously reduced by only 62 cents for every dollar earned, instead of the usual dollar-for-dollar reduction.<sup>3</sup> Thus, working recipients were subject to a more generous benefit structure than non-working recipients. MFIP's work incentives were adjusted for family size, to maintain the same incentive to work for both large and small families. While MFIP's rules encouraged full-time work by exempting those working at least 30 hours a week from the participation requirement, the program allowed part-time work and actually provided a relatively larger incentive amount for it. MFIP also simplified public assistance rules and procedures by combining into a single cash grant program AFDC (now TANF), Minnesota's Family General Assistance (FGA), and Food Stamps. Finally, MFIP participants could continue to receive benefits as long as they continued to meet income eligibility criteria.

As noted in Chapter 1, a modified version of MFIP became Minnesota's statewide welfare program in 1998.<sup>4</sup>

3. Payments made under MFIP could not exceed the maximum welfare benefit.

4. Partly as a result of emerging findings from MDRC's evaluation of MFIP, and in response to changes required by PRWORA, the state made a number of changes in MFIP's rules. For a detailed description of MFIP and its impacts on applicants and recipients, see Miller et al., 1997.

5. For detailed descriptions of SSP and its impacts on recipients and applicants, see Lin et al., 1998; Michalopoulos, Robins, and Card, 1999; Quets et al., 1999; Berlin et al., 1998.

## The New Hope Project

Serving two areas within inner-city Milwaukee, Wisconsin, between August 1994 and December 1998, and managed by a community-based nonprofit organization, the New Hope Project offered an innovative approach to reducing poverty and addressing the economic insecurity of low-income workers. Participation in the program was voluntary, and people could remain in New Hope for up to three years. To be eligible, applicants had to live in the targeted service areas, be age 18 or over, be willing and able to work at least 30 hours a week, have a household income no higher than 150 percent of the federally defined poverty level, and then, after being told about New Hope, had to agree to become part of the New Hope evaluation.

Single- and two-parent families and adults without children who met these requirements were eligible to receive (1) help in obtaining a job, including access to a time-limited, minimum-wage community service job (CSJ) if full-time employment was not otherwise available; (2) a monthly earnings supplement when they worked full time (at least 30 hours a week), which, when combined with the federal and state EITC, raised most low-wage workers' income above the poverty level; (3) subsidized health insurance, which gradually phased out as earnings rose; and (4) subsidized child care, which also gradually phased out as earnings rose. In short, New Hope offered access to a job to people who could not find one and a work incentive package comprising earnings supplements plus child and health care subsidies.

New Hope operated independently of the Wisconsin welfare system; thus, welfare eligibility was unaffected by enrollment in New Hope, although earnings and supplement payments did count as income when welfare eligibility and benefit amounts were calculated. For purposes of comparison with the other programs, this monograph includes

New Hope's results only for single- and two-parent families with children.<sup>6</sup>

## The Seattle/Denver Income Maintenance Experiment

Initiated in the 1970s and commonly referred to as a negative income tax experiment, the Seattle/Denver program was a response to three problems: (1) mushrooming growth of the AFDC and Food Stamp programs, (2) persistent poverty among the working poor and two-parent families, and (3) high tax or benefit reduction rates that discouraged work by reducing welfare benefits nearly dollar for dollar when welfare recipients took jobs. To address these problems, the Seattle/Denver program offered a generous minimum level of income, ranging from \$3,800 to \$4,800 in 1971 dollars (equivalent to about \$17,000 in 1997 dollars) to a broad cross section of low-income families in the two cities. Various benefit reduction rates (earned income disregards) were tried, ranging from \$.50 to \$.70 for each dollar earned, rates that were lower than the prevailing AFDC benefit reduction rates.<sup>7</sup>

To participate, families had to leave other benefit programs such as AFDC, Food Stamps, and subsidized housing. The goals were to promote equity by substituting one program for the potpourri of existing programs and to promote efficiency by using the tax structure to provide benefits. Although the amount of a recipient's payment was affected by earnings, participants received payments whether they worked or not (as in traditional welfare programs), raising fears about potential work reductions among the working poor. The primary purpose of the study was to measure the effects of such a large minimum income payment on work behavior.

6. For a detailed description of New Hope and its impacts on low-income families, see Bos et al., 1999.

7. For a complete discussion of the Seattle/Denver program, see SRI International, 1983.

## Similarities and Differences

The four programs' designs and target populations shared many similarities but also contained important differences, making it possible to address a wide range of questions about the likely effects of different forms and structures of financial incentives tied to work. While the similarities encourage comparisons across the programs, unique differences in the program models and the people served add complexity and nuance to the story's interpretation.

In terms of target groups, the four programs ran the gamut from the working poor to long-term welfare recipients. New Hope and Seattle/Denver were "universal" programs offering benefits to anyone in the designated areas who met income eligibility levels, including welfare recipients and nonrecipients, and those with jobs and those without.<sup>8</sup> In contrast, MFIP and SSP were targeted, "categorical" programs in which eligibility was limited to welfare recipients. But even these two programs defined welfare receipt somewhat differently: SSP defined long-term welfare receipt as receiving benefits for at least the prior year, while MFIP defined it as receipt for two years or more in the prior three. Similarly, welfare applicants in SSP were actually new recipients whose welfare grant applications had been approved, while about 10 percent of MFIP applicants were people whose applications were not approved.

In terms of benefits and services, New Hope was by far the most ambitious project, addressing many of the major employment-related issues facing low-income households. It offered job search assistance for the unemployed, provided access to community service jobs for people who could not find employment, and made work pay for those who could. New Hope also subsidized the cost (and guaranteed the availability) of child care and health care for everyone who worked

and needed these benefits.<sup>9</sup> MFIP offered a wide range of employment, training, and job search services, and the program required long-term recipients to participate in them. SSP did not offer services, although a small special substudy (SSP Plus) tested incentives combined with pre- and post-employment services.

In terms of generosity, SSP offered the largest work incentive. The typical person who worked full time and earned around \$10,000 a year would be about \$3,000 to \$5,000 a year better off than a similar person who worked and remained on welfare. In MFIP, by comparison, a single parent with two children who earned \$10,000 or so a year would be about \$1,800 a year better off than someone who worked and remained in the regular welfare system. New Hope's earnings supplement was the smallest, amounting to about \$1,500 annually for the average person. However, this calculation does not include health and child care benefits or the wages that were paid in New Hope's community service jobs. The Seattle/Denver program was the most generous of all; because participants actually received the largest payment when they did not work, the program's generosity was expected to be a work *disincentive*.

In terms of voluntary/mandatory and part-time/full-time work conditions, SSP, New Hope, and MFIP for long-term recipients all included design elements that encouraged full-time work, defined as at least 30 hours a week. But the nature of the encouragement and the conditions varied by program. While participation in SSP and New Hope was voluntary,<sup>10</sup> earnings supplements could be paid only when participants worked full time. MFIP for long-term recipients combined a rule encouraging full-time work with a manda-

9. New Hope offered only program group members special health insurance and child care support as an integral part of the program model, while MFIP and SSP offered these benefits to both program and control group members who were making the transition to work (partly because both jurisdictions had significant health and child care programs in place for low-income families outside the welfare system).

10. Voluntary in the sense that there were no penalties if those eligible, having learned about the program, chose not to find qualifying full-time jobs.

8. As previously noted, New Hope also served single adults, but to facilitate cross-program comparisons, they were not included in the analyses done for this monograph.

tory participation requirement, but was a voluntary program for applicants — they could choose whether to work and how much. When they did, MFIP’s more generous benefit structure for earners kicked in. The Seattle/Denver program was voluntary and had no work or participation requirements; anyone who was eligible could apply for benefits regardless of whether he or she worked.

While the welfare system continued to operate as a safety net undergirding the three work incentive programs, the interaction between the programs and their respective local welfare systems varied. SSP participants who were receiving supplement payments could not simultaneously receive welfare, but they could return to welfare if they lost their jobs. New Hope’s earnings supplement payments were counted against welfare, but a person who met the eligibility requirements could receive welfare and New Hope benefits simultaneously. MFIP was operated by the welfare system, making movement between the welfare benefit

structure for nonworkers and the MFIP benefit structure for workers seamless.

In terms of operating characteristics, SSP and New Hope were managed by private nonprofit social service agencies outside the welfare system — that is, as an alternative to welfare. As noted above, MFIP was run by the welfare agency as part of the welfare system. (See Table 3.1 for a summary of these programs’ similarities and differences.) A separate private agency was created to manage the Seattle/Denver program.

## Research Designs: An Illustration

As discussed in Chapter 1, all four programs employed random assignment research designs — that is, qualifying people were randomly assigned by computer to either a program group (which was eligible for the special program) or a control group (which was

**Table 3.1 Comparison of the Minnesota Family Investment Program (MFIP), the Self-Sufficiency Project (SSP), and the New Hope Project**

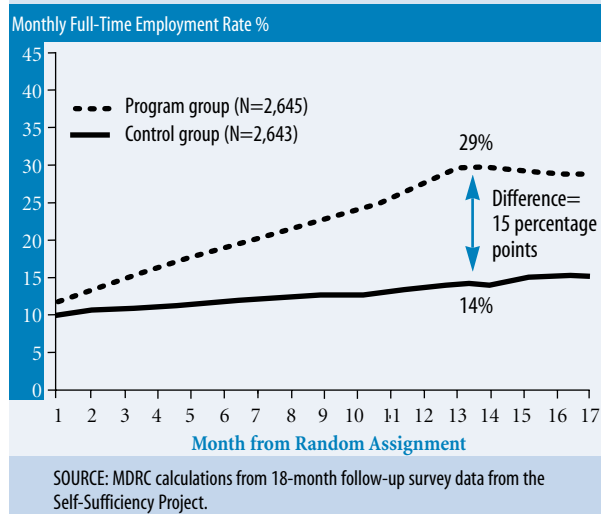
Program Elements: Offered to Program Group but Not Control Group Members							
Program/ Target Group	Work Incentives		Participation in Services		Regular Contact/ Marketing	Employment Services	Other Benefits  (Subsidized Child Care and Health Care)
	For Full-Time Work Only	For Any Work	Voluntary	Mandatory			
<b>MFIP</b>							
Long-term recipients	—	✓	—	✓	✓	✓	—
Applicants (mainly new recipients)	—	✓	—	—	—	—	—
<b>SSP</b>							
Long-term recipients	✓	—	—	—	✓	—	—
Applicants (new recipients)	✓	—	—	—	✓	—	—
<b>SSP Plus</b>							
Long-term recipients	✓	—	✓	—	✓	✓	—
<b>New Hope</b>							
Low-income adults	✓	—	✓	—	✓	✓	✓

not). Random assignment creates two groups that do not differ systematically in either measurable or unmeasurable ways on key background characteristics — for example, in terms of average levels of education, employment, welfare history, and motivation to work. Because the only systematic difference between the groups at the point of random assignment is that one becomes eligible for the program while the other does not, any subsequent differences that emerge between them — for example, in employment or income — can safely be called an effect, or “impact,” of the program.

Figure 3.1 uses monthly full-time employment-rate data from SSP to illustrate how differences in outcomes between a program group and a control group represent an impact. As the figure shows, at the time of random assignment (month 1 on the horizontal axis),<sup>11</sup>

**Figure 3.1 Illustrating Impacts**

**Monthly Full-Time Employment Rates for Single-Parent, Long-Term Welfare Recipients in the Self-Sufficiency Project**



the full-time employment rates of the two groups were comparable, about 10 percent. After random assignment, program group members attended an orientation session and learned about the SSP supplement offer.

*Table 3.1 (cont.) Defining Target Groups and Program Elements (Available Only to Program Group Members)*

**1. Target groups.** SSP long-term welfare recipients had been on welfare for at least the last year, while MFIP long-term recipients had been on for two years or more in the prior three years. SSP applicants had to wait a year before becoming eligible for the incentive, while MFIP applicants could qualify almost immediately. New Hope was available to all low-income people in the target neighborhoods.

**2. Work incentive.** All programs made work pay. SSP was the most generous. MFIP used within-welfare earned income disregards, while SSP and New Hope supplemented earnings outside of welfare. New Hope’s cash incentive was the smallest, but this excludes the program’s substantial child care and health insurance subsidies.

**3. Full-time versus part-time work conditions/mandatory versus voluntary participation.** SSP and New Hope were voluntary programs, but supplement payments were made only when participants worked at least 30 hours a week. MFIP for applicants (mainly new recipients) was voluntary. Any part-time work triggered MFIP’s earnings supplement benefit structure, which was more generous than traditional welfare. The full-MFIP program for long-term recipients was mandatory: Participants who were not working at least 30 hours a week had to register to participate in employment and training activities. MFIP reduced the welfare grants of recipients who did not meet the 30-hour-a-week requirement (20 hours for parents whose children were under age 6).

**4. Regular contact and marketing.** All the programs conducted intensive outreach to explain the benefits offered.

**5. Employment services.** MFIP provided long-term welfare recipients with a wide range of employment and training services. SSP did not include any services. SSP Plus offered employment counseling, job search assistance, and post-employment services. New Hope provided community service jobs as needed.

**6. Child care and health care.** Only New Hope offered special child and health care assistance.

11. People enter random assignment studies over a period of time, and “month 13” of this follow-period, for example, means the thirteenth month after each person’s date of random assignment.

Almost immediately, their full-time employment rate (dashed line) began rising faster than the control group's (solid line), as more and more program group members began looking for and finding full-time jobs.

By month 13 of follow-up, 29 percent of the SSP program group were working full time versus only 14 percent of the control group — a difference, or impact, of about 15 percentage points. The size of the difference steadily increased from follow-up month 1 to month 13 as the share of program group members who were working full time relative to the control group continued to grow. Note that the control group's employment line also rose during this period. The *difference* between the two groups' rate of employment reveals what effect SSP had above and beyond what individuals would have done on their own. Without a control group for comparison, it is easy to assume, mistakenly, that SSP accounted for all the employment among program group members; in fact, many welfare recipients chose to take full-time jobs on their own and without the assistance of SSP. Note that an *impact* may grow or shrink in size either because the program group changed its behavior or because the control group caught up. For example, as shown in Figure 3.1, after month 13, the program group's employment rate stopped growing, and the dashed line representing that rate flattens out; but the control group's employment rate continued to rise, albeit slowly, with the result that impacts declined somewhat.

To facilitate comparisons across programs, this monograph relies on a combination of quarterly and annual net impact numbers derived from differences between program and control groups. In some instances, for brevity's sake, the program and control group outcomes behind the impact estimates will not be shown. ♦

## CHAPTER 4 WHAT DIFFERENCE DO WORK INCENTIVE PROGRAMS MAKE?

**B**ecause a work incentive program's effects are likely to vary for different populations, this monograph presents findings for three distinct groups: (1) long-term welfare recipients (typically people who have received benefits for a year or more); (2) welfare applicants (a generally more employable group); and (3) the working poor.<sup>1</sup> As discussed in Chapter 3, the Canadian Self-Sufficiency Project (SSP) and the Minnesota Family Investment Program (MFIP) were targeted only to welfare recipients and applicants, whereas Milwaukee's New Hope Project and the Seattle/Denver Income Maintenance Experiment served a diverse group of working-poor, welfare, and nonwelfare people.

Given these population differences, to facilitate comparisons of New Hope's impacts with those found in SSP and MFIP, and to help isolate the impact on the working poor, the examination of New Hope's impacts will be restricted to two groups: (1) single parents who *were receiving welfare* when they were recruited into the study and randomly assigned to the program or control group, and (2) single- and two-parent families *who were working* when they were recruited and randomly assigned. Note that the two groups are not mutually exclusive.<sup>2</sup>

Furthermore, as explained below, the population that enrolled in the New Hope study was a group of volunteers who joined the study because they wanted to work full time. As a result, New Hope attracted a generally more motivated and employable group of

1. SSP defined long-term receipt as a year or more, whereas MFIP defined it as two years or more in the prior three years. *Applicants* were also defined a bit differently, as described in footnote 19.

2. These groups were not a focus of MDRC's recent report on New Hope's short-term impacts (Bos et al., 1999).

people than the broad cross section of welfare recipients selected into the MFIP and SSP studies, many of whom were not interested in employment when those studies began. For this reason, New Hope's results for welfare recipients are presented alongside MFIP's and SSP's results for applicants.

Finally, the results reported on in this monograph focus on a common period of follow-up: quarters 4, 5, and 6 after the point of random assignment. The examination of New Hope's and Seattle/Denver's effects on the working poor, however, uses annual numbers over two years of follow-up, because it is annual numbers that are reported in the summary Seattle/Denver report.

## Promoting Work, Reducing Poverty

*Work incentive programs that encouraged full-time work consistently produced large, positive effects on employment, earnings, and total income for long-term welfare recipients. The additional income reduced poverty rates and the poverty gap, and brought improvements in well-being. These gains came at some increase in total costs. One-half or more of eligible welfare recipients did not appear to benefit from these programs.*

Both MFIP and SSP encouraged full-time work: SSP by conditioning incentive payments on full-time work, and full-MFIP<sup>3</sup> by requiring participation in

3. The terms *full-MFIP* and *MFIP* are used interchangeably in this section.

employment and training services for those not working full time. In both cases, eligibility was limited to long-term welfare recipients. By making work pay for people whose employment and earnings prospects were bleak, the two programs sought to increase job-seeking and job-taking, reduce welfare dependency (that is, the pool of recipients who did not work at all), and increase income and material well-being. As demonstrated by the findings reported below, to a large degree the programs had their intended effects.

### Impacts on Long-Term Recipients in MFIP and SSP

**Employment.** The two programs substantially increased job-taking and job-holding among long-term welfare recipients. As shown in columns 3 and 7 of Table 4.1, both the full-MFIP program (incentives, a mandatory participation requirement, and employment services) and SSP (incentives conditioned on full-time work, but no services) produced double-digit impacts on employment rates.<sup>4</sup> Over the three follow-up quarters, or about one year to 18 months after random assignment occurred, the employment rates of program group members exceeded those of control group members by about 11 to 17 percentage points. For example, in the fifth quarter following random assignment, 49.5 percent of MFIP program group members were “ever employed” compared with only 34.5 percent of control group members, who were neither eligible for MFIP's work incentives nor subject to its participation mandates — a 15 percentage point difference. Throughout the follow-up period, both MFIP and SSP increased *overall* average quarterly employment rates by nearly 40 percent or more, as shown in columns 4 and 8 of Table 4.1 (employment impact divided by the control group's employment rate). Later,

4. In the Chapter 4 tables, impact estimates that are statistically significant (that is, reliable) are indicated by asterisks. An estimate is considered statistically significant at the 5 percent level if there was only a 5 percent chance that it arose by statistical chance when there was really no program effect.

**Table 4.1 Impacts on Employment and Income for Single-Parent, Long-Term Welfare Recipients in MFIP and SSP**

Outcome	Full-MFIP				SSP <sup>a</sup>			
	Program Group	Control Group	Impact (Difference)	Percentage Change	Program Group	Control Group	Impact (Difference)	Percentage Change
<b>Ever employed (%)</b>								
Quarter 4	44.1	32.4	11.7 ***	36.1	41.0	29.5	11.5 ***	39.0
Quarter 5	49.5	34.5	15.0 ***	43.6	45.2	31.5	13.7 ***	43.5
Quarter 6	53.5	36.1	17.4 ***	48.2	43.0	32.3	10.7 ***	33.1
<b>Earnings (\$)</b>								
Quarter 4	734	584	150 **	25.8	693	446	247 ***	55.4
Quarter 5	916	681	235 ***	34.4	791	490	301 ***	61.4
Quarter 6	1,028	764	264 ***	34.6	791	522	269 ***	51.5
<b>Received income transfers<sup>b</sup> (%)</b>								
Quarter 4	90.3	88.5	1.8	2.0	94.2	88.5	5.6 ***	6.3
Quarter 5	87.4	83.9	3.5 *	4.1	93.5	85.8	7.7 ***	9.0
Quarter 6	82.7	78.3	4.4 **	5.6	92.2	82.7	9.5 ***	11.5
<b>Income transfer amounts (\$)</b>								
Quarter 4	1,864	1,753	111 ***	6.4	1,876	1,698	177 ***	10.4
Quarter 5	1,769	1,628	141 ***	8.7	1,865	1,646	220 ***	13.4
Quarter 6	1,691	1,553	138 ***	8.9	1,796	1,596	200 ***	12.5
<b>Measured income<sup>c</sup> (\$)</b>								
Quarter 4	2,598	2,337	261 ***	11.2	2,568	2,144	424 ***	19.8
Quarter 5	2,685	2,309	376 ***	16.3	2,657	2,136	521 ***	24.4
Quarter 6	2,719	2,317	402 ***	17.4	2,590	2,120	469 ***	22.1
<b>Sample size</b>	<b>676</b>	<b>687</b>			<b>2,645</b>	<b>2,643</b>		

SOURCES: The MFIP numbers are from Miller et al., 1997. SSP calculations were made using 18-month follow-up data: survey data, Income Assistance (IA) administrative records, and payment records from SSP's Management Information System (MIS).

NOTES: MFIP defined long-time receipt as two years or more in the prior three years, whereas SSP defined it as at least the prior year. Random assignment dates were: MFIP, April–December 1994; SSP, November 1992–December 1993 and January 1994–March 1995.

A two-tailed t-test was used to assess the statistical significance of differences between outcomes for program and control group members. Statistical significance levels are indicated as \*\*\* = 1 percent, \*\* = 5 percent, and \* = 10 percent.

Rounding may cause slight discrepancies in sums and differences.

Actual sample sizes for individual measures may vary as a result of missing data.

<sup>a</sup>For SSP, dollar amounts were converted to U.S. dollars using an exchange rate of .75 Canadian dollar per U.S. dollar.

<sup>b</sup>MFIP income transfers include AFDC, the cash value of Food Stamps, Family General Assistance, and supplement payments made under MFIP's special benefit structure; SSP income transfers include Income Assistance (Canada's equivalent to AFDC) and earnings supplement payments.

<sup>c</sup>Measured income combines earnings and income transfers.

these impacts on employment are referred to as the programs' "work effects" — that is, the net increase in the fraction of all program group members who went to work because of the program. Persistent and large employment gains also suggest that the programs increased employment stability, although these effects were not estimated directly.

As noted in Chapter 3, MFIP's incentive structure provided its largest rewards for part-time work, while SSP rewarded only full-time work. MFIP's overall employment effect was split nearly equally between an increase in part-time and full-time work, while virtually all of SSP's overall employment effect was driven by an increase in full-time employment. Indeed, SSP more than doubled the full-time employment rate of single parents who had a year or more of welfare receipt (not shown in Table 4.1), and its effect on full-time employment was larger than its effect on overall employment.

Although both programs produced large increases in employment, neither MFIP nor SSP was effective for everybody. About half of all MFIP program group members did not work during the follow-up period and thus did not take advantage of the program's work incentives. Similarly, nearly two-thirds of SSP program group members did not find full-time jobs and thus did not qualify for SSP's work incentives. When employment services were added to the incentive — in a special test called SSP Plus — more than half of program group members found full-time jobs.<sup>5</sup>

**Earnings.** The substantial overall increases in work produced large increases in quarterly earnings. For example, in the fifth quarter of follow-up, SSP program group members earned \$301 more than their control group counterparts — the difference between the program group members' \$791 average earnings in the quarter and the control group's \$490 average, as

shown in Table 4.1.<sup>6</sup> MFIP increased earnings by \$235 during the same period. Earnings impacts remained consistently high throughout the follow-up period, and by the sixth quarter MFIP and SSP program group members' earnings exceeded control group members' earnings by one-third (MFIP) to one-half or more (SSP). Interestingly, SSP's results were consistent across the two very different provinces in which it operated — British Columbia and New Brunswick — and MFIP's results were also consistent throughout the urban areas in which it operated, although less so in rural areas.<sup>7</sup>

**Income Transfers.** Because MFIP allowed welfare recipients who took jobs to continue receiving welfare-based incentive payments or, in SSP's case, earnings supplements instead of welfare benefits, the number of people receiving some form of income transfer — welfare payments or earnings supplements — increased. With more people receiving welfare payments or earnings supplements, total costs also rose. For example, by quarter 6, 82.7 percent of program group members received MFIP incentive benefits or regular welfare payments, compared with 78.3 percent of control group members who received welfare benefits — a modest 4.4 percentage point difference. This increase in the likelihood of receiving either a welfare payment or an incentive payment translated into a \$138 quarterly increase in transfer payments. The comparable quarter 6 figures for SSP were a 9.5 percentage point difference and a \$200 increase in transfer payment amounts.

Although the overall result was similar, the fact that SSP operated *outside* the welfare system while MFIP operated *inside* it meant that participants took different routes to higher total payments. To receive SSP

6. Results are the averages for all program and control group members, including zero for those without any reported earnings. SSP estimates were converted to U.S. dollars using an exchange rate of .75 Canadian dollar per U.S. dollar.

7. MFIP's results in rural areas were not as positive — substantial employment gains, but no statistically significant overall effect on earnings — a finding consistent with those from other evaluations. See Gueron and Pauly, 1991; Riccio et al., 1986.

5. See Quets et al., 1999, and the incentives versus services discussion on page 21. Note that subsequent job loss rates were quite high.

supplement payments, a welfare recipient had to find a qualifying full-time job, leave the welfare rolls, and enroll in the separately operated SSP program. As a result, SSP program group members were about 13 percentage points less likely than control group members to receive welfare in a given quarter, which translated into a \$300 quarterly savings in welfare payments (not shown in Table 4.1). These savings offset about half of SSP's quarterly average supplement payment amount of nearly \$600 per program group member.<sup>8</sup>

Because MFIP used the welfare system to pay earnings supplements, recipients did not physically leave the regular welfare program to join MFIP. Instead, program group members were assigned to the MFIP program, where their welfare and Food Stamp benefits were combined in a single cash payment. Then, when they took jobs, the system automatically used MFIP's more generous work incentive formula to calculate and pay an earnings-related benefit.

**Work and Windfall Effects.** Two potentially offsetting effects determined whether and how much income transfer receipt and payment amounts rose. First, in each program, many people were convinced to choose work over welfare, in effect substituting earnings and an incentive check for a welfare check. Typically, the size of the incentive check was the same as or smaller than the welfare check. Thus, for this group costs would have been the same or lower. This “work effect” is captured in the employment gains described above. But, second, many other people received the programs' incentive payments, even though they would have worked without the extra incentive. This is the group that drove the overall increase in the number of people receiving income transfer payments. When income rises without a change in employment, economists often refer to the income gain as a “windfall,” a label that ignores the payments' positive effects on total income, which could lead in turn to improvements in

8. See Lin et al., 1998, Tables 1 and 3, pp. 10, 13 (multiply by 3 to convert monthly numbers to quarterly numbers).

family and child well-being.<sup>9</sup> If the payments made to this “windfall” group exceed the savings obtained from the “work effects” group, total costs rise. In SSP, about 1 in 3 of those who received SSP earnings supplement payments were people who would have worked anyway.<sup>10</sup>

**Total Measured Income.** When the programs' increased supplement payment amounts were coupled with the earnings gains the programs induced, program group members experienced large average gains in quarterly income, from \$261 to \$521, on top of a control group base of about \$2,300 in MFIP and about \$2,100 in SSP. Income gains grew steadily in quarters 4 through 6 in MFIP and in quarters 4 and 5 in SSP, reaching \$402 and \$521, respectively; income gains in SSP then fell back to \$469 in quarter 6.

Although these gains were large, they may in fact understate the two programs' likely effects on the people who actually received benefits. Program group members' average quarterly income in both programs was about \$2,600. But the average includes zero earnings for program group members who did not work in a quarter. SSP's requirement that only program-eligibles who found full-time jobs could receive supplement payments can be used to estimate the program's effect on full-time workers. For example, in quarter 5, nearly 29 percent of the program group were working full time and receiving supplement payments (see months 13, 14, and 15 in Figure 3.1). Under the reasonable assumption that full-time workers received all of SSP's income benefits (since only full-time workers could receive supplement payments), the actual quarterly

9. Windfall payments add to the cost of a program, but they also increase the incomes of the working poor, helping to make work more attractive. For example, the EITC is valued because it reduces poverty among those who work; it is not expected to save money.

10. This is calculated as the percentage of people receiving supplement payments in quarter 5 (23 percent) minus the impact on full-time employment (15 percentage points), which is  $23 - 15 = 8$ , divided by the percentage receiving supplement payments, or  $8/23 = 35$  percent. See Lin et al., 1998, pp. 42–45. Note that the amount of windfall changes over time if the fraction of program group members who would not have worked lose their jobs and as the fraction of working control group members changes.

income gain to this group could have been as high as \$1,800 (\$521/.29), on top of average control group earnings levels.

**Poverty and Well-Being.** Because of these large income gains, both SSP and MFIP had substantial antipoverty effects.<sup>11</sup> Both reduced the share of program group members in poverty by 12 to 13 percentage points, and both substantially reduced the poverty gap — the distance between income and the poverty line. In SSP, the average size of the poverty gap was \$599 per month among the program group and \$719 among the control group — an average reduction of 17 percent.<sup>12</sup>

By increasing income, SSP and MFIP brought substantial improvements in the well-being of participating long-term welfare recipients. In response to survey questions, SSP families reported that they used the added income to buy food, children's clothing, and better housing, and they were less likely to rely on food banks. Information collected through focus groups and one-on-one exit interviews when people were leaving SSP suggested that the added income was used to pay down debts, buy cars and houses, and save for children's college education. Survey data confirm that program group members began opening savings accounts and retirement plans at modestly higher rates than control group members.<sup>13</sup> Future follow-up surveys will look further into the impacts of MFIP and SSP on asset accumulation and debt reduction, family formation, family well-being (issues such as depression and domestic violence), and child outcomes (for example, behavior, general well-being, and school performance), all outcomes that could be affected positively by MFIP's and SSP's large increases in income.

11. In SSP, a family was considered poor if their income was below the low-income cutoff, defined by Statistics Canada for families of different sizes and adjusted for the cost of living in a given location. The poverty gap was measured as the difference between family income and the low-income cutoff. In MFIP, a family was considered poor if the sum of their earnings and welfare benefits was below the 1994 official poverty threshold for a family of their size. Since the measure of income used here includes earnings, welfare, and Food Stamp benefits, but does not include income from other sources, the poverty rate presented here is not comparable to the official poverty rate.

12. Lin et al., 1998, p. 99.

13. Lin et al., 1998.

## Work Incentives Versus Services: What Was Driving the Impacts?

*Programs that combined work-conditioned incentives with services appear to have produced the largest impacts. For full-MFIP (incentives, services, and mandates), the incentives and mandated services together accounted for the program's overall effect; for SSP Plus (incentives plus services), the work incentives, conditioned on full-time work, drove the bulk of the program's impacts.*

Policymakers interested in replicating the impacts of MFIP and SSP might reasonably ask whether incentives alone — or participation mandates or services — are the most important driver of program impacts. Fortunately, both MFIP and SSP included special three-group research designs to help “pull apart” the independent effects of the programs' incentives, mandates, and services. For example, the MFIP results presented in Table 4.2 show the effects of combining a work incentive and a requirement that long-term recipients participate in employment services. Fortunately, it is also possible to obtain an estimate of the effects of work incentives alone because the MFIP research design included a second program group whose members received MFIP's work incentives without being required to participate in employment services.

By comparing outcomes for this MFIP incentives-only group to outcomes for the control group, one can learn what effects financial incentives had by themselves. By subtracting the effects achieved by the incentives-only group from the effects achieved by the full-MFIP program, one can estimate the effect of adding MFIP's mandatory participation in services requirement (for anyone who was not working at least 30 hours a week) to its work incentives.<sup>14</sup>

14. These subgroup estimates should be interpreted cautiously. MFIP's incentives “dose” — that is, the intensity, frequency, and nature of the incentives message — was implemented differently in the full-MFIP program than in the incentives-only version. Employment caseworkers regularly reinforced the work-pays message in the full-MFIP program — reinforcement that the incentives-only group did not receive.

**Table 4.2 Added Impacts of Incentives and Services for Single-Parent, Long-Term Welfare Recipients in MFIP and SSP**

Outcome	MFIP			SSP <sup>a</sup>		
	Full-MFIP: Incentives, Mandatory Services, and Reinforced Incentive Message	– Incentives Only	= Added Impact of Mandatory Services and Reinforced Incentive Message	SSP Plus: Incentives (Conditioned on Full-Time Work) Plus Services	– Regular SSP: Incentives Only (Conditioned on Full-Time Work)	= Added Impact of Services
<b>Ever employed (%)</b>						
Quarter 4	11.7***	9.7***	2.0	19.2***	10.3***	8.9**
Quarter 5	15.0***	7.1***	7.9***	18.6***	11.6***	7.0*
Quarter 6	17.4***	6.4**	11.0***	13.3***	10.2***	3.1
<b>Earnings (\$)</b>						
Quarter 4	150**	82	69	312***	198***	114
Quarter 5	235***	49	186***	256***	175**	81
Quarter 6	264***	4	260***	229***	179**	50
<b>Received income transfers<sup>b</sup> (%)</b>						
Quarter 4	1.8	2.6*	–0.8	5.8**	6.1***	–0.3
Quarter 5	3.4*	5.0***	–1.5	8.4***	9.2***	–0.9
Quarter 6	4.4**	8.6***	–4.2**	12.4***	12.8***	–0.3
<b>Income transfer amounts (\$)</b>						
Quarter 4	111***	213***	–101**	195***	189***	6
Quarter 5	141***	261***	–120**	192***	171***	21
Quarter 6	138***	307***	–168***	262***	214***	48
<b>Measured income<sup>c</sup> (\$)</b>						
Quarter 4	262***	295***	–33	511***	386***	126
Quarter 5	376***	310***	66	453***	349***	104
Quarter 6	402***	311***	92	502***	390***	112
<b>Sample size<sup>d</sup></b>	676	681		286	288	

SOURCES: The MFIP numbers are from Miller et al., 1997. SSP calculations were made using 18-month follow-up data: survey data, Income Assistance (IA) administrative records, and payment records from SSP's Management Information System (MIS).

NOTES: MFIP defined long-time receipt as two years or more in the prior three years, whereas SSP defined it as at least the prior year. Random assignment dates were: MFIP, April–December 1994; SSP, November 1992–December 1993 and January 1994–March 1995.

A two-tailed t-test was used to assess the statistical significance of differences between outcomes for program and control group members. Statistical significance levels are indicated as \*\*\* = 1 percent, \*\* = 5 percent, and \* = 10 percent.

Rounding may cause slight discrepancies in sums and differences.

<sup>a</sup>For SSP, dollar amounts were converted to U.S. dollars using an exchange rate of .75 Canadian dollar per U.S. dollar.

<sup>b</sup>MFIP income transfers include AFDC, the cash value of Food Stamps, Family General Assistance, and supplement payments made under MFIP's special benefit structure; SSP income transfers include Income Assistance (Canada's equivalent to AFDC) and SSP's earnings supplement payments.

<sup>c</sup>Measured income combines earnings and income transfers.

<sup>d</sup>The MFIP control group (687 people) remained in the traditional AFDC system. The SSP Plus control group (288 people) could not participate in regular SSP or SSP Plus.

SSP used a similar strategy to determine the impacts of adding voluntary job search and post-placement employment services to its incentive program. In SSP, a small group of people were offered the SSP Plus program, which combined the incentive with employment-related placement and post-placement services. By subtracting the impact of the regular SSP incentive program from the impact of the SSP Plus program, one can obtain an estimate of the independent effect of adding voluntary job search services to incentives.<sup>15</sup>

Despite the similarities in the programs' designs, comparisons of components across them should be made cautiously because the package of incentives and services being tested differed in important respects. MFIP's incentives-only program (column 2 in Table 4.2) rewarded part-time work, whereas SSP's incentives-only program (column 5) was conditioned on full-time work. Similar cautions apply to comparisons of the impacts generated by MFIP's and SSP's services components. For MFIP, column 3 reports the impact of requiring participation in services for anyone who was not working at least 30 hours a week plus the effect of a reinforced message about the incentives provided monthly by the employment counselors who oversaw these mandatory services. For SSP, the "added impact of services" reported in column 6 is a measure of the added effects of pre- and post-employment services on top of the impacts obtained by SSP's work incentives.

15. SSP Plus's sample sizes (about 285 people in each of two program groups and in the control group) were too small for detecting anything other than very large impacts. To obtain the estimates, SSP switched to a three-group research design for the last 900 or so people enrolled in the study. One group was enrolled in SSP's regular incentive program, a second group was enrolled in an incentives plus employment services program, and the third group was enrolled in the control group, which remained eligible only for the regular Income Assistance program. Because the enrollment periods differed and the samples were somewhat different, the impact estimates for the regular SSP incentive program reported in Tables 4.1 and 4.2 differ. For example, nearly 3,000 people were enrolled in the main experiment's program group over a two-year period, as reported in Table 4.1, but only the last 900 of these people were used in the three-group design reported in Table 4.2. See Quets et al., 1999.

Table 4.2 summarizes the effects of MFIP's and SSP's different incentive and services packages.<sup>16</sup> As shown in columns 1 and 4 of Table 4.2, the largest impacts were obtained by the full-MFIP program and by SSP Plus, that is, by the models that combined incentives, a full-time work condition (or, in MFIP, participation requirements), and services. By comparing columns 2 and 3 for MFIP and columns 5 and 6 for SSP, one can see the independent roles that the two programs' incentives and services packages played in producing the effects achieved by the full-MFIP and SSP Plus programs. The full-MFIP program's overall effect on employment, earnings, and income was the product of complementary contributions from incentives and services, while for SSP Plus the incentive was the primary driver of most impacts.

The employment impacts show that work incentives and services both contributed independently to the two programs' overall effects. For example, according to column 2 of Table 4.2, *incentives* alone in MFIP increased employment by 6 to 10 percentage points — accounting for most of the full-MFIP program's impact in quarter 4, about one-half of the program's impact in quarter 5, and about one-third of its impact in quarter 6. Over time, however, mandated *services* and a reinforced incentive message played an increasingly dominant role in MFIP's overall employment effect (see column 3).

By comparison, SSP's work incentive, which was conditioned on full-time work, accounted for most of the employment effect in SSP — a little more than half of the program effect in quarter 4, rising to more than two-thirds of the effect in quarter 6. Services played an important role initially, but the impact of services on employment had declined substantially by quarter 6.

With regard to earnings, incentives and services played nearly opposite roles in the two programs.

16. Note that the numbers in Table 4.2 are all impact estimates; the program and control group averages that produced these differences are not shown.

It appears that MFIP's mandatory participation in *services* requirement, coupled with its reinforced incentive message, was the main force behind its earnings gains, whereas for SSP, *incentives* were the driving force. Put another way, the MFIP incentives-only program had little or no impact on earnings, whereas SSP's added services component contributed little or nothing to its earnings impacts.

Assessing the independent effect of work incentives and services on income transfers and total income, the evidence in Table 4.2 indicates that for both programs work incentives were the primary determinant of increases in income transfer amounts and important contributors to effects on total income. In both MFIP and SSP, all the increase in income transfer receipt and amounts arose from work incentives, as did much of the gain in income.

### Comparing the Impacts of Work Incentive Programs and Traditional Welfare-to-Work Programs

*Making work pay produced employment and earnings gains comparable to those obtained by traditional welfare-to-work programs, and income gains that were strikingly larger; as a result, work incentive programs, whether coupled with a traditional welfare-to-work participation mandate (MFIP) or a full-time work condition (SSP), were the first programs to consistently increase both income and work.*

SSP's and MFIP's employment and earnings impacts rival those achieved by the most successful welfare-to-work programs studied in the last 10 years — in Riverside, California, and Portland, Oregon.<sup>17</sup> These two employment-focused programs required welfare applicants and recipients to participate in a mixed

17. For a complete description of the Riverside program, see Riccio, Friedlander, and Freedman, 1994. For a complete description of the Portland program, see Scrivener et al., 1998; Freedman et al., 1999.

menu of employment and training programs as a condition of welfare receipt. By most standards, both programs achieved large employment and earnings gains. For example, as can be seen by reading Table 4.3 from right to left, the Portland and Riverside programs increased single parents' total earnings in the sixth quarter of follow-up by \$267 to \$382, respectively, compared with \$269 for SSP and \$264 for MFIP.<sup>18</sup>

This earnings comparability among the programs gave way to striking contrasts in the programs' effects on income transfer payments and total income. Despite similar earnings gains, income results diverged dramatically. For example, while MFIP and SSP pro-

18. Riverside estimates were adjusted for inflation that occurred between 1989 (when data collection for the evaluation's impact analysis began) and 1995 (when follow-up data for the other programs were collected) by using the Consumer Price Index for Urban Consumers.

**Table 4.3** Work Incentive Programs Compared with Traditional Welfare-to-Work Programs: Impacts on Earnings, Income Transfers, and Income for Single-Parent Welfare Recipients<sup>a</sup>

Outcome	Work Incentive Programs		Traditional Welfare-to-Work Programs	
	MFIP	SSP <sup>b</sup>	Riverside, California <sup>c</sup>	Portland, Oregon
<b>Earnings (\$)</b>				
Quarter 4	150 **	247 ***	280 ***	191 ***
Quarter 5	235 ***	301 ***	333 ***	201 ***
Quarter 6	264 ***	269 ***	382 ***	267 ***
<b>Income transfer amounts<sup>d</sup> (\$)</b>				
Quarter 4	111 ***	177 ***	-273 ***	-202 ***
Quarter 5	141 ***	220 **	-254 ***	-221 ***
Quarter 6	138 ***	200 ***	-247 ***	-255 ***
<b>Measured income<sup>e</sup> (\$)</b>				
Quarter 4	262 ***	424 ***	7	-11
Quarter 5	376 ***	521 ***	79	-20
Quarter 6	402 ***	469 ***	135	12
<b>Sample size</b>	<b>1,363</b>	<b>5,288</b>	<b>5,508</b>	<b>5,547</b>

duced large sixth-quarter income gains of \$402 and \$469, respectively, Riverside and Portland produced income gains of only \$135 and \$12 (neither statistically significant), after AFDC and Food Stamp benefit losses were subtracted from the earnings gains.

How could programs with similar earnings gains produce such different income effects? The answer lies in the structure of the work incentive programs, which were designed to allow welfare recipients who took jobs to combine earnings from work with an earnings supplement (a payment made by the welfare system in MFIP or a nonwelfare earnings supplement instead of welfare in SSP). In contrast, participants in the Riverside and Portland programs who found jobs had their welfare payments reduced nearly one dollar for every dollar increase in earnings. In effect, the work incentive programs rewarded work by supplementing earnings with a cash payment. Income rose because

recipients kept both their earnings and their public assistance benefits (in MFIP) or their supplement payments (in SSP). Because earnings gains were offset by welfare losses in Riverside and Portland, total income did not rise much, if at all. In sum, making work pay produced comparable employment and earnings gains, and substantially larger income gains, than traditional welfare-to-work programs, simultaneously achieving the dual goals of increasing income and increasing work.

## How Targeting and Program Design Affect Impacts

*The MFIP and SSP incentive programs for welfare applicants and the New Hope incentive package for a similar group of more employable welfare recipients all produced higher employment rates. But only SSP also consistently and substantially increased earnings and total income for these groups. Impacts were affected by both targeting and program design.*

In both SSP and MFIP, some people entered the evaluation near the time they applied for welfare. To distinguish them from the long-term welfare recipients described in the previous section, these sample members are termed *applicants*, even though nearly all actually were or became new recipients.<sup>19</sup> Welfare applicants are generally more employable than ongoing welfare recipients — that is, they often have more recent work experience, have generally spent less prior time on welfare, and have higher education levels. Because of these differences in background characteristics, a work incentive program could affect applicants differently

SOURCES: The MFIP numbers are from Miller et al., 1997. SSP calculations were made using 18-month follow-up data: survey data, Income Assistance (IA) administrative records, and payment records from SSP's Management Information System (MIS). The Riverside numbers are from Riccio, Friedlander, and Freedman, 1994. The Portland numbers are from Scrivener et al., 1998.

NOTES: Random assignment dates were: MFIP, April–December 1994; SSP, November 1992–December 1993 and January 1994–March 1995; Riverside, March 1988–June 1990; Portland, February 1993–December 1994.

A two-tailed t-test was used to assess the statistical significance of differences between outcomes for program and control group members. Statistical significance levels are indicated as \*\*\* = 1 percent, \*\* = 5 percent, and \* = 10 percent.

Rounding may cause slight discrepancies in sums and differences.

<sup>a</sup>MFIP and SSP impacts are for long-term, single-parent welfare recipients, whereas the Riverside and Portland impacts are for all single-parent welfare recipients; it is unclear in which direction this difference might bias any comparisons.

<sup>b</sup>For SSP, dollar amounts were converted to U.S. dollars using an exchange rate of .75 Canadian dollar per U.S. dollar.

<sup>c</sup>Dollar amounts for Riverside were adjusted for inflation since 1989 based on the 1995 Consumer Price Index for Urban Consumers.

<sup>d</sup>MFIP income transfers include AFDC, the cash value of Food Stamps, Family General Assistance, and supplement payments made under MFIP's special benefit structure; SSP income transfers include Income Assistance (Canada's equivalent to AFDC) and SSP's earnings supplement payments. Riverside income transfers consist of AFDC; Portland income transfers include AFDC and Food Stamps.

<sup>e</sup>Measured income combines earnings and income transfers.

19. Applicants in SSP were actually all new recipients. In MFIP, most applicants were also new recipients, but about 10 percent of applicants' grants were not approved, so these people never became recipients. Thus, the *applicant* label has a slightly different meaning in the two programs.

than recipients. In addition, program design differences can also affect outcomes.

Population characteristics' effects on outcomes raised the question of where to place the New Hope results in this monograph. New Hope served a broad cross section of low-income people, but to facilitate comparisons with MFIP and SSP, the impacts reported here are solely for single-parent New Hope enrollees who were receiving welfare benefits when they were recruited and randomly assigned. All New Hope single-parent welfare recipients are grouped here with applicants from SSP and MFIP for three reasons: (1) average control group employment rates and earnings levels for New Hope welfare recipients closely approximated the levels of SSP and MFIP applicants in those control groups;<sup>20</sup> (2) the New Hope sample was composed of volunteers who joined the study because they wanted to work full time, creating a more employment-motivated group than SSP's and MFIP's samples, which were drawn randomly from existing welfare caseloads and included people who did not intend to work; and (3) about one-third of all New Hope welfare recipients were also relatively new recipients, having received benefits for less than two years. In short, results for the New Hope sample of single-parent welfare recipients are presented in this section because their background characteristics most closely resembled the SSP and MFIP applicant samples.

Finally, SSP for applicants was in all respects the same program long-term recipients received. As noted earlier, applicants were eligible only if they remained on welfare for one year, and incentives were paid only when they worked full time and left the Income Assistance rolls. MFIP for applicants was an incentives-only program without the participation mandate applied to long-term recipients. New Hope offered full-

time workers an incentives package consisting of earnings supplements and child and health care subsidies; for people who could not find full-time work, it offered access to community service jobs.

### Impacts on Applicants in MFIP and SSP and Welfare Recipients in New Hope

**Employment.** As shown in Table 4.4, all three programs increased employment rates, although SSP's and New Hope's employment impacts were about twice those of MFIP. For example, SSP increased average quarterly "ever employed" rates for applicants by as much as it did for recipients — 14.1 percentage points by quarter 6. New Hope's employment effects reached 10.3 percentage points by quarter 4 — a relatively high rate in general — but then fell to a statistically insignificant 6.4 percentage points in quarter 6. New Hope's employment rates included program group members who worked in New Hope-provided community service jobs (CSJs), which accounted for much of New Hope's initial employment gains. In comparison, all of MFIP's and SSP's employment gains were the result of unsubsidized private-sector job-taking. MFIP's impact on employment among welfare applicants was smaller than that achieved by either SSP or New Hope — 3.2 to 5.0 percentage points — and much smaller than its impact on recipients, although impacts grew over time.

**Earnings.** Table 4.4 reveals important differences in the effects of SSP, MFIP, and New Hope on applicants' earnings: SSP produced substantial impacts; New Hope's initially large impacts faded in subsequent quarters; and MFIP had no or a negative effect. Thus, SSP produced very large impacts on earnings — more than \$500 per quarter (for example, the program group earned \$623 more on average than the control group in the sixth quarter of follow-up). These earnings gains were driven by people who found high-wage jobs paying \$12 an hour or

20. Income transfer amounts shown in Table 4.4 more closely resemble those of MFIP and SSP recipients primarily because New Hope income transfers included receipt of the Earned Income Tax Credit, an income transfer not counted in MFIP or SSP.

**Table 4.4 Impacts on Employment and Income for Single-Parent Welfare Applicants (New Recipients) in MFIP and SSP and Welfare Recipients in New Hope**

Outcome	MFIP Applicants				SSP Applicants <sup>a</sup>				New Hope Sample Members on AFDC at Random Assignment			
	Program Group	Control Group	Impact (Difference)	Percentage Change	Program Group	Control Group	Impact (Difference)	Percentage Change	Program Group	Control Group	Impact (Difference)	Percentage Change
<b>Ever employed<sup>b</sup> (%)</b>												
Quarter 4	53.7	50.4	3.2	6.4	57.1	44.1	13.0***	29.5	70.6	60.3	10.3**	17.2
Quarter 5	56.3	51.9	4.4**	8.5	57.4	46.7	10.8***	22.9	70.8	61.6	9.2**	14.9
Quarter 6	55.9	51.0	5.0**	9.7	58.3	44.2	14.1***	31.9	70.6	64.2	6.4	10.1
<b>Earnings<sup>c</sup> (\$)</b>												
Quarter 4	1,271	1,384	-113	-8.2	1,770	1,341	429***	32.0	1,545	1,313	232*	17.7
Quarter 5	1,449	1,516	-66	-4.4	1,915	1,373	542***	39.5	1,569	1,576	-8	-0.5
Quarter 6	1,524	1,595	-71	-4.4	2,038	1,415	623***	44.0	1,629	1,653	-24	-1.5
<b>Received income transfers<sup>d</sup> (%)</b>												
Quarter 4	67.8	59.0	8.8***	14.9	63.0	55.9	7.1***	12.7	89.4	87.0	2.4	2.8
Quarter 5	61.4	52.2	9.2***	17.6	61.3	54.5	6.8***	12.5	86.5	80.9	5.6*	6.9
Quarter 6	57.1	47.9	9.2***	19.2	61.5	53.4	8.1***	15.2	85.6	77.5	8.1**	10.5
<b>Income transfer amounts (\$)</b>												
Quarter 4	1,130	912	217***	23.8	1,220	1,095	125***	11.4	1,568	1,557	11	0.7
Quarter 5	1,006	795	211***	26.5	1,144	1,013	130***	12.8	1,472	1,416	56	3.9
Quarter 6	928	741	186***	25.1	1,065	940	125***	13.3	1,308	1,316	-8	-0.6
<b>Measured income<sup>e</sup> (\$)</b>												
Quarter 4	2,401	2,296	105	4.6	3,015	2,477	538***	21.7	3,112	2,870	242*	8.5
Quarter 5	2,456	2,311	145*	6.3	3,045	2,385	660***	27.7	3,040	2,992	48	1.6
Quarter 6	2,452	2,337	115	4.9	2,964	2,186	778***	35.6	2,937	2,969	-32	-1.1
<b>Sample size</b>	1,045	1,053			1,422 <sup>f</sup>	1,430 <sup>f</sup>			253	262		

SOURCES: The MFIP numbers are from Miller et al., 1997. SSP calculations were made using 30-month follow-up data on applicants to Income Assistance (IA): survey data, IA administrative records, and payment records from SSP's Management Information System (MIS). New Hope calculations were made using data from the New Hope Project MIS client-tracking database, Wisconsin unemployment insurance (UI) records, and Wisconsin AFDC and Food Stamp records.

NOTES: Applicants in MFIP were mainly new recipients; applicants in SSP were all new recipients. New Hope's results for (single-parent) welfare recipients are presented with MFIP's and SSP's for applicants for the reasons discussed in the text. Random assignment dates were: MFIP, April–December 1994; SSP study of welfare applicants, February 1994–February 1995; New Hope, August 1994–December 1995.

A two-tailed t-test was used to assess the statistical significance of differences between outcomes for program and control group members. Statistical significance levels are indicated as \*\*\* = 1 percent, \*\* = 5 percent, and \* = 10 percent.

Rounding may cause slight discrepancies in sums and differences.

Actual sample sizes for individual measures may vary as a result of missing data.

<sup>a</sup>For SSP, dollar amounts were converted to U.S. dollars using an exchange rate of .75 Canadian dollar per U.S. dollar.

<sup>b</sup>Employment in community service jobs (CSJs) was included in the New Hope ever-employed calculations.

<sup>c</sup>CSJ earnings were included in the New Hope earnings calculations.

<sup>d</sup>MFIP income transfers include AFDC, the cash value of Food Stamps, Family General Assistance, and supplement payments made under MFIP's special benefit structure; SSP income transfers include Income Assistance (Canada's equivalent to AFDC) and SSP's earnings supplement payments. New Hope income transfers include AFDC, Food Stamps, state and federal Earned Income Tax Credits (EITCs), and New Hope earnings supplement payments.

<sup>e</sup>Measured income combines earnings and income transfers.

<sup>f</sup>This sample is for quarter 4 (and, essentially, quarter 5). For quarter 6, the results were based on the 200 or so people per group for whom there were two or three months of follow-up data. Relaxing that standard to one month increases the sample to 1,100 per group, with these impact results: ever employed, 12.5\*\*\* percentage points; earnings, \$630\*\*\*; and measured income, \$753\*\*\*.

more.<sup>21</sup> In fact, the earnings gain was so large that the taxes paid on those earnings and on supplement payments, coupled with welfare savings, completely offset the cost to the government of SSP's generous supplement payments (not shown). In contrast, MFIP resulted in small (statistically insignificant) reductions in applicants' earnings — a result very different from that for long-term recipients.

By comparison, New Hope produced a reasonably large, \$232 impact on earnings in quarter 4, but this effect virtually disappeared in quarters 5 and 6. As the columns in Table 4.4 for New Hope indicate, the cause was control group catch-up. Program group members' earnings rose steadily throughout the three quarters of follow-up, but control group earnings jumped dramatically between quarter 4 and quarter 5, from a quarterly average of \$1,313 to \$1,576. By quarter 5, this sudden and unexplained rise in average control group earnings had erased the difference between the control and program groups' earnings. Finally, if earnings from New Hope-provided CSJs are not included, the program group's average quarterly earnings run about \$120 lower than the control group's average earnings (not shown), suggesting that New Hope program group members may have substituted CSJs when they could have found unsubsidized private-sector jobs. Similarly, some people who obtained unsubsidized private-sector jobs may have taken jobs without health insurance because they could obtain New Hope-provided health insurance, and still others may have turned down the health insurance offered by their employers in favor of New Hope's plan.

***Income Transfers.*** Despite its more generous financial incentive, SSP resulted in smaller increases in income transfer payment amounts than did MFIP (a bit over \$125 per quarter in SSP and about \$200 per quarter in MFIP, as shown in Table 4.4). Somewhat surprisingly, New Hope did not significantly increase transfer payment amounts despite a statistically signifi-

cant rise in the receipt of transfers (that is, an increase of nearly 6 to 8 percentage points in quarters 5 and 6).

Although New Hope earnings supplement payments amounted to about \$110 per program group member per quarter, these payments were offset by declines in welfare and Food Stamp payments of approximately half the value of the supplements (not shown). Wisconsin's unusually robust economy and intensive welfare reform efforts may, respectively, have pulled and pushed large numbers of both program and control group members to take jobs and leave the welfare and Food Stamp programs, overwhelming any positive effects from New Hope.<sup>22</sup>

***Total Measured Income.*** All three programs increased total income, but only SSP produced consistently large positive effects from quarter to quarter. SSP's large increases in earnings were accompanied by relatively modest increases in transfer payments. As a result, SSP increased pretax income for applicants by a very large \$778 in quarter 6. For applicants, therefore, SSP simultaneously achieved all four of welfare reformers' major goals: (1) increased employment and earnings; (2) reduced welfare dependency; (3) reduced poverty and narrowing of the poverty gap; and (4) accomplishment of these goals without increasing total costs. In contrast, MFIP's modest reductions in earnings, combined with increases in cash assistance payments, increased applicants' quarterly income by only \$115 (not significant) in quarter 6. New Hope's income effects tracked its earnings and income transfer effects — a \$242 increase in income in quarter 4, declining precipitously to insignificant amounts in quarters 5 and 6.

As impressive as the SSP gains were, they probably understate the program's effects on the applicants it

21. See Michalopoulos, Robins, and Card, 1999, p. 26.

22. Separate analyses of a sample comprising New Hope sample members who were not employed full time at random assignment lend some support to this conjecture. This larger group of sample members included many people who were not receiving welfare benefits at random assignment. For them, New Hope did produce a modest increase in transfer payments, probably because they had no offsetting losses from welfare and Food Stamps — benefits they did not have in the first place.

helped. As described more fully below, about 40 percent of all applicants left welfare before satisfying their one-year waiting period and thus were not eligible to participate in SSP. Yet the estimate of SSP's effects compares all program group members with all control group members, even though many never stayed on welfare long enough to become eligible for SSP. Assuming that SSP's impacts accrued only to those who became eligible to receive the supplement, then SSP increased full-time employment in quarter 6 by 24 percentage points, increased earnings by \$1,060, and increased income by \$1,310 per eligible applicant.<sup>23</sup> Indeed, this group's gains drove the average gains reported in Table 4.4.

**Poverty and Well-Being.** MFIP's and SSP's income gains reduced both poverty and the poverty gap among applicants.<sup>24</sup> Future reports will examine these programs' effects on other outcomes. New Hope did not have an effect on poverty rates among this sample of welfare recipients, but it did have such effects on a larger sample of families with children (a sample comprising both welfare and nonwelfare families). New Hope single-parent welfare recipients experienced more time pressure, but also higher levels of social support, than their control group counterparts. New Hope children benefited in terms of spending more time in formal child care (for example, center-based care) and less time in informal care by a family member other than a parent than did children in control group families. Inexplicably, program group members in the welfare sample also reported somewhat lower educational expectations for their children than did control group members.

23. These impacts "per eligible program group member" can be obtained by dividing the program impact by the proportion of the program group eligible for SSP (59.4 percent). See Michalopoulos, Robins, and Card, 1999, p. 26.

24. Poverty reduction among MFIP applicants was measured for quarters 2–7 combined; over this period, 4.6 percentage points fewer program than control group members had income below the poverty line. See Miller et al., 1997, Table 4.11, p. 116.

## Comparing Impacts for Applicants and Long-Term Recipients

*Why wasn't MFIP as effective for applicants as for long-term recipients?*

*MFIP for applicants — unlike MFIP for long-term recipients — did not include a participation mandate for people who were not working full time, a program design choice that partly explains the program's limited effectiveness.*

There are three plausible explanations for why MFIP may have been less effective for applicants than for long-term recipients. First, the applicant MFIP program did not include the requirement to participate in employment preparation services, and those services were a key factor in the employment and especially the earnings gains of long-term recipients. Indeed, the incentives-only program for long-term recipients produced no earnings gains (see Table 4.2), underscoring the role mandates and services played in achieving the full-MFIP program's impacts. Second, applicants did not receive as strong an incentive message as long-term recipients did, since applicants did not meet monthly with an employment staffer who reinforced the work-pays message. There is no way to determine how a reinforced incentive message might have increased applicants' impacts. Third, applicants were more employable than long-term recipients and thus were more likely to find jobs on their own. Lending some credence to this "targeting matters" explanation, the incentives-only impacts for long-term recipients — particularly for employment and income — were somewhat larger and more consistent than those for applicants.

In summary, the MFIP incentives-only model for applicants produced only modest increases in employment rates, and no or negative impacts on applicants' earnings. As a result, MFIP's incentives-only program for applicants mainly provided increased income to low-income workers who would have worked anyway. These so-called windfall beneficiaries had more

income, but because they would have worked anyway, they did not generate any welfare savings to offset incentive payment costs.

### *Why was SSP equally effective for applicants and recipients?*

*SSP's requirement that applicants remain on welfare for one year before becoming eligible for its incentive package had the effect of winnowing the applicant pool to a group that was especially well suited to take advantage of the program.*

SSP's one-year waiting period effectively ensured that those applicants who became eligible for SSP had characteristics similar to the most employable group of long-term welfare recipients. To participate in SSP, a new applicant first had to remain on welfare for a full year. During this one-year waiting period, about 40 percent of all applicants left welfare and forfeited their future eligibility for SSP. Thus, the most employable applicants who would have left welfare anyway did so, while the group that remained on the rolls for the full year was at risk of a long welfare spell. The combination of SSP's generous incentive and full-time work requirement appears to have been remarkably effective for this group. In summary, SSP's waiting period effectively reduced the number of possible windfall beneficiaries, and maximized the program's positive work effect on those applicants who would not have worked in the absence of SSP.

### **Comparing New Hope with MFIP and SSP**

#### *Why were the New Hope results less consistent?*

*New Hope's substantial impacts on employment may not have translated into consistent earnings and income gains for the more employable group of welfare recipients it served because the program's effect was overwhelmed by welfare reform changes under way in Wisconsin.*

New Hope's initial employment impacts were comparable to those achieved by MFIP and SSP, as were its effects on receipt of public transfers. The employment effects did not translate into earnings gains beyond the fourth quarter of follow-up because of an anomalous jump in earnings among the control group. Similarly, the increase in public transfer receipt did not produce a rise in public transfer amounts because New Hope's earnings supplement payments were offset by AFDC and Food Stamp losses.

### **New York State's Child Assistance Program (CAP)**

Starting in 1988-89 in a limited number of counties, New York State's CAP demonstration project tested a work incentive alternative to welfare for single-parent welfare recipients who had obtained a court order for child support for at least one of their children. Recipients had to choose either to remain on AFDC and Food Stamps or to enroll in CAP (though they could switch back later). The basic benefit for nonworking welfare recipients was about two-thirds of the AFDC grant, but it also included a substantially higher earned income disregard: 90 percent of earnings were not counted when calculating CAP benefits for the first several hundred dollars of earnings per month (that is, until earnings reached the poverty line), after which 33 percent of earnings were not counted. To make the switch to CAP financially worthwhile (that is, to get a higher income than under AFDC), a parent with two children (both covered by support orders) had to earn at least \$350 a month. A random assignment research design was used to evaluate the program in three counties over a five-year follow-up period.

As in SSP, MFIP, and New Hope, employment and earnings increased overall during the follow-up period; for example, program group members' total earnings were 20 percent higher than control group members', and program group members were 3.3 percentage points more likely to work. Despite CAP's generous work incentive, program

Moreover, the measured income calculation does not include child care and health care premium payments made by the program on behalf of participants. If it did, then total income would be considerably higher. In addition, sample sizes were small, making estimates of earnings and income more imprecise in New Hope than in SSP or MFIP. Finally, state welfare reform efforts and an especially strong economy in Wisconsin facilitated the employment prospects of New Hope's control group members.

group members actually received about \$2,000 less in income transfers overall (AFDC, CAP, child support, and Medicaid costs). As a result, program group members' average incomes (counting earnings, child support, and public assistance) were only about 2 percent higher than control group members' incomes over the five-year period.

CAP's modest employment and earnings gains and limited impacts on income do not match those achieved by SSP and MFIP for long-term welfare recipients, although they do resemble New Hope's impacts for welfare recipients. CAP's effects were probably attenuated both by its requirement that participants first obtain a child support order and by its \$350 a month earnings threshold. Only 16 percent of program group members actually made the switch from AFDC to CAP; average earnings among people who did make the switch were about \$680 a month, much more than the minimum threshold amount. Thus, some people were stimulated to work by CAP's offer, but there were many months in which they did not take advantage of the offer, months in which the regular, much lower AFDC disregard was in effect.\*

CAP's results are not analyzed in the body of this report because of the program's unusual eligibility rules and somewhat different, child support focus — that is, using a work incentive partly to spur single parents to seek child support orders.

\*Hamilton et al., 1996, pp. i–xvii; Hamilton, Burstein, and Long, 1998.

Mention should be made of another program that shared the goals of those discussed here, and also was evaluated using a random assignment research design: New York State's Child Assistance Program (CAP), which used a work incentive partly to encourage single-parent welfare recipients to establish child support orders (see the box below left). Like MFIP, SSP, and New Hope, CAP increased overall employment and earnings, but program group members' average earnings were only slightly higher than the control group's at the end of the follow-up period.

### How Universal Income Support Programs Might Reduce Work

*Although work incentives were not generally effective for the working-poor single- or two-parent families served by New Hope, the program appears to have had few if any unintended consequences. The Seattle/Denver results indicate that generous income transfers do discourage work — reducing employment, hours worked, and earnings, in the process partly offsetting the contribution that transfers make to total income. Encouragingly, the New Hope results suggest that a full-time work requirement limits these reductions to cutbacks in overtime work.*

A central policy decision for any work incentive program is whether to target a particular category or group of people or to target a more universal population — for example, whether to offer the program only to welfare recipients or to all poor people. As previously described, SSP and MFIP served only welfare recipients and applicants. Results from those programs cannot tell us what difference an incentive program might make for the working poor who are not on welfare.

One potential consequence of extending work incentive eligibility to all poor people, particularly the

working poor, is that the added income will induce them to reduce their often considerable work effort, because the earnings supplement will allow them to work less and still have the same or higher total income. Fortunately, New Hope did offer its package of incentives and benefits to the larger working-poor population. Indeed, two-fifths of all New Hope program participants were working when they were recruited into the study, and about one-third were working full time. This section reports results for single- and two-parent families who were working at all when they joined the study.<sup>25</sup>

To amplify how incentive programs can affect the working poor, the New Hope findings on single- and two-parent families who were working at the time of random assignment are compared with single-parent and husband-and-wife findings from the Seattle/Denver negative income tax program, which, as mentioned earlier, tested a form of guaranteed minimum annual income for low-income Americans. Operating much like a conventional welfare program, this program provided income to poor families but reduced benefits as earnings rose.

What makes the Seattle/Denver comparison useful for present purposes is that the minimum income amount was set quite high — in some versions, as high as 140 percent of the poverty level. As a result, a significant number of working-poor families who did not qualify for welfare benefits did qualify for the Seattle/Denver benefits. Suddenly, they had the option of mixing work and welfare, and they could obtain the benefits whether they worked or not. The behavior of poor workers newly eligible for benefits appears to have driven much of the impacts of the Seattle/Denver program. Note, however, that the Seattle/Denver population consisted of all poor people, including nonworking welfare recipients, while the New Hope results reported

25. Note that there is an overlap between those who were working at random assignment and those who were on AFDC — the New Hope group of single parents analyzed in the applicant section of this chapter and reported on in Table 4.4.

in this section were only for those who were working when the study began. Finally, Seattle/Denver effects should be interpreted cautiously; the experiment occurred 25 years ago, a time when women's workforce participation rates were substantially lower than today's.

## Impacts on the Working Poor

**Employment.** As shown in Table 4.5, the two programs had quite different effects on employment. New Hope had little or no effect on employment rates for single-parent or two-parent family heads who were employed at random assignment. Indeed, about 97 percent of program and control group members who were working at the time of random assignment were also working at some point in the first two years thereafter. This indicates that New Hope's 30 hours work rule effectively kept its earnings supplement and package of health and child care benefits from reducing the likelihood that recipients would work.

In contrast, in the second year of follow-up, the Seattle/Denver program did reduce employment rates, by 7.3 percentage points among single parents and by 4.5 and 10.9 percentage points among husbands and wives, respectively.<sup>26</sup> When first reported, these reductions were judged as relatively large and worrisome by policymakers.

**Hours Worked.** The Seattle/Denver program's generous income guarantee led to a reduction in hours worked among single parents and husbands and wives, whereas New Hope may have reduced hours worked only among two-parent family heads (a change of comparable magnitude, which was not statistically significant and could have occurred by chance). As shown in Table 4.5, Seattle/Denver reduced the number of hours single parents worked by 87 hours in the first year and 170 hours in the second year, or up to one month over the course of a year. These hours reduc-

26. SRI International, 1983, p. 144.

**Table 4.5 Impacts on Employment and Income for the Working Poor: The Seattle/Denver Income Maintenance Experiment Compared with New Hope**

Outcome	Seattle/Denver <sup>a</sup>			New Hope	
	Single Parents	Husbands	Wives	Single Parents Employed at Random Assignment	Two-Parent Families Employed at Random Assignment
<b>Ever employed<sup>b</sup> (%)</b>					
Year 1	—	—	—	2.2	-2.9
Year 2	-7.3 ***	-4.5 ***	-10.9 ***	2.3	-3.8
<b>Total hours worked<sup>c</sup></b>					
Year 1	-87 *	-105 ***	-90 **	34	-39
Year 2	-170 ***	-228	-181 ***	125	-240
<b>Earnings<sup>d</sup> (\$)</b>					
Year 1	—	—	—	463	-52
Year 2	-1,693 ***	-1,926 ***	-1,193 ***	788	-2,757
<b>Income transfer amount<sup>e</sup> (\$)</b>					
Year 1	3,706 ††† <sup>f</sup>	4,357 †††	4,603 †††	320	1,120
Year 2	4,349 †††	4,270 †††	4,750 †††	-212	367
<b>Measured income<sup>g</sup> (\$)</b>					
Year 1	—	—	—	783	1,068
Year 2	2,655 †††	2,345 †††	3,556 †††	576	-2,390
<b>Sample size</b>	1,801	2,464	2,497	305	107

SOURCES: Seattle/Denver numbers are from SRI International, 1983, Vol 1. New Hope calculations were made using data from the New Hope Project Management Information System (MIS) client-tracking database, Wisconsin unemployment insurance (UI) records, and Wisconsin AFDC and Food Stamp records.

NOTES: Random assignment dates were: Seattle, 1970–1971; Denver, 1971–1972; New Hope, August 1994–December 1995.

A two-tailed t-test was used to assess the statistical significance of differences between outcomes for program and control group members. Statistical significance levels are indicated as \*\*\* = 1 percent, \*\* = 5 percent, and \* = 10 percent.

Rounding may cause slight discrepancies in sums and differences.

Dashes indicate that data were not available.

<sup>a</sup>Seattle/Denver dollar amounts were adjusted for inflation based on the 1997 Consumer Price Index for Urban Consumers.

<sup>b</sup>Employment in community service job (CSJs) was also included in the New Hope ever-employed calculations.

<sup>c</sup>Total hours worked in New Hope were based on two-year follow-up survey data, which do not line up with follow-up years defined using unemployment insurance (UI) data. In Seattle/Denver, total hours worked were based on a midrange estimate of hours worked by the five-year experimental (program) group.

<sup>d</sup>CSJ earnings were also included in the New Hope earnings calculations.

<sup>e</sup>Seattle/Denver income transfers include AFDC, the cash value of Food Stamps, and payments to members of the experimental (program) group; New Hope income transfers include AFDC, Food Stamps, state and federal Earned Income Tax Credits (EITCs), and New Hope earnings supplement payments.

<sup>f</sup>Statistical significance is not reported in SRI International, 1983, as signaled here by the use of a different symbol (†). Given the sample sizes and the magnitude of the differences, however, the numbers are very likely significant.

<sup>g</sup>Measured income combines earnings and income transfers.

tions continued to grow over the five-year life of the program, however, reaching a large 406 hours in the fifth program year (not shown).<sup>27</sup> Hours reductions for husbands and wives reached 228 hours and 181 hours, respectively, by the second program year and did not change appreciably through the program's full five-year period. New Hope may have also reduced hours worked among working two-parent family heads, possibly by as much as 240 hours (not statistically significant) in the second follow-up year.

Although husbands' and wives' combined two-year Seattle/Denver hours reductions were larger than New Hope's reductions by two-parent families, the more important difference is in the way the hours reduction occurred. Analysis of sample members in New Hope who were employed full time at random assignment found that virtually all their hours reduction resulted from working less overtime. Among New Hope sample members who were employed full time at random assignment (not shown), the average control group member worked 40 hours a week or more at least two months out of every year.<sup>28</sup> New Hope enabled program group members to reduce the amount of overtime they worked by about one-third, or a little more than one month less per year. In contrast, Seattle/Denver hours reductions were more likely to result from program group members' not working or not returning to work for long periods of time or choosing part-time work over full-time work.<sup>29</sup>

**Earnings.** In line with the findings on employment and hours worked (see Table 4.5), Seattle/Denver decreased the earnings of single parents and husbands and wives, while New Hope's effects were mixed — a possible large increase in single

parents' earnings and a possible substantial decrease in the earnings of two-parent family heads, although neither result is statistically significant, and both may have resulted from chance. In the Seattle/Denver program, single parents' earnings fell by \$1,693 (in 1997 dollars) in the second year of follow-up,<sup>30</sup> an unsurprising result given the declines in employment and hours worked. Added together, earnings declines among husbands and wives were quite large — \$3,119 in the second follow-up year. Note that community service jobs played an important role in the earnings of New Hope program group members. If income from CSJs is not counted as earnings, then New Hope does reduce the earnings of two-parent families significantly.

**Income Transfers.** The Seattle/Denver program dramatically increased the amount of income transfers that eligible participants received, while New Hope did not significantly change the amount its program group members received relative to control group members. Seattle/Denver's average payments to single parents, husbands, and wives amounted to between \$3,706 and \$4,750 per year above and beyond what the control group received in AFDC and Food Stamp payments and vouchers in the first and second years of follow-up. These increases were very large, and thus it is not surprising that participants felt free to reduce the hours they worked.

New Hope's lack of effect on income transfers, especially for single parents who were employed at random assignment, is somewhat surprising, suggesting that the program's earnings supplements were offset by losses in AFDC and Food Stamp benefits — again, presumably because of Wisconsin's strong economy and sustained welfare reform efforts, which would have affected both program and control group members. Recall, however, that the New Hope numbers understate the benefit package because they count only total

27. SRI International, 1983, p. 122.

28. Bos et al., 1999, Table 4.5, p. 127.

29. In the Seattle/Denver experiment, single parents reduced their full-time work, part-time work, and overtime work. Much of the hours reduction was the result of a substantial number of people remaining unemployed for long periods of time. See SRI International, 1983; see also Robins, 1985.

30. Seattle/Denver earnings, income transfer amounts, and measured income were adjusted for inflation between 1971 and 1997 by using the Consumer Price Index for Urban Consumers.

cash assistance (defined as supplement payments, welfare benefits, and Food Stamps), not payments made for child care and health care.

**Total Measured Income.** Only the Seattle/Denver program had a consistent and statistically significant effect on income. Impact on total income is the sum of the program's impact on earnings and its impact on income transfers. Seattle/Denver's impact on measured income was driven entirely by the program's very generous income transfer payments. But note that 40 percent or so of these income transfer gains were offset by program-induced declines in earnings among single parents and husbands. For example, in the second follow-up year, the Seattle/Denver program transferred \$4,349 to single parents; they, in turn, reduced their earnings by \$1,693, resulting in a total income gain of only \$2,655.

**Poverty and Well-Being.** Although New Hope did not have a significant effect on poverty or the poverty gap for those employed at random assignment, it did produce positive effects on the working poor and their children, especially among working-poor parents who were working full time when the study began. New Hope parents experienced less hardship, fewer periods without health insurance coverage, and higher levels of social support than control group parents. New Hope's effects on parents also trickled down to their children in the form of increased parental monitoring of children's activities, positive perception of parent-child relationships, use of formal child care, and number of months spent in formal child care. These effects are attributable in part to a reduction in the amount of overtime that full-time family heads worked.

By contrast, the Seattle/Denver program did lift most of its participating families out of poverty. Although Seattle/Denver also increased the amount of time spent in household activities, overall it did not produce consistent effects on children.

### Seattle/Denver and New Hope: What Explains the Differences in Impacts?

For the working poor, Seattle/Denver's generosity and New Hope's full-time work requirement of 30 hours or more a week are the key variables of program design that differentiated the programs. Differences in their employment outcomes suggest that New Hope's 30-hour requirement was effective in limiting employment reductions. Employment levels declined in Seattle/Denver but not in New Hope. New Hope program-eligibles, when they reduced their work effort, did so by reducing hours worked — primarily overtime work — whereas Seattle/Denver eligibles primarily increased the length of their unemployment spells. Moreover, New Hope's declines in employment and earnings were concentrated among two-parent household heads.

In summary, New Hope provided additional income for a group who were already working a great deal. The added income may have allowed full-time workers in two-parent households to cut back their hours of work somewhat without undermining the likelihood that they would continue working. Program designers had intended that New Hope would increase job stability, but the average employment rate in a given quarter for this group approached 90 percent or more, leaving little room for improvement.

Finally, as previously discussed, this monograph focuses on certain groups within the New Hope sample to allow for firmer comparisons with the other programs. To broaden the picture, the box on page 36 summarizes New Hope's results for the full sample, drawing on the New Hope two-year follow-up report.

## Does a Targeted Work Incentive Program Have Unintended Consequences?

*A special test of one form of entry effects known as “delayed exits” suggests that targeted work incentive programs can be designed to limit the likelihood of unintended negative consequences — that is, the likelihood that new welfare recipients will delay taking jobs and leaving welfare to qualify for a future work incentive, or that the working poor will quit their jobs and apply for welfare in order to qualify for targeted work incentives.*

The findings reported above for long-term welfare recipients, for more employable recipients and applicants, and for the working poor show that the largest, most consistent, and most extensive impacts occurred among long-term welfare recipients. Yet a work incentive program targeted only at welfare recipients would raise the risk that working-poor people would quit their jobs and apply for welfare to qualify for the work incentive program. This entry effect could overwhelm any positive employment and welfare-leaving effects among welfare recipients.

Although entry effects are assumed to be widespread,<sup>31</sup> there is little empirical evidence documenting their actual occurrence. The unique SSP Entry Effects Demonstration (described in Chapter 3 as the SSP applicant study) was designed explicitly to measure the impact of entry effects by taking advantage of SSP’s requirement that recipients had to be on welfare for at least one year before they could receive the supplement. This requirement might have produced a “delayed exit” effect (one type of entry effect), whereby new welfare recipients who knew about SSP would delay their exit from welfare in order to qualify for the future supplement.

To measure the delayed exit effect that might be created by an offer of a future earnings supplement, the SSP Entry Effects Demonstration randomly assigned welfare applicants (new recipients) either to a program group, whose members were told that they would be eligible for SSP if they were still on welfare one year later, or to a control group, whose members would not be eligible. Thus, a year after random assignment, if program group members were more likely to remain on welfare than control group members, one could reliably conclude that SSP induced some new recipients to remain on welfare longer than they would have otherwise.

### New Hope for People with Low Incomes

This monograph focuses on families with children, and in the New Hope evaluation they made up 71 percent of the research sample. But New Hope sought to increase the income, financial security, and access to full-time employment of all low-income people who were willing to work full time, including single adults and childless couples. This box summarizes New Hope’s two-year results for the full sample.\* The program itself was described in Chapter 3.

Overall, New Hope increased employment and earnings, leading in turn to increased income during the first year of follow-up and enabling more low-income workers to earn their way out of poverty. New Hope’s effects on employment and income, coupled with its provision of health insurance and child care subsidies, set off a chain of beneficial effects for participants’ families and their children. On average, New Hope participants were less stressed, had fewer worries, and experienced less material hardship (particularly that associated with lack of health insurance) than control group members.

New Hope had different effects for people who were not already working full time when they entered the study (about two-thirds of the sample) than for those who were. Among those not employed full time at random assignment, over a two-year fol-

31. Moffitt, 1992, 1996.

The resulting delayed exit effect was small — a barely statistically significant 3.1 percentage point increase in the proportion of program group members who received welfare benefits for 12 of the first 13 months after entering the Income Assistance system.<sup>32</sup> Put another way, about 40 percent of all new welfare recipients would leave the rolls within a year. Being told that one could qualify for SSP's generous earnings sup-

32. The one-year waiting period was defined as 12 of the prior 13 months in order to account for eligibility errors that result in rapid case closings and reopenings.

low-up period, program group members were 7.2 percentage points more likely to have ever been employed than control group members; their earnings were \$1,389 higher; and they had \$2,645 more total income. Moreover, program group members were more likely to have had health insurance and less likely to report that they had unmet medical or dental needs.

For the remaining one-third of the sample (those employed full time at random assignment), there was no effect on employment and there were modest reductions in hours worked and earnings. These participants were less likely to work more than 40 hours a week and did not experience net income gains, partly because New Hope reduced their receipt of AFDC and Food Stamps. In the second year of follow-up, New Hope's effect on income for this group was a reduction of \$1,148, or 7.5 percent.

A special study of child outcomes compared program and control group families that included children. New Hope participants' children were found to have had better educational outcomes, higher occupational and educational expectations, and more social competence; boys also showed fewer behavior problems in the classroom.<sup>†</sup>

\*See Bos et al., 1999.

†Bos et al., 1999, Executive Summary.

plement by remaining on the rolls for a full year did not appreciably alter the rate at which new recipients left the rolls. Interestingly, the effects grew only slightly over time, despite an expectation that the closer recipients came to fulfilling the one-year-on-welfare eligibility requirement, the more likely they would be to remain on the rolls.<sup>33</sup>

SSP's one-year eligibility restriction appeared to limit both delayed exits and new-applicant entry effects. The small delayed exit effect did not appear until several months after random assignment. If new recipients — who had already borne the stigma and cost of welfare — were unwilling to prolong their time on Income Assistance in order to qualify for a future SSP earnings supplement, then working-poor people who would not typically apply for welfare would be even less likely to alter their behavior. That is, they would be unlikely to enter the welfare rolls and wait the required year just to qualify for an earnings supplement.

In focus groups, welfare recipients explained that they were reluctant to remain on Income Assistance longer just to gain eligibility for SSP because they disliked welfare and felt stigmatized and because they expected it to be difficult to find work. These results do not imply that entry effects are not important — only that programs can be designed to contain them effectively. ♦

33. Berlin et al., 1998.

## CHAPTER 5 LESSONS ABOUT POLICY AND PROGRAM DESIGN

### Policy Lessons

*Programs that target long-term welfare recipients and combine work incentives with a full-time work condition or a participation-in-services requirement can increase employment, earnings, and income at the same time.<sup>1</sup>*

Ever since the English Poor Laws, public officials have faced a perplexing problem: Cash benefits tend to reduce work effort because people can work less and still enjoy the same or a higher level of total income. In the past, programs either increased income at the expense of work effort (as in the Seattle/Denver experiment) or increased work without a corresponding improvement in financial well-being (as in the Riverside and Portland welfare-to-work programs).

MFIP and SSP appear to have solved the puzzle for long-term welfare recipients: Both programs increased work and reduced poverty. And the SSP applicant program<sup>2</sup> achieved these goals without an overall increase in costs. Previous policies targeted at welfare recipients have seldom succeeded in both encouraging work and reducing poverty. New Hope's package of work incentives, child and health care subsidies, and community service jobs also increased employment, earnings, and income for the more employable welfare

1. As noted in Chapter 1, footnote 6, increases and decreases refer to how the evaluation's program group fared compared with the control group.

2. The term *SPP applicant program* is used here as shorthand for SSP in relation to the program group in the special study of SSP's effects on welfare applicants; program group members were told that they would be eligible to apply for SSP, in accordance with program rules, if they remained on welfare for a year.

recipients New Hope served, but only during the first year of follow-up (represented by quarter 4 in this report), possibly because of competing welfare reform efforts under way in Wisconsin, a state with a very low unemployment rate.

*Success in both encouraging work and reducing poverty was typically achieved at the cost of a net increase in income transfer receipt and payments, and for the group of people who would have left welfare even in the absence of the work incentive program, the program brought some increase in dependency.*

Among people who were long-term welfare-dependent, making work pay could both increase employment and reduce poverty. But because earnings were usually low, and the total number of people receiving some form of government transfer rose, the overall costs to government of achieving these two goals together were higher than the cost of the regular welfare program. The SSP applicant program was the exception: Applicants obtained high-wage jobs that kept supplement costs down and increased the amount they paid in taxes.

This overall increase in income transfer costs for SSP (the applicant program aside) was driven by two potentially offsetting effects: First, people who would not otherwise have worked did so because work paid; public transfer costs for this group usually declined because the amount paid out in earnings supplements was often lower than the amount of welfare benefits they would have received. Second, people who would have worked and left welfare entirely now continued to receive a publicly funded earnings supplement. Although these people continued working, and much of their total income was derived from earnings rather

than income transfers, dependency arguably increased because they continued to receive benefits they otherwise would not have received. In short, when the latter group's costs exceeded the former group's savings, overall costs increased, typically driven by the fact that the total number of people receiving a government transfer increased.

*Even though income transfer receipt and costs rise, work incentives — when combined with a full-time work condition or a participation-in-services requirement — can still be an efficient form of public transfer when targeted at populations who are long-term welfare-dependent.*

Such make-work-pay programs are intriguing because of their efficiency. In SSP, every extra dollar spent on work incentives produced more than \$2 in increased earnings, for a total increase of more than \$3 in income.<sup>3</sup> MFIP was about as efficient as SSP for long-term recipients: Every dollar spent on work incentives yielded approximately another \$1.67 in increased earnings and a bit more than \$2.67 in total income.<sup>4</sup> These numbers stand in stark contrast to the results from the Seattle/Denver experiment, in which every dollar of transfer payments resulted in substantially less than a dollar of increased income because the typical participant worked less and earned less. Indeed, every \$1 in Seattle/Denver benefit expenditures led to a net

3. See Lin et al., 1998, Table ES3, p. ES-13: Monthly net transfer payments of \$55 (supplement payments plus Income Assistance payments less taxes paid) yielded monthly earnings gains of \$124, for a total monthly income gain of \$179. A similar calculation can be made using Table 4.1 in this monograph, although the numbers change somewhat because Canadian dollars have been converted to U.S. dollars and taxes paid are not included in the table, whereas the ratios change because the two calculations involve different time periods. For example, in quarter 5, net transfer costs of \$220 yielded an earnings gain of \$301, for a combined total income gain of \$521; or (dividing the three terms by \$220 in government expenditures) roughly \$1 in government expenditures yielded \$1.40 in earnings gains and \$2.40 in income gains.

4. Using Table 4.1, in quarter 5, net transfer costs of \$141 yielded an earnings gain of \$235 and a total income gain of \$376. Dividing all three terms by \$141 yields \$1, \$1.67, and \$2.67, respectively.

increase in income of only \$.61 because single parents reduced their earnings by \$.39.<sup>5</sup>

*Entry effects and related unintended negative consequences can be contained effectively by means of waiting periods and other “barrier to entry” features of program design.*

In the first formal test of entry effects, the SSP Entry Effects Demonstration (see page 36), the size of these effects was small and probably inconsequential given the size of the subsequent program effect of SSP on applicants, that is, increases in employment and earnings large enough to offset the program's supplement payment costs. These results suggest not that entry effects are immaterial but that they can be guarded against by a program's design. If the cost of entry to a program is very low or nonexistent, entry effects could occur.

*Incentive programs are not a panacea.*

In SSP, only about one-third of all program-eligibles took advantage of SSP's earnings supplements. (As discussed below, the addition of services produced a dramatic, though temporary, increase in the take-up rate.) Similarly, in MFIP only about half of all program-eligibles were working for MFIP's benefits in a given quarter.

## Program Design Lessons

*Although work incentives alone can increase employment, those conditioned on full-time work can have larger effects on a wider range of outcomes — employment, earnings, and income. Programs that combine work*

5. See Table 4.5. In year 2, annual net income transfers equaled \$4,349, but earnings declined by \$1,693 for a total income gain of \$2,655 (after rounding) — substantially less than the government transfer — a classic “leaky bucket” example. Again, dividing all three terms by the transfer amount yields \$1, \$.39, and \$.61.

*incentives, full-time work conditions or participation mandates, and employment-related services may produce the largest impacts.*

MFIP without a participation requirement for applicants modestly increased employment but had little or no effect on earnings or income. The same incentives-only program was somewhat more effective for long-term welfare recipients, increasing employment and income slightly, but not earnings. By contrast, the full-MFIP program — which required recipients who were not working at least 30 hours a week to register to participate in employment-related services — doubled employment and substantially increased earnings and income. Similarly, SSP's incentive for full-time work also yielded very large impacts.

SSP Plus — a special small-scale experiment that provided employment services such as employment counseling and job placement assistance along with the incentive — increased to 50 percent the share of welfare recipients who ever worked full time. This services-induced increase in new job-takers was typically followed by rapid job loss or a switch to part-time work.<sup>6</sup> By the last quarter of follow-up, the added services increased the percentage employed by no more than 3 percentage points, while the increase attributed to incentives tied to full-time work consistently exceeded 10 percentage points. SSP Plus had larger impacts than regular SSP, but the difference was seldom statistically significant. Services helped, but not much.

*Work incentive programs appear to be equally effective regardless of whether they have a mandatory participation requirement or condition the incentive on voluntary full-time work.*

Work requirements for long-term recipients in SSP and MFIP varied: SSP offered a carrot, whereas

6. See Quets et al., 1999. Although the cumulative take-up rate exceeded 50 percent as a result of SSP Plus, in the typical follow-up month, SSP Plus's total employment rate was only moderately higher than the employment rate in regular SSP.

MFIP used something of a stick. SSP was a voluntary program that made work pay, but only when someone worked at least 30 hours a week. MFIP rewarded part-time or full-time work, but, as noted above, anyone who was not working at least 30 hours a week had to register to participate in employment and training services. Failure to participate resulted in a 10 percent reduction in welfare benefits. Both programs were effective, and in both cases the welfare system remained intact as a safety net.

*For the working poor, income transfers can reduce employment and earnings, but tying incentive payments to full-time work can effectively limit these cutbacks to reductions in overtime hours.*

The added income provided by the Seattle/Denver guaranteed annual income program caused earnings to fall sharply because some people remained out of the labor market for long periods of time. In contrast, New Hope did not have a significant effect on employment, hours worked, or earnings of single parents who were working when they joined the program. It may have reduced the numbers of hours worked by (and probably the earnings of) two-parent households, but not their rate of employment. These contrasting results — lower employment rates in Seattle/Denver, no employment effect in New Hope — suggest that New Hope's 30-hour work requirement effectively limited the amount of work reductions to cutbacks in overtime hours. Without an hours requirement, indeed without a work condition of any kind, Seattle/Denver was unable to limit work reductions, and working people responded by reducing the likelihood that they would work, as well as the number of hours they worked.

*The rules that policymakers establish governing work incentive programs can minimize entry and windfall effects and maximize work effects.*

SSP was governed by several very specific rules: a full-time work requirement, at least a year of prior

welfare receipt, one year to find a job, and a maximum of three years of supplement receipt. Each rule had a purpose: Limit the ability of those who were already working to reduce their work hours, target those who were least likely to leave welfare on their own, and stimulate people to go to work sooner than they otherwise would. To an encouraging degree, the rules appear to have had their intended effects: reducing windfall and entry effects and increasing work effects.<sup>7</sup>

MFIP had another set of rules and requirements — for example, recipients with two years or more of welfare receipt who were not working at least 30 hours a week were required to meet with an employment caseworker and enroll in employment preparation services. These requirements paid off. Long-term recipients who were subject to the participation requirement experienced the largest employment, earnings, and income effects. With these results in mind, instead of allowing new recipients to wait two years before being required to participate in employment and training services, Minnesota officials have now extended MFIP's participation requirement to relative newcomers to the welfare system.

In summary, the design of a make-work-pay program can play a critical role in the outcomes it produces.

*Clear explanation and marketing may be important factors in maximizing positive work effects.*

For a program to have positive work effects, those targeted must know about and understand the likely effect incentives will have on their total income. If there is little or no marketing, then only people who would in any case have gone to work and left welfare would receive incentive payments — driving income transfer costs higher without any change in work behavior. Thus, marketing, outreach, and careful explanation are essential.

Staff from all three work incentive programs worked hard at explanation. SSP staff went the furthest. More than 95 percent of all program-eligibles participated in a two-hour-plus orientation session, which focused exclusively on how SSP would make them better off. These meetings were followed by regular phone contact to reinforce the message. In MFIP, program-eligibles heard about its incentives as part of a 40-minute meeting about welfare eligibility verification, 10 minutes of which were devoted to explaining MFIP's work incentives. The message that work pays was reinforced for long-term recipients when they met with their employment caseworkers each month — reinforcement that applicants and short-term welfare recipients did not get.

Following an initial orientation session, New Hope's project representatives met frequently with participants and took as much time as was needed to explain the program's many benefits and to provide participants with advice, emotional support, and assistance with various practical problems. Although New Hope was quite successful in getting its participants to understand and follow program rules, it failed to reach most families in the targeted neighborhoods, as evidenced in early recruiting problems.

*The importance of a work incentive program's generosity is unclear.*

On the one hand, some evidence from SSP suggests that the generosity of an incentive is unrelated to program impacts. Because SSP's supplement payments were not adjusted for family size, the incentive for parents in small families to go to work was approximately twice as much as the incentive for those in large families. Yet the program had similar effects on both groups. Why? One possibility is that the marketing and explanation of SSP sent similar messages to large and small families about the payoff to work (although the worksheets filled out to explain the payoff made it clear that large families had less to gain), and parents in both types of families responded similarly. Given enough time, if those in larger families came to realize that their

7. Work and windfall effects are discussed on page 20.

families would not be substantially better off, a pattern might have emerged in favor of adjusted incentives, but no such pattern existed at the 18-month follow-up point.

On the other hand, the apparently larger incentive effects of SSP relative to MFIP suggest that generosity — that is, how much better off an incentive program makes someone — *is* related to a program's impact. Perhaps a threshold level of generosity has to be reached in order to convince staff who describe the program that the incentive will actually make recipients better off financially. Staff commitment and their conviction that “work pays” were important determinants of MFIP's success.<sup>8</sup>

*Incentive programs can be implemented effectively inside or outside the welfare system.*

At some point, all three work incentive programs significantly increased employment, earnings, and total income for long-term recipients. Yet MFIP was administered by the welfare department, while SSP and New Hope were administered by private social service agencies. Administering a program outside the stigmatized welfare system enables staff to present the program as an alternative to welfare. Both staff and participants in SSP and New Hope were effusive about the differences between their programs and welfare. MFIP, which had streamlined welfare's rules and procedures, also produced large impacts.

*Community service jobs and subsidized health insurance can be valuable adjuncts to a work incentive program, but they can also present “substitution” problems.*

On the one hand, community service jobs were a primary source of work and earnings for New Hope

participants. And the program's subsidized health insurance and child care subsidies increased health care coverage and the number of children in formal daycare settings. On the other hand, many people who might have been able to find unsubsidized employment in the private sector appear to have chosen community service jobs instead. Similarly, they opted for New Hope-provided health insurance instead of finding a job that offered private health insurance, or, if insurance was offered, they turned it down in favor of New Hope's insurance program.

Although CSJs accounted for most of New Hope's initial employment and earnings gains, other incentive programs produced the same or larger gains without offering such jobs. Moreover, the overwhelming majority of CSJ users had at least some unsubsidized earnings in addition to their CSJ earnings, suggesting that they could and did find non-CSJ jobs. Indeed, 62 percent of CSJ users were employed in a regular job during the quarter immediately following the end of their CSJ.<sup>9</sup> A challenge for future work incentive programs is how to offer and administer the full range of benefits without encouraging or permitting the degree of substitution of public for private jobs and benefits that appears to have occurred in New Hope. ♦

8. MFIP staff explained to researchers and administrators alike that because MFIP really made recipients better off, staff were more committed to encouraging them to take jobs. See Miller et al., 1997, p. 65.

9. Bos et al., 1999, p. 117.

## CHAPTER 6 POLICY IMPLICATIONS

Early findings from Canada's Self-Sufficiency Project (SSP), the Minnesota Family Investment Program (MFIP), and Milwaukee's New Hope Project provide encouraging evidence that making work pay (in conjunction with other services and conditions) can both increase work and reduce poverty among welfare recipients without reducing employment rates among the working poor. As a result, they pose the question of where make-work-pay programs should fit within a policy world bounded, on one side, by time-limited welfare and, on the other side, by the federal Earned Income Tax Credit (EITC) program. The first dimension of this question is the conflict between time limits and work incentives. Some 40 states now allow welfare recipients to mix work and welfare, thus increasing their total income. But states have implemented these make-work-pay provisions in unison with time-limited welfare policies that discourage any welfare receipt. This, in effect, perpetuates welfare's age-old conflict between reducing poverty and reducing dependency.

A second dimension of this question is which standard of success to use in assessing work incentive programs — welfare savings or poverty reduction. The traditional measures of success for welfare-to-work programs emphasized increased work effort, reduced welfare receipt, and government budget savings. But the primary goals of the three programs examined here were to increase work and income — goals they shared with the federal EITC. In the relatively short follow-up period covered here, work incentive programs generally, but not always, increased total costs, just as the EITC increases costs in redistributing income to low-wage workers; there is no expectation of budget savings.

This raises the important question of how much the nation should be willing to spend to sustain a work-

based safety net system that rewards families when they work, rather than when they do not, and whether a separate, additional earnings supplement program for welfare recipients is justified. In effect, many states are already targeting welfare recipients and spending additional money in the form of liberalized earned income disregards. Should that policy continue? Could it be implemented more effectively? Alternatively, should the federal government expand the EITC?

To provide a context for answering these questions, the next section summarizes recent developments in the policy environment of Temporary Assistance for Needy Families (TANF), early experiences in states that have implemented time-limited welfare policies, and the effects of the EITC program.

### The Current Policy Context

#### TANF Regulations

In April 1999, the U.S. Department of Health and Human Services (HHS) issued final regulations governing the use of TANF funds block-granted to states under the 1996 welfare reform law. The new regulations give states extraordinary flexibility to use TANF funds to provide low-income working families with subsidies, support services such as child care, refundable state EITCs, job retention and career advancement services, and other forms of support — *without* having these payments count as *assistance*, defined under TANF as “meeting ongoing basic needs.” Moreover, these payments can be made to working-poor families who have never been on welfare.

In effect, HHS has defined *assistance* narrowly. As a result, a wide range of *nonassistance* payments (possibly more appropriately labeled *work assistance*) designed to “make work more attractive” can be made

indefinitely to the heads of working-poor families without counting against the family's federal 60-month lifetime limit on cash assistance. In essence, HHS has given states the ability to use TANF funding to create a separate program of supports for the working poor, supports that do not count as welfare assistance.<sup>1</sup> Moreover, states are significantly underspending their TANF block grants. At the half-way point in fiscal year 1999, states had still not obligated \$4.2 billion in TANF funds and had obligated but not yet spent an additional \$3.4 billion (including carry-over funds since fiscal year 1997).<sup>2</sup>

### Implementing Time Limits

As of late 1999, no welfare recipients had actually been on welfare long enough to reach the 60-month time limit on the use of federal funds to pay welfare benefits. In several states that established more stringent time limits, however, recipients have begun to reach their time limits. In addition, a number of states began experimenting with time-limited welfare long before federal welfare reforms were passed. From an implementation perspective, state policies and practices vary greatly. Some states, such as Pennsylvania, have established "work-trigger" time limits (in conjunction with 60-month lifetime limits), which require welfare recipients to be employed by a certain date or face loss of their benefits. Other states, such as Michigan, have not endorsed time limits and plan instead to use state funds for any recipients who reach the federal time limit.

There is also variability in how strictly time limits are enforced.<sup>3</sup> Massachusetts and Louisiana have apparently terminated the welfare benefits of virtually everyone who reached the time limit. This has also

been the case in the pilot program operated in Pensacola, Florida (see pages 8 and 45), yet in Florida's statewide implementation of a similar program, wholesale extensions were granted in many counties (including Miami-Dade) when recipients first reached the time limit.<sup>4</sup> Connecticut, Pennsylvania, and a number of other populous states have also proceeded cautiously. Connecticut has cut off the largest number of recipients in the nation — but they were mostly people who were working and who would not have been eligible for welfare under the old AFDC regime because their income was too high.<sup>5</sup> In other words, a state that appears to have one of the nation's shortest (21 months) and most stringent time limits initially granted extensions for practically everyone who lacked substantial earnings.

Despite initial hesitancy in actually terminating people when they reach time limits, one thing is clear: Time-limited welfare is a transformational change that is dominating the program and policy environment in many states. In such an environment, the message that caseworkers convey about time limits is crucial. Despite having many other policies to explain, caseworkers have focused on one overarching message: "Get a job; welfare is going to end."<sup>6</sup>

Most recipients now know that welfare is time-limited and temporary. Some have mastered the concept of "banking" welfare-eligible months — that is, leaving welfare as quickly as possible to preserve one's limited number of months of welfare eligibility; others have not. There is still confusion about the details of time limits: "Do I lose benefits forever, or can I return after remaining off for awhile? Is the time-limit clock ticking even when I leave welfare, or does it stop?"<sup>7</sup>

1. U.S. Department of Health and Human Services, 1999; Greenberg and Savner, 1999.

2. See the HHS Web site: [www.acf.dhhs.gov/programs/ofs/data/Q299/index](http://www.acf.dhhs.gov/programs/ofs/data/Q299/index).

3. Bloom, Kemple, and Rogers-Dillon, 1997; Bloom et al., 1998; Quint et al., 1999; Bloom, 1999.

4. Quint et al., 1999.

5. Connecticut disregards 100 percent of all earnings (below the poverty level) for 21 months, so all welfare recipients who work — most of whom would have left welfare under the AFDC system's rules — can continue receiving welfare for 21 months. Also, in practice, only those people with earnings above welfare eligibility levels are likely to have their benefits terminated.

6. Brown, Bloom, and Butler, 1997; Quint et al., 1999.

7. Quint et al., 1999; Bloom and Butler, 1995.

While impact results have been emerging from the Florida pilot program and elsewhere, most follow-up periods have been short, and most participants have not yet reached their time limit. Moreover, early results are also hard to interpret because, in most cases, time limits are only one part of the program model, making it difficult to attribute impacts to time limits rather than to other policies. In Pensacola, Florida, the three-year follow-up study showed employment and earnings rising and little overall evidence of increased hardship as a result of implementing the time limit, work incentive, and other policies. However, the most disadvantaged members of the study population had not yet hit their time limit. Longer follow-up and more sophisticated analyses will provide more definitive information in the near future.<sup>8</sup>

### Effects of the Earned Income Tax Credit

A number of recent studies have concluded that the EITC increases employment, earnings, and income and reduces poverty among single parents, especially welfare recipients.<sup>9</sup> The antipoverty effect is powerful: The EITC lifts several million low-income family members above the poverty line each year, and its lump-sum character appears to enable families to meet critical needs, purchase large-ticket items, and build assets.<sup>10</sup>

The employment effects may also be large. The same group of studies uniformly attributes much of the recent and dramatic rise in single-parent labor force participation rates to the EITC. As the generosity of the EITC has increased over the years, so has women's participation in the labor force.<sup>11</sup> Although receipt of the EITC is not conditioned on *full-time* work, a family

head can collect the credit only if she or he has earnings. In addition, the EITC credit amount (not the rate) increases as earnings rise up to \$9,390. In other words, the more one works up to this income level, the higher the EITC payment amount. Researchers generally believe, however, that the EITC induces some reduction in work effort among people with incomes above \$12,260 — the income level at which, in 1998, the benefit began to phase out.<sup>12</sup> This view is supported by a recent study suggesting that married women with family income in the phase-out range of the EITC do indeed reduce their work effort.<sup>13</sup> While the EITC's work-inducing effects suggest that it is more efficient than a traditional welfare program or a negative income tax plan, the program's work-reducing effects suggest that it is not as efficient as a targeted program like SSP or MFIP.

In sum, the EITC shares some of the characteristics of work incentive programs targeted solely at welfare recipients. But it is a universal program, which makes further increases in its generosity expensive, and it may not be as efficient as targeted incentive programs with a work condition or participation requirement.

### The Future of Targeted Work Incentives

The findings presented here suggest that making work pay is most effective and most efficient for populations at risk of long-term welfare dependence. When considering these findings in the current policy context of time-limited welfare and the EITC, policy-makers face a number of key questions: Will a targeted program incur the stigma that welfare programs traditionally carry, or can it achieve the widespread appeal of a universal program like the EITC? Should work incentive programs be embedded within time-limited TANF

8. Bloom, Kemple, and Rogers-Dillon, 1997; Bloom et al., 1998; Bloom et al., 1999.

9. Meyer and Rosenbaum, 1998; Eissa and Liebman, 1996; Council of Economic Advisers, 1998; Smeeding, Ross, and O'Connor, 1999; Blank, Card, and Robins, forthcoming 2000.

10. Smeeding, Ross, and O'Connor, 1999; Council of Economic Advisers, 1998.

11. Burtless, 1997; Blank, 1998.

12. U.S. House of Representatives, 1998.

13. Eissa and Hoynes, 1998.

welfare programs, as MFIP currently is? Should they operate outside welfare, as SSP did? Should they be considered temporary programs to help welfare recipients make the transition from not working to working, after which participants would have to rely solely on Food Stamps and the EITC? Or should incentive programs be made more permanent supports? How much should policymakers worry that making low-wage work pay will lead some people to work less? Should targeted incentives be abandoned despite these results because time limits, once invoked, will necessarily make work pay better than welfare?

One approach would be to build on the EITC. If the stigma and inequity that accompany a targeted program are judged too high a price to pay despite its efficiency, policymakers might consider increasing the generosity of the universal EITC program, but only for people who work at least 30 hours a week. This strategy would encourage full-time employment and limit the work-hour reductions among full-time workers while retaining the part-time work benefits of the existing EITC program for single parents, whose parenting responsibilities may preclude full-time work.

This option would pose difficult implementation challenges, including the need to market the EITC so that it is well understood. (Most current recipients, for example, do not understand why they get such a large tax refund at the end of the year.) Another challenge is determining how to identify people who work full time, but for only part of the year.

More broadly, given the existence of the EITC, is there any justification for work incentive programs targeted at welfare recipients? The research results presented here provide one rationale: In Minnesota and Wisconsin, when MFIP and New Hope were operating, both program and control group members were eligible for the EITC — it was part of the policy context in which the programs operated. Thus, MFIP's and New Hope's impacts on employment, earnings, and income were in addition to any positive effect that the EITC may have had alone.

A similar argument can be made for SSP, which operated in the context of Canada's National Child (Tax) Benefit and British Columbia's Family Bonus — two programs that rewarded work over nonwork. Single-parent welfare recipients and their children benefited in increased employment, earnings, and total income when a separate work incentive program was targeted at them.

The special needs of single-parent families provide a second rationale for targeted work incentive programs: Heads of such families have difficulty making and sustaining the transition to work. Juggling work and family responsibilities, making ends meet on one income, and combating the high poverty rates of children in single-parent families all argue for additional program initiatives aimed at helping former welfare recipients remain in the labor market.<sup>14</sup>

Time-limited welfare and the new TANF regulations provide both a third rationale and the means for a work incentive program targeted at welfare recipients. Time-limited welfare is a safety net of last resort. If states implement time limits, families who use up their 60-month lifetime limit and whose adult members do not work will have little recourse but Food Stamps and charity (assuming they cannot qualify for disability assistance). Rapid and unprecedented declines in case-loads suggest that welfare's new time-limit message, together with the strong economy, is encouraging more and more recipients to take jobs. But even when people do work, the more generous earned income disregards that states have instituted have the perverse effect of holding job-takers on the welfare rolls, where they receive reduced grants and continue using up their lifetime limit of federal (and, in some cases, state) welfare benefits.

Separating time-limited welfare from work incentive initiatives makes good programmatic sense. Caseworkers who meet with nonworking welfare recipients send a strong, clear message about taking a job and

14. Council of Economic Advisers, 1999.

leaving welfare. And when people do get jobs, they can leave welfare and join a new program for the working poor. The best way to encourage welfare recipients to leave the rolls is to be able to show them that they will be better off when they do go to work — without simultaneously sending a contradictory message about banking welfare-eligible months and not exhausting one's 60 months of lifetime federal cash benefits.

Ironically, the success of both time-limited welfare and work incentive programs probably depends greatly on caseworkers' abilities to communicate clear messages. Because time limits and work incentives essentially send contradictory messages, one or both policies must suffer when they have to be marketed together. Marketing and clear explanation of work incentives were integral to the three work incentive programs' designs, and likely played a central role in their success. Yet few states are actively marketing and explaining their liberalized earned income disregards.

Recognizing the contradiction in joining time limits and incentives, Illinois treats working and nonworking welfare recipients differently. For welfare recipients who are not working at least 25 hours a week, the time-limit clock is ticking. For recipients who have taken jobs and who work at least 25 hours a week, work incentive payments (paid via welfare-based earned income disregards) do not count against the federal time limit. For them, the clock is not ticking. The state accomplished this by segregating federal and state funds in separate pots and then using the segregated funds to provide TANF assistance or incentive payments to working families. These working families are still part of the state's TANF program, but the months of assistance do not count against the 60-month time limit.

The new TANF regulations create the means for other states to do what Illinois did. A state can use its required state matching dollars — referred to as Maintenance of Effort Payments under the law — to create a separate or segregated state program for the working poor. A state has several options: (1) Like

Illinois, it can use segregated state funds to pay earnings supplements (that is, assistance) within the TANF program, allowing families to remain part of the state's TANF caseload without counting those months of assistance payments against the federal time limit; (2) the state can use federal or state funds under the nonassistance ("work assistance") category, in which case the families are not part of the TANF assistance caseload and months do not count against federal time limits; or (3) the state can provide a benefit that would fall within the definition of assistance, but fund it with state dollars in a separate state program, so that the affected families do not receive any TANF assistance.

A strong case can be made for incorporating a full-time work condition into such separate state programs for the working poor. Both SSP and New Hope made their incentive payments only when someone worked at least 30 hours a week, and MFIP required anyone who was not working at least 30 hours a week to meet with an employment counselor. New Hope's hours rule limited the work reductions among full-time workers to cutbacks in overtime work, and SSP's rule encouraged people who would not have worked at all to work full time — an important element in any long-term effort to attain self-sufficiency. Indeed, when researchers simulated the effect of running an SSP-type program (with SSP's generosity and full-time work provisions) instead of the earnings disregard programs states ran in the 1980s (after four months, virtually a dollar welfare reduction for each dollar earned), the results suggested that an SSP-type program would have produced large increases in the number of long-term welfare recipients working full time and large increases in income, at only a modest net increase in costs. The magnitude of the simulated gains indicates that they would likely exceed those achieved by the states' current versions of enhanced earnings disregards.<sup>15</sup>

Another question is whether incentive programs targeted at former welfare recipients should be

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15. Michalopoulos, Pan, and Robins, forthcoming 2000.

temporary or permanent. Both SSP and New Hope were temporary programs designed to make work pay during the transitional years, when recipients first take jobs and their low earnings result in lost income from their having gone to work.<sup>16</sup> This strategy assumes that earnings grow over time and that people develop a growing preference for work over welfare. Longer-term follow-up data on New Hope and SSP will show the extent to which participants retained employment after the supplement ended. If they did, and if there was earnings growth, then an empirical case could be made for time-limiting targeted work incentive programs. But if earnings did not grow, then the case for more permanent subsidies could be considered.

The new TANF regulations also open other avenues to support poor working families. If properly structured — that is, not paid to meet “ongoing basic needs” — such payments as refundable tax credits, employer subsidies, child care subsidies, and periodic bonus payments to reward job retention or to meet work expenses and Individual Development Accounts to promote savings could help the working poor without being considered “assistance” under TANF and, thus, would not count against the federal five-year time limit.

Particularly interesting are policies that could encourage and reward savings and the accumulation of assets by employed welfare recipients and the working poor. With more resources, they might be better able to cope with family emergencies without having to give up a job or to incur the costs of changing jobs when their own is eliminated. Toward this end, incentive payments could be broken in two — one to supplement earnings and a second to supplement savings.<sup>17</sup> With a savings supplement, even home ownership would become more feasible. For example, if participants in an SSP-

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16. New Hope’s designers envisioned a permanent program, but the demonstration was limited to three years, making it temporary in practice.

17. End-of-year, lump-sum payment of the EITC is a form of forced savings, which recipients say they welcome because it enables them to buy big-ticket items such as cars and refrigerators.

type program managed to save \$1,500 of the \$5,000 or more their incomes may increase annually, and if TANF funds matched those savings, over the course of three to five years many participants might be able to afford to buy a home. (SSP participants, in fact, opened more savings accounts than did control group members, but it is too early to tell whether they actually accumulated assets.) States interested in promoting such savings would want to examine the generosity levels of their current incentive programs.

Another intriguing option is to use federal TANF and state Maintenance of Effort (matching) funds to initiate or expand a state’s EITC for the working poor. Typically calculated as a percentage of the federal EITC, a state EITC is a cash payment to the working poor that is made on top of the federal credit. Eleven states now offer an EITC. TANF and MOE funds can be used, however, only to subsidize that portion of a “refundable” credit that exceeds the amount of taxes owed.<sup>18</sup> This use of state funds brings the discussion full circle: using TANF-related funds to provide universal support for the working poor.

States have at least two motivations to consider the various options described in this discussion. First, no one wins if former welfare recipients who have taken jobs subsequently lose them and try to return to welfare after having used up their time-limited benefits. Policies that mix time limits and financial incentives virtually guarantee that a substantial number of people who take jobs while on welfare will unwittingly exhaust their lifetime-limited months of welfare eligibility. States may then find themselves in the awkward position of having to refuse reentry to welfare to large numbers of people for whom the incentive resulted in the exhaustion of their welfare eligibility, leaving them no access to welfare if they later lost their jobs because of the vagaries of the low-wage labor market, the personal crises that characterize low-income families, and the next economic downturn.

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18. Johnson, 1999.

A second motivation for states to explore these options is financial self-interest. As welfare rolls have decreased, states have accumulated a large and growing surplus of TANF dollars. If states do not spend these resources, the budget pressures created by the so-called “pay as you go” provisions of the Balanced Budget Act of 1990 pose a high and real risk that Congress will reduce the TANF block grant and eliminate the TANF surplus in future appropriations.

Like any social program, work incentives pose risks. A targeted incentive program for former welfare recipients would create horizontal inequities; for example, a former welfare recipient working alongside someone doing the same job for the same pay would receive a supplement, while her colleague who had never applied for welfare would not. Of course, such inequities already exist in the current welfare system. The unintended consequence is that the co-worker who did not apply for welfare in the past might do so now. The SSP Entry Effects Demonstration suggests that this risk can be contained.

Moreover, concerns that work incentive programs would lead to work reductions among the working poor — concerns raised by findings from Seattle/Denver and the other negative income tax experiments — may also be overstated. A key difference between income support programs that provide income to people whether they work or not and work incentive programs is that the former discourage work while the latter encourage it. The New Hope results indicate that a 30-hour rule effectively limits the amount of work reduction that might occur among the working poor. Targeting long-term welfare recipients, as SSP and MFIP did, further reduces this risk.

Furthermore, the reductions in overtime work among those who were already working full time were offset by the substantial increase in work among people who would not have worked at all in the absence of an incentive. In short, a work incentive program accepts some modest reduction in hours worked among those

who are working a lot in exchange for a large increase in work effort among those who would not work at all.

A final question is: Why use work incentives to make work pay, when time limits will have the same effect while also reducing costs? The answer depends entirely on the primacy policymakers give to reducing poverty among single-parent families with children. Time-limiting welfare will reduce welfare receipt and raise employment rates, but given the labor market’s new skills bias, welfare recipients are most likely to get low-wage jobs with little prospect of earnings growth. Disposable income will likely remain well below the poverty line for a family of three. Moreover, the New Hope results suggest that work incentive programs can improve the well-being of children and families.

Some caution is warranted. These results are based on 18 months to two years of follow-up data, and thus constitute an early scorecard on work incentive programs. Longer follow-up periods will tell us whether these initial employment, income, and poverty results hold up, whether benefits accrue to children, what impacts the programs have on family functioning and family formation, whether there is any sign of earnings growth, what effect the programs have on job stability, and what the final costs are. Preliminary analyses of longer-term follow-up data give cause for optimism.

In sum, the early results from work incentive programs are encouraging — especially regarding targeted programs that condition the incentive on full-time work or require participation in employment services. They provide reliable evidence that well-designed policies can succeed in both encouraging work and reducing poverty among welfare recipients. Arguably, if supporting people when they do not work does not comport with America’s values, then supporting people when they do work would. The benefits are substantial, the costs can be modest, and the risks appear to be minimal.

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### Los Angeles's Jobs-First GAIN Program

An evaluation of Los Angeles's refocused GAIN (welfare-to-work) program, which emphasizes rapid employment. This is the first in-depth study of a full-scale "work first" program in one of the nation's largest urban areas.

*Changing to a Work First Strategy: Lessons from Los Angeles County's GAIN Program for Welfare Recipients*. 1997. Evan Weissman.

*The Los Angeles Jobs-First GAIN Evaluation: Preliminary Findings on Participation Patterns and First-Year Impacts*. 1998. Stephen Freedman, Marisa Mitchell, David Navarro.

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### **Teen Parents on Welfare**

*Teenage Parent Programs: A Synthesis of the Long-Term Effects of the New Chance Demonstration, Ohio's Learning, Earning, and Parenting (LEAP) Program, and the Teenage Parent Demonstration (TPD).* 1998. Robert Granger, Rachel Cytron.

### **Ohio's LEAP Program**

An evaluation of Ohio's Learning, Earning, and Parenting (LEAP) Program, which uses financial incentives to encourage teenage parents on welfare to stay in or return to school.

*LEAP: Final Report on Ohio's Welfare Initiative to Improve School Attendance Among Teenage Parents.* 1997. Johannes Bos, Veronica Fellerath.

### **New Chance Demonstration**

A test of a comprehensive program of services that seeks to improve the economic status and general well-being of a group of highly disadvantaged young women and their children.

*New Chance: Final Report on a Comprehensive Program for Young Mothers in Poverty and Their Children.* 1997. Janet Quint, Johannes Bos, Denise Polit.

*Parenting Behavior in a Sample of Young Mothers in Poverty: Results of the New Chance Observational Study.* 1998. Martha Zaslow, Carolyn Eldred, editors.

### **Focusing on Fathers**

#### **Parents' Fair Share Demonstration**

A demonstration for unemployed noncustodial parents (usually fathers) of children on welfare. PFS aims to improve the men's employment and earnings, reduce child poverty by increasing child support payments, and assist the fathers in playing a broader constructive role in their children's lives.

*Low-Income Parents and the Parents' Fair Share Demonstration.* 1996. Earl Johnson, Fred Doolittle.

*Working with Low-Income Cases: Lessons for the Child Support Enforcement System from Parents' Fair Share.* 1998. Fred Doolittle, Suzanne Lynn.

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*Can They All Work? A Study of the Employment Potential of Welfare Recipients in a Welfare-to-Work Program.* 1995. James Riccio, Stephen Freedman.

*Florida's Project Independence: Benefits, Costs, and Two-Year Impacts of Florida's JOBS Program.* 1995. James Kemple, Daniel Friedlander, Veronica Fellerath.

*From Welfare to Work Among Lone Parents in Britain: Lessons for America.* 1996. James Riccio.

## **Employment and Community Initiatives**

### **Connections to Work Project**

A study of local efforts to increase competition in the choice of providers of employment services for welfare recipients and other low-income populations. The project also provides assistance to cutting-edge local initiatives aimed at helping such people access and secure jobs.

*Tulsa's IndEx Program: A Business-Led Initiative for Welfare Reform and Economic Development.* 1997. Maria Buck.

*Washington Works: Sustaining a Vision of Welfare Reform Based on Personal Change, Work Preparation, and Employer Involvement.* 1998. Susan Gooden.

*Cost Analysis Step by Step: A How-to Guide for Planners and Providers of Welfare-to-Work and Other Employment and Training Programs.* 1998. David Greenberg, Ute Appenzeller.

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*San Francisco Works: Toward an Employer-Led Approach to Welfare Reform and Workforce Development.* 2000. Steven Bliss.

### **Jobs-Plus Initiative**

A multi-site effort to greatly increase employment among public housing residents.

*A Research Framework for Evaluating Jobs-Plus, a Saturation and Place-Based Employment Initiative for Public Housing Residents.* 1998. James Riccio.

*Mobilizing Public Housing Communities for Work: Origins and Early Accomplishments of the Jobs-Plus Demonstration.* 1999. James Riccio.

*Building a Convincing Test of a Public Housing Employment Program Using Non-Experimental Methods: Planning for the Jobs-Plus Demonstration.* 1999. Howard Bloom.

### Section 3 Public Housing Study

An examination of the effectiveness of Section 3 of the 1968 Housing and Urban Development Act in affording employment opportunities for public housing residents.

*Lessons from the Field on the Implementation of Section 3* (U.S. Department of Housing and Urban Development). 1996. Maxine Bailey, Suzanne Lynn.

### Canada's Earnings Supplement Project

A test of an innovative financial incentive intended to expedite the reemployment of displaced workers and encourage full-year work by seasonal or part-year workers, thereby also reducing receipt of Unemployment Insurance.

*Implementing the Earnings Supplement Project: A Test of a Re-employment Incentive* (Social Research and Demonstration Corporation). 1997. Howard Bloom, Barbara Fink, Susanna Lui-Gurr, Wendy Bancroft, Doug Tattrie.

*Testing a Re-employment Incentive for Displaced Workers: The Earnings Supplement Project.* 1999. Howard Bloom, Saul Schwartz, Susanna Lui-Gurr, Suk-Won Lee.

## Education Reform

### Career Academies

The largest and most comprehensive evaluation of a school-to-work initiative, this 10-site study examines a promising approach to high school restructuring and the school-to-work transition.

*Career Academies: Early Implementation Lessons from a 10-Site Evaluation.* 1996. James Kemple, JoAnn Leah Rock.

*Career Academies: Communities of Support for Students and Teachers — Emerging Findings from a 10-Site Evaluation.* 1997. James Kemple.

*Career Academies: Building Career Awareness and Work-Based Learning Activities Through Employer Partnerships.* 1999. James Kemple, Susan Poglinco, Jason Snipes.

*Career Academies: Impacts on Students' Engagement and Performance in High School.* 2000. James Kemple, Jason Snipes.

### School-to-Work Project

A study of innovative programs that help students make the transition from school to work or careers.

*Home-Grown Lessons: Innovative Programs Linking School and Work* (Jossey-Bass Publishers). 1995. Edward Pauly, Hilary Kopp, Joshua Haimson.

*Home-Grown Progress: The Evolution of Innovative School-to-Work Programs.* 1997. Rachel Pedraza, Edward Pauly, Hilary Kopp.

### Project Transition

A demonstration program that tested a combination of school-based strategies to facilitate students' transition from middle school to high school.

*Project Transition: Testing an Intervention to Help High School Freshmen Succeed.* 1999. Janet Quint, Cynthia Miller, Jennifer Pastor, Rachel Cytron.

### Equity 2000

Equity 2000 is a nationwide initiative sponsored by the College Board to improve low-income students' access to college. The MDRC paper examines the implementation of Equity 2000 in Milwaukee Public Schools.

*Getting to the Right Algebra: The Equity 2000 Initiative in Milwaukee Public Schools.* 1999. Sandra Ham, Erica Walker.

## MDRC Working Papers on Research Methodology

A new series of papers that explore alternative methods of examining the implementation and impacts of programs and policies.

*Building a Convincing Test of a Public Housing Employment Program Using Non-Experimental Methods: Planning for the Jobs-Plus Demonstration.* 1999. Howard Bloom.

*Estimating Program Impacts on Student Achievement Using "Short" Interrupted Time Series.* 1999. Howard Bloom.

*Using Cluster Random Assignment to Measure Program Impacts: Statistical Implications for the Evaluation of Education Programs.* 1999. Howard Bloom, Johannes Bos, Suk-Won Lee.

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## ABOUT MDRC

**T**he Manpower Demonstration Research Corporation (MDRC) is a nonprofit, nonpartisan social policy research organization. We are dedicated to learning what works to improve the well-being of low-income people. Through our research and the active communication of our findings, we seek to enhance the effectiveness of social policies and programs. MDRC was founded in 1974 and is located in New York City and San Francisco.

MDRC's current projects focus on welfare and economic security, education, and employment and community initiatives. Complementing our evaluations of a wide range of welfare reforms are new studies of supports for the working poor and emerging analyses of how programs affect children's development and their families' well-being. In the field of education, we are testing reforms aimed at improving the performance of public schools, especially in urban areas. Finally, our community projects are using innovative approaches to increase employment in low-income neighborhoods.

Our projects are a mix of demonstrations — field tests of promising program models — and evaluations of government and community initiatives, and we employ a wide range of methods such as large-scale studies to determine a program's effects, surveys, case studies, and ethnographies of individuals and families. We share the findings and lessons from our work — including best practices for program operators — with a broad audience within the policy and practitioner community, as well as the general public and the media.

Over the past quarter century, MDRC has worked in almost every state, all of the nation's largest cities, and Canada. We conduct our projects in partnership with state and local governments, the federal government, public school systems, community organizations, and numerous private philanthropies. ♦