further tip the balance in favor of work: making welfare even less attractive and increasing the rewards of work by, for example, greater collection of child support payments (which would then be available to supplement earnings), expansion of the earned income tax credit, and extending transitional child care and Medicaid.

In conclusion, the continued interest in employment strategies, given the evidence that they offer no panacea, suggests the important political and value issues underlying the current debate. While many questions remain unanswered, the results from recent state initiatives suggest that even though employment mandates can be part of an antipoverty strategy, other reforms would be important complements if the goal is not only to make welfare more politically acceptable, but also to reduce poverty substantially among women and children. ■

1See, for example, Frank Levy, "The Labor Supply of Female Household Heads, or AFDC Work Incentives Don't Work Too Well," *Journal of Human Resources,* 14 (Winter 1979), 76–97.

2Robinson G. Hollister, Peter Kemper, and Rebecca A. Maynard, *The National Supported Work Demonstration* (Madison: University of Wisconsin Press, 1984).

3Carl Wolfhagen and Barbara Goldman, *Job Search Strategies: Lessons from the Louisville WIN Laboratory Project* (New York: Manpower Demonstration Research Corporation, 1983).

4Throughout this article, "workfare" refers to a mandatory work-for-benefits program—using either the Community Work Experience Program or WIN Work Experience approaches—and not the evolving broader definition that encompasses any work-related activity.

5See U.S. General Accounting Office, *Work and Welfare: Current AFDC Work Programs and Implications for Federal Policy* (Washington, D.C.: U.S. General Accounting Office, January 1987); Demetra Smith Nightingale and Lynn C. Burbridge, *The Status of State Work-Welfare Programs in 1986: Implications for Welfare Reform* (Washington, D.C.: Urban Institute, July 1987); Judith M. Gueron, *Reforming Welfare with Work* (New York: The Ford Foundation, 1987); and MDRC reports on welfare employment programs in Arkansas, Cook County, Maryland, San Diego, Virginia, and West Virginia.

6Studies of voluntary on-the-job training programs in Maine and New Jersey have not yet been completed and are not discussed here.

7Nightingale and Burbridge, *The Status of State Work-Welfare Programs,* p. 67.

8An exception is West Virginia's workfare program, which showed average monthly participation rates for eligible women of about 20 percent.

9In some locations, in addition, a surprising number of experimentals and controls participated on their own in education and training services provided through community colleges and the Job Training Partnership Act system.

10The reader is cautioned that differences across states reflect not only the relative effectiveness of the program models, but also variations in the length of follow-up, economic conditions, benefit levels, the characteristics of the women studied, and the services provided to members of the control group.

11Recent preliminary findings suggest, however, that relatively low-cost programs may not be effective for the recipients with multiple obstacles to employment, e.g., those who have been on the rolls for many years, have limited skills, large families, and no prior work experience.

12A third exception to the positive story is that employment and earnings gains did not result from programs run for AFDC-UP recipients.

Nonwelfare approaches to helping the poor

by Robert I. Lerman

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The renewed interest in reforming welfare

The country is inching toward welfare reforms that are only partly on the right track. High poverty rates among children, growing concern over teenage pregnancy and illegitimacy, continuing dissatisfaction with the welfare system, and the increasing visibility of an urban *underclass* have heightened the urgency of dealing with welfare and poverty problems. The popular media have portrayed this underclass as young men fathering and abandoning their children, abusing drugs, and working in illegal jobs or not at all, and young women as having illegitimate children as teenagers and becoming long-term welfare dependents. With the increasing isolation of the black urban poor, large numbers of black children are growing up in neighborhoods where gang violence dominates and where welfare payments and illicit income are more important than jobs.[1]

A consensus has reemerged that the welfare system is at least partly responsible for welfare dependency, child poverty, and the underclass. In response to this consensus, politicians and citizen groups have created commissions to study existing programs and to develop proposals for restructuring the welfare system, and several states have begun implementing welfare and child support reforms. Although the proposals and state programs differ, they generally stress reducing rather than expanding welfare, increasing the employment of recipients, widening the flexibility of states to experiment with new approaches, and strengthening the enforcement of child support obligations.

None view poverty merely as a problem of too little income and not even the most liberal proposal calls for a national guaranteed income program. Yet, while the directions now being taken are laudable, none constitutes a coherent strategy for reducing poverty outside the welfare system. Most place too much faith in the ability of welfare reforms to make welfare recipients into high-earning workers. In fact, given their capacities and existing wage rates, few welfare recipients will be able to support their families at decent living standards. Even those able to work at $5 per hour for the entire year will find themselves near poverty.

What is needed is a bridge system that can help low-income families live decently outside the welfare system. Instead of paying families on the basis of their low income, the bridge system would reduce the risk of falling into poverty for all families. Workers would not have to admit (even to themselves) that the benefits compensate for their inability to support their families. The reforms should significantly reduce the role of the Aid to Families with Dependent Children (AFDC) program, the food stamp program, and other income-tested programs for able-bodied adults. A backstop welfare system would remain necessary, but only for families unable to earn even a minimal amount.

A broader reform package

A *bridge* system to supplement income outside the welfare system must yield a sound, nonwelfare approach to fighting poverty without a large increase in government spending.

Such a structure should contain five elements:

- A child support assurance program
- A refundable child tax credit
- A wage rate subsidy program for family heads
- State health insurance programs to replace and supplement Medicaid
- Enhanced training for those remaining on welfare

The child support assurance program

My child support assurance program (CSAP) operates largely in the spirit of Senator Moynihan's Family Security Act, which emphasizes the obligations of noncustodial parents to support their children. The program would utilize enforcement provisions in recent federal legislation to raise child support payments. But in addition, states would have to collect some minimum amount from noncustodial parents or have to pay custodial parents a basic amount, say $90 per month per child, less any payments collected from the absent parent. Any payments under the CSAP would reduce AFDC benefits dollar for dollar. Earnings of mothers heading families, however, would not count against the CSAP payment. The payments would be taxable and thus be of less value to middle-income than to low-income mothers. Mothers and the general public would clearly see that the benefits resulted from the failure of noncustodial fathers to support their children and the failure of the state to collect the support, not from the family's poverty and inability or unwillingness to work. States would only have to collect $20-$25 per week to avoid increased spending on this program.[2]

The refundable child tax credit

The second component of the bridge system is a refundable child tax credit set at about $350 per year per child. The credit would replace the $1,950 personal exemption for children and would involve minimal or no net revenue costs, as $350 is 18 percent of $1,950, or about the average tax rate under the new tax law.

This incremental tax change targets benefits on low-income families fairly and without stigma or serious incentive effects. For AFDC recipients, the credits would be partly offset by lower AFDC grants if states responded to the increased credits.

The decline in the top marginal income tax rate to 28 percent substantially reduces the tax losses of middle- and high-income families in shifting from the exemption to the credit. In fact the highest-income families would be unaffected by the change, since the new tax law phases out their exemptions. As of 1988, the tax loss per child for upper-middle-income families amounted to about $195. The earned income tax credit (EITC) has already set a precedent for making credits refundable.

The wage rate subsidy

The third component is a wage rate subsidy that would apply only to principal earners with wages under $7.00 an hour in families with dependent children under age 18. It would replace the EITC. The family's principal earner—the adult with the highest earnings in the prior quarter—would qualify for a subsidy payment for each hour worked. The payment would equal half the difference between $7.00 per hour and the worker's wage.

Consider a mother heading a family and working at $3.50 per hour. She would receive a wage subsidy of $1.75 per hour ($.5\times[\$7.00-\$3.50]$), thus increasing her take-home wage by 50 percent, to $5.25. If her wage were $4.50 per hour, her subsidy would be $1.25, and her take-home wage, $5.75 per hour. The wage subsidy rewards work substantially for those with the lowest earnings capacities. Workers would view the supplements as appropriate compensation for family heads trying to make ends meet by working long hours at unappealing jobs.

To target the benefits efficiently on low-income families, the wage rate subsidy would include the following provisions:

1. Only the principal earner—the individual who earned the most money during the previous calendar quarter—in families with children under age 18 would qualify;

2. The subsidy payment would equal 50 percent of the difference between $7 per hour and the worker's actual hourly wage;

3. The maximum per-hour subsidy would be $1.83—the subsidy paid to workers earning the federal minimum wage ($3.35 per hour). This would limit the benefit to workers and employers from underreporting wage rates;

4. The wage rate subsidy payment would be counted as income under the personal income tax and under all income-tested transfer programs; and

5. The wage subsidy would go to the worker on a weekly or biweekly basis and would not depend on other income sources.

The wage rate subsidy has advantages over expanding the EITC. A wage subsidy can provide large work-related benefits without extending government payments to middle-income families. A full-year worker earning $4 per hour could receive $3,000. Were such amounts transferred through the EITC, the government would have to phase out the benefit at high tax rates or pay subsidies to middle-income earners.[3]

State medical insurance programs

The combination of the refundable tax credit, the wage rate subsidy, and the child support program would minimize the role of AFDC and food stamps. But the shift away from welfare programs might not work unless the government alters the method of financing medical care for the poor and near poor. It would be no great favor to keep mothers heading families off AFDC if the result were to eliminate their eligibility for medical insurance. Unfortunately, existing proposals for extending Medicaid during the first year after families leave AFDC deal with the problem only temporarily and do not reach working-poor families who are not welfare recipients.

A comprehensive approach would substitute state medical insurance programs for Medicaid. As employers do now, states would finance health coverage through a variety of providers after receiving bids from insurance companies and HMOs. Like employees, welfare recipients would choose from among these insurers or providers. As under Medicaid, states would pay the full premiums for these recipients. Nonwelfare family heads who lack health coverage through an employer would be able to buy into the program at highly subsidized rates. To finance the subsidies, states could tax employers not providing health insurance. This approach destigmatizes medical coverage and provides for a smooth transition from welfare to work.

Job search, employment, and training for remaining welfare recipients

The combination of the child support assurance program, the refundable tax credit, the wage rate subsidy, and the state medical insurance programs would minimize the role of AFDC, food stamps, and Medicaid. For a mother and two children, the maximum credit and child support assurance payments would equal $260 per month, exceeding AFDC levels in a number of states. In the others, even moderate earnings would move people off welfare. Mothers able to work half time at $4 per hour would be off welfare in most states and have a total monthly cash income of over $700.

With the bridge system in place, welfare caseloads will decline, allowing work and training programs to focus on those most in need of services. Further, the programs could achieve success in moving families off welfare even if only by helping them work steadily at low-wage jobs.

Advantages of the bridge system

These five program components—child support assurance, a small refundable child tax credit, a wage rate subsidy, state health insurance, and employment and training—could command wide public support because they respond to concerns over rising poverty without expanding welfare programs associated with dependency and the nondeserving. As a total package, the changes could make a dramatic difference in the incomes, independence, and self-respect of the poor and in the way the public views assistance programs.

Mothers heading families who worked more than half time at realistic wages would leave welfare, have incomes above the poverty line, and maintain health insurance. Low-income two-parent families would have higher incomes and gain health coverage without becoming welfare recipients.

How would such a system affect a single parent with two children who works and pays $1.75 per hour for child care? Under the present system the gain to welfare recipients from working declines significantly as earnings increase. As Table 1 shows, even full-time work would add only $81 per month to the family's income over not working at all ($605–$524). If the mother's job did not cover free health insurance and the family had to pay for family coverage, full-time work would actually reduce family income.

The proposed system would improve the incentives to work. In cases where employers provide health insurance, full-time workers would gain about $200 per month over non-workers instead of the current $81 per month. Under either system, the costs and deductibility of child care expenses would extend eligibility for AFDC and food stamps well up the income scale. Still, the proposed system would move working families out of the welfare system at lower levels of earnings than under today's welfare system.

The proposed system would have a larger impact on AFDC families in low payment states. In the 18 states with benefits about $300 or less for a family of three, the proposed system would virtually replace AFDC. With a tax credit of $105 per month and a child support benefit of $170 per month, the amount available to a family from nonwelfare sources would almost match maximum AFDC levels.

The proposed system would provide most help to the lowest-wage workers. Mothers heading families would work themselves off welfare with only half-time work at $5 per hour. Working beyond 10 hours per week would begin to yield sizable increases in total family income. This contrasts with the current system, where half-time work at low wages yields little compared to no work at all (only $70 per month—$593–$524). Given the poverty level of slightly below $800 per month, a job paying $5 per hour would allow mothers to just about escape poverty by working three-quarters time or full time. Under the proposed system, a woman working full time would be better off than under the existing system by $177 ($782–$605) before health insurance.

Table 1

Net Rewards from Work under Existing and Proposed Systems for One-Parent Family of Three in Medium AFDC Payment State, with Child Care Expenses, at a Wage Rate of $5 per Hour

	Time Worked per Month				
	No Work	Quarter Time	Half Time	Three-Quarters Time	Full Time
Earnings	$ 0	$207	$413	$620	$826
Existing System					
AFDC	400	342	179	0	0
Food stamps	124	105	117	122	74
EITC	0	29	58	70	66
Taxes	0	15	29	44	72
Child care costs	0	72	145	217	289
Net income after taxes, transfers, and child care costs	524	595	593	551	605
Health insurance	0	0	0	125	125
Net income after health insurance costs	524	595	593	426	480
Proposed System					
AFDC	125	54	0	0	0
Food stamps	155	136	112	0	0
Child support benefit	170	170	170	170	170
Wage subsidy	0	41	83	124	165
Taxes	−105	−65	−13	38	90
Child care costs	0	72	145	217	289
Net income after taxes, transfers, and child care costs	555	601	647	658	782
Health insurance	0	0	75	75	75
Net income after health insurance costs	555	601	572	583	707

Notes: The table assumes a family of three living in a state with a maximum AFDC payment of $400 per month. The family has child care expenses of $1.75 per hour that are deducted from countable income under AFDC. (Under current AFDC rules, women can deduct up to $160 per month per child from earnings for the purpose of determining AFDC benefits.) The figures for the row "Net income after taxes, transfers, and child care costs" show net income assuming that families obtain free health insurance benefits as part of their job. The row "Net income after health insurance costs" assumes workers pay $125 per month for health insurance under the old system and $75 per month under the new system. A negative number in the tax row indicates that a refundable credit is received. Sums may be slightly off owing to rounding.

Low-income two-parent families would also gain under the proposed system. They would benefit from the refundable tax credit and, in some cases, the health insurance component. The advantage of the wage subsidy over the EITC would depend on the wage of the family head. If his wage were $5 per hour or less, the family would likely do better with the wage subsidy than with the EITC.

In sum these would alter the pattern of benefits by

- lowering the exit point from AFDC significantly; mothers of two in a moderate-payment state with no child care expenses would be off welfare with as little as 10 hours of work per week; today, the same family would leave welfare only after the mother worked 25 hours per week;
- raising the financial gain from working half time and full time; in a typical case, the rise in the proportion of earnings retained would increase from 17 to 46 percent among half-time workers and from 39 to 58 percent among full-time workers;
- maintaining a financial reward for working, even in jobs that do not provide free health insurance; families would raise their net income, even after paying health insurance (on $5 per hour jobs) instead of suffering a net loss; and
- providing moderate increases in income for low-wage heads of two-parent families.

These represent modest but genuine improvements in the income support system. The question is, could they be achieved at a reasonable increase in budget outlays?

The net costs of the new system

To estimate the costs of the new system compared to current programs, simulations were carried out using data from the Survey of Income and Program Participation (SIPP).[4] The simulations involved implementing a child support assurance program, which was counted as taxable income and as property income for purposes of AFDC and food stamps; replacing personal exemptions for children and family heads with refundable tax credits; assuming that each dollar of the refundable tax credit leads states to lower AFDC benefit levels by 70 cents; and substituting a wage rate subsidy ($7 per hour target wage) for the EITC.

I assume that any overall gain in family income represents increased budget costs. That is, increased incomes of some families are either offset by decreases of other families or increases in government outlays. Like any reforms, they can be implemented with no rise in the budget deficit if increased spending (or reduced taxes) among gainer families does not exceed the reduced spending (or increased taxes) among losers. Thus, the key question is not, "What does the program do to the budget deficit, aggregate spending, and aggregate taxes?" Rather it is, "Can the reforms help low-income families and restructure the system without imposing large burdens on nonrecipient taxpayers?"

Table 2 shows that the combined reform package would have a small budgetary impact—the net costs of the child support, tax credit, and wage rate subsidy components would have been only about $640 million in 1985. This is less than one-half of 1 percent of outlays on all income-tested programs.

The net cost figures reveal two major, largely offsetting shifts. First, spending on the CSAP program is largely offset by AFDC benefit reductions. Even assuming no increased work effort by AFDC recipients, participation would decline from 3.86 to 2.84 million families. Second, the elimination of EITC payments more than offsets the wage rate subsidy. With net costs close to zero, the change in average family income was minimal, about $18 per year.

Table 2

Net Costs of a Combined Reform Package Including a Child Support Assurance Program, a Refundable Tax Credit, and a Wage Rate Subsidy; All U.S. Families, 1985 (in billions of 1985 dollars)

Program Initiative	Current Costs	New Costs	Change in Costs
AFDC	$14.10	$6.75	−$7.35
Child support benefit	0	8.51	8.51
Wage rate subsidy	0	3.78	3.78
EITC	3.58	0	−3.58
Food stamp benefits	7.37	7.38	0.01
Reduction in income tax less tax credits			−0.73
Total			0.640

Notes: The figures for current AFDC benefits include benefits listed on the Survey of Income and Program Participation (SIPP) plus amounts allocated by the author. The food stamp figures come directly from the SIPP data with no other adjustments. All of the EITC payments were calculated by the author based on the earnings of the husband and spouse of families with children. All estimates of new programs assume 100 percent participation.

Summary

The nonwelfare approach to helping low-income families is not only appealing in concept but is also feasible in terms of costs and program impacts. At minimal costs to the federal budget, a package of reforms—the child support assurance program, the refundable tax credit, and the wage rate subsidy—could move the country away from means-tested, welfare-type programs. AFDC participation would decline by over 1 million families, poverty among female-headed families would fall by over 10 percent, the income of poor two-parent families would increase by over $500 per year, and overall inequality would drop by about 3 percent.

Perhaps the most important impact would be to give low-income families a chance to increase their incomes without resorting to welfare. AFDC mothers could exit from welfare by working only a moderate number of hours at realistic wages. Heads of two-parent families could supplement low wages through nonstigmatizing tax credits and subsidies. Instead of discouraging work on the part of low-income families, the reforms would enhance their work incentives. Rather than encourage the formation and maintenance of one-parent families, they would ensure that fathers leaving their children make adequate child support payments and would assist low-income, two-parent families with dignified, socially acceptable supplements.

Although the cost estimates presented here are preliminary, I do not expect further work to alter the basic conclusion that the nonwelfare strategy is a low-cost way to reduce poverty while reorienting the income support system away from welfare programs. ■

[1]For a striking portrait of this atmosphere, see Alex Kotlowitz, "Day-to-Day Violence Takes a Terrible Toll on Inner-City Youth," *Wall Street Journal*, October 27, 1987.

[2]The state of Wisconsin has recently begun experimenting with a Child Support Assurance System (CSAS) that involves a minimum payment when the state fails to collect. For a brief description of the plan, see Garfinkel's article in this issue of *Focus*.

[3]Suppose that the EITC paid a maximum of $3,000 to families with $8,000 in earnings. Then we would have to phase out the subsidy at a 30 percent tax rate to limit the benefit to families with incomes of $18,000 or less.

[4]For details of the methodology, as well as a discussion of the data base and the limitations of the estimates, see Lerman, "The Costs and Income Gains of Non-Welfare Approaches to Helping the Poor," paper presented at the meetings of the Society for Government Economists, American Economic Association, Chicago, Ill., December 28, 1987. The author wishes to thank Martin David, Alice Robbin, and Tom Flory for their help in accessing data from SIPP.