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Helping the poor

## From welfare to workfare

Jul 27th 2006 | CHICAGO, CLEVELAND AND MILWAUKEE

From *The Economist* print edition

**Ten years on, America's work-based welfare reforms have succeeded. Now the country must think harder about the working poor and their children**



Eyevine

SIX years ago, social workers in Cleveland, Ohio braced for a disaster. The first wave of welfare families were about to reach the time limits that Ohio had set for receiving benefits, and would soon have their cash handouts cut off. Across the country, states had imposed similar time limits as part of the ambitious welfare reforms that America enacted a decade ago this summer. Republicans drew up the new rules after winning control of Congress for the first time in over 40 years. And in August 1996, having promised during his 1992 presidential campaign to “end welfare as we know it”, Bill Clinton signed a law that required the states to push welfare recipients into jobs—an approach popularly known as “workfare”.

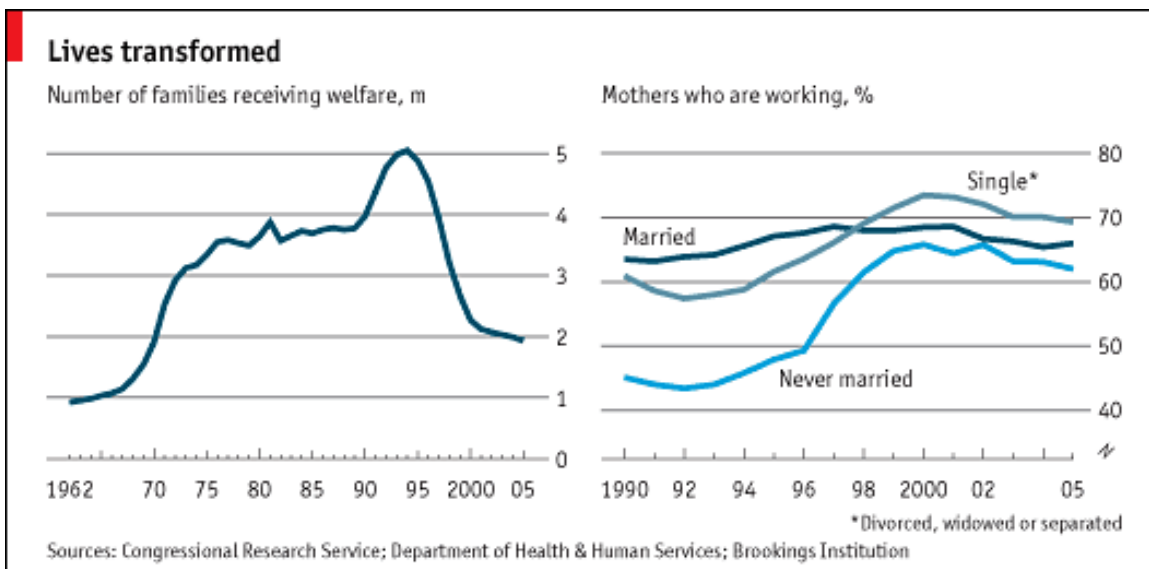
The law also gave the states incentives to shrink their welfare caseloads, and forced them to limit families to five years or less of federal money. That federal money was converted into block grants, and the states were given flexibility to spend it as they saw fit. The time had come, said Phil Gramm, a Republican senator from Texas, for those on welfare “to get out of the wagon and help everybody else pull.”



Conservatives such as Mr Gramm were confident that poor mothers would find work if they were forced off welfare. But many other Americans had doubts. The Urban Institute, one of the left's most prominent think-tanks, said that the changes would push 1.1m more children into poverty.

So in the autumn of 2000 Joseph Gauntner, the director of Employment and Family Services for Cuyahoga County—which includes Cleveland—prepared for the coming storm. Social workers were given bundles of cash to sort out pressing problems as needy families lost their benefits, and county workers sat by the phones to handle the emergency calls. But when the time limits took effect, says Mr Gauntner, “the phones didn't ring”. Most of the mothers who lost their benefits had either lined up jobs or were already working.

The emergency lines were silent in many other parts of America too, even as families left the welfare rolls in droves. After peaking in 1994—when many states began experimenting ahead of the federal law—America's welfare caseload fell by 60% over the next decade, from 5m to 2m families. Instead, welfare mothers found work, and the biggest increase by far was among those who had never been married. Their employment rate leapt from 44% in 1993 to 66% in 2000 (see chart) and the poverty rate, instead of rising sharply, dropped from 15.1% to 11.3%.



A decade ago, much of the political left believed that such a rapid transition from welfare to work was impossible, and the reforms cruel. Why did they turn out so much better than the doomsayers predicted? A booming economy surely deserves some credit. The unemployment rate fell by 2.7 percentage points from 1993 to 1999, as rapid growth prompted employers to create more jobs. A healthy economy, however, was only part of the story. Last year Jeffrey Grogger, at the University of Chicago, and

Lynn Karoly, at the RAND Corporation, published a book summarising scores of studies of welfare reform, including nine that tried to gauge the role of the strong jobs market. At best, falling unemployment accounted for only one-third of the drop in welfare caseloads.

Wage subsidies also helped a great deal. In 1993, the government sharply increased the earned-income tax credit (EITC), which helps low-income workers by adding federal money to their wages. That made work more rewarding, and many single mothers were quick to give it a try.

The 1996 welfare reforms themselves, however, clearly explain much of the success. Jason Turner—a visiting fellow at the Heritage Foundation, a conservative think-tank—argues that “the political left believed in a hospital model of the poor: caretaking and compassion with low expectations.” America’s conservatives expected more. And as it became clear to welfare recipients that the rules had changed, many of them began meeting those expectations.

States responded to the new federal targets and greater flexibility by overhauling their welfare offices, in some cases turning over the whole process to private firms. Many offices stressed work from the moment people stepped through the front door, sometimes signing them up for job-training sessions as soon as they applied for welfare. Some states required applicants to try job searches before they could be eligible for cash benefits. Welfare offices around the country put up banners and posters extolling the new philosophy.

Using their federal block grants, the states have also shifted much of the money they were doling out as cash benefits, into new programmes that support work. They are now spending much more to help working mothers get child care, for example, and also devoting more money to health care, transport subsidies and so forth.

## Winners and losers

Merely getting single mothers into work, however, has not boosted incomes all that impressively. The earnings of women who left welfare rose by more than their cash assistance fell: on balance their net incomes increased by about 25% in real terms over the first few years, according to Ron Haskins of the Brookings Institution, a centrist think-tank. Even lifting incomes by one-quarter, however, still leaves many poor families just scraping by. Equally important, those averages conceal much variation.

Some women have been able to emulate the slogan that has adorned the walls of many welfare offices: “A job, a better job, a career”. Margie Davis of Project Match, a non-profit agency that offers job-search and other services in Chicago, says she has seen many women follow this path. After leaving welfare for a job at the checkout till, they got enough training and education, often with government help, to become nurses, teachers or social workers. Those jobs not only boost their pay sharply, says Mrs Davis, but also provide better health insurance and schedules flexible enough to let them care for their children more easily. As a result, the quality of some women’s lives has improved dramatically. As those lives evolve, says Mrs Davis, she also goes to a lot of weddings.

At the other end of the scale, around 10-15% of America’s former welfare recipients are now neither working nor on welfare, according to surveys by the Urban Institute. Although some of them are able to depend on relatives or other forms of support, this group is clearly doing badly. Moreover, a much higher portion of the remaining welfare caseload is made up of people with mental or physical disabilities or other severe limitations, who cannot support their families by working.

The good news is that, having largely won the battle against idleness and dependency, America is now in a much better position to attack poverty head on. But it will not succeed by simply ratcheting up the states’ work requirements, as Congress did earlier this year. Instead, America must build on the past decade’s accomplishments by tackling three important challenges.

The first is to find new ways to help the children of those who are mildly disabled, emotionally disturbed, mentally slow or addicted to drugs or alcohol. With everyone else working, people with these traits comprise a growing share of those who now turn up at welfare offices. That they tend to make lousy workers is not the biggest worry; their limited ability to raise children is far more troubling. Mark Courtney, who heads a University of Chicago team that has collected data on Milwaukee’s welfare

system, says that many new applicants for welfare in that city face “formidable barriers to employment”. Nearly two-thirds of them had also been looked at by a child-service agency on suspicion of abuse or neglect.

Dealing with these applicants is far more complicated than simply urging them to look for a job. Some are eligible for disability benefits, which remain an entitlement under Social Security Insurance (SSI). Jerry Stepaniak of Maximus—a firm that handles many social services for Milwaukee County—says that his outfit has lined up a network of doctors and lawyers who know the SSI rules inside out, and have become pretty good at judging which of his clients are eligible. The trouble, he says, is that many of those with severe limitations are unable to qualify for disability benefits. And helping them through the mechanism of welfare-to-work is far from ideal.

America's second challenge, now that so many former welfare mothers have ended up in low-paying jobs, is to raise the incomes of the working poor. That means giving them skills. The earnings boost that women have achieved after leaving welfare, says Mr Grogger, tends to flatten after just a few years, as the pay gains that stem from better work habits level off. Without formal education or valuable skills, it is hard to lift incomes much further.

That is why America needs to treat welfare reform as a part of workforce development, says Jennifer Noyes, at the University of Wisconsin-Madison's Institute for Research on Poverty. The trouble, she says, is that the federal government runs lots of other programmes for low-income people, such as schemes giving money for job-training, but each of these is set up to serve a specific set of clients under rigid rules. It would be far better, she says, if states could combine these funds more flexibly for job-training, as they were allowed to do with welfare. That would not only help the working poor, but benefit the economy.

Since American businessmen badly need skilled employees, the government's inability to help more low-income workers gain those skills is a clear failure. One example from Milwaukee illustrates the problem. Many of the region's industrial and building firms complain that it is hard to find competent welders. Yet Mr Stepaniak says he is not allowed to use federal training money to teach people how to weld.

If America really wants to make a lasting dent in poverty, however, its third challenge is to change the odds that young women will end up on welfare. Mr Grogger points out that only half of America's reduction in welfare caseloads stemmed from women leaving the rolls; the other half occurred because fewer women entered the welfare system.

The incentives that are now in place should help to keep that entry rate down. But anything that can cajole or entice more young women into staying in school and delaying pregnancy improves their chances of never going on welfare (and, of course, of earning much more than the current generation of working single mums). Boosting the incomes of poor men, and ensuring that single mothers receive more child support, would also help, by reducing their children's need for government aid.



To meet these challenges, America will need to rediscover some of the bipartisan pragmatism that prompted Mr Clinton to buck his left-wing critics and sign a controversial Republican law ten years ago. Conservatives now seem too preoccupied with tougher work rules and promoting marriage to think seriously about the next round of anti-poverty reforms. And many on the left are resisting good ideas about school vouchers and job-training with the same sort of scare tactics that they used against welfare reform a decade ago. Those former welfare mothers are now doing their bit in the workplace. But it is time for America's politicians to get out of the wagon and help pull.

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