

**Wisconsin's W-2 Program:  
Welfare as We Might Come to Know It**

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## **Abstract**

Wisconsin's welfare reform program, Wisconsin Works (W-2), is among the most ambitious and comprehensive state reforms supported by the U.S. government's Temporary Assistance for Needy Families (TANF) block grant. This paper describes the W-2 program in Wisconsin, compares distinctive features of the program to TANF programs in selected other states, discusses how Wisconsin came to offer such a program, and describes early trends in W-2 program implementation. The paper also makes suggestions for evaluating distinctive features of W-2.

## **Wisconsin's W-2 Program: Welfare as We Might Come to Know It**

### INTRODUCTION

Wisconsin's welfare reform plan, Wisconsin Works (W-2), is among the most aggressive of current efforts to "end welfare as we know it." State governments, spurred by termination of the Aid to Families with Dependent Children (AFDC) program and enactment of the Temporary Assistance for Needy Families (TANF) block grant, are exploring a wide variety of reforms. This paper describes the special significance of W-2, discusses how Wisconsin came to offer such a program, describes some early trends in program implementation, and considers how the unique qualities of W-2 could most efficiently be evaluated.

The W-2 initiative eliminates AFDC and replaces it with cash assistance available only through work or participation in work-like activities. W-2 has several components. Participation requirements for low-income parents begin when the youngest child is 12 weeks old. The parents are assigned to a Financial and Employment Planner (FEP), who places them on one of four levels of a "self-sufficiency ladder" and helps and encourages them to move up the ladder to greater independence, as indicated by the levels in Table 1. Small loans, which can be repaid in cash or community service, are available to help participants find and keep work. Two-parent families are eligible for all W-2 services if the families meet income and asset restrictions, although many services are restricted to the parent deemed more likely to be the primary earner. W-2 recipients in the two lower tiers technically receive a monthly grant, which drops by \$5.15 for each hour of failure to participate without good cause.

Unlike the AFDC program, the amount of W-2 assistance depends not on family size but only on the case head's hours of participation and level on the W-2 self-sufficiency ladder. Also unlike AFDC, W-2 is not statutorily identified as an entitlement. Participation in the overall program is limited to 5 years, the maximum period for which the federal government will support most participants under

**TABLE 1**  
**Levels and Key Provisions of W-2**

Level of W-2	Basic Income Package	Time Required of Recipients	Program Time Limits	Est. Child Care Co-pays (\$/mo)	
				Licensed Care	Certified Care
Unsubsidized employment	Market wage + food stamps + EITC	40 hr/wk standard	None	\$101–\$134	\$71–\$92
Trial job (W-2 pays maximum of \$300/mo to the employer)	At least minimum wage + food stamps + EITC	40 hr/wk standard	Per job: 3 mo with an option for one 3-mo extension; total 24 mo	\$55	\$38
Community service job (CSJ)	\$673/mo + food stamps (no EITC)	30 hr/wk standard, and up to 10 hr/wk in education and training	Per job: 6 mo with an option for one 3-mo extension; total: 24 mo	\$38	\$25
W-2 transition	\$628/mo + food stamps (no EITC)	28 hr/wk work activities standard, and up to 12 hr/wk in education and training	24-mo limit, but extensions permitted on a case-by-case basis	\$38	\$25

**Notes:** Estimated child care co-payments are for a three-person family with two children in child care and receiving no child support payment. The trial job position is assumed to pay minimum wage (\$5.15 per hour, or \$858 per month), and the pay for unsubsidized employment is assumed to range from \$6 to \$7 per hour, or \$1,000 to \$1,170 per month.

**Sources:** Folk (1996) and presentation materials created by the Wisconsin Department of Workforce Development.

TANF. Each level on the self-sufficiency ladder also has time limits, with extensions possible on a case-by-case basis. Moreover, W-2 eliminates the previous practice under which child support income beyond the first \$50 each month goes to public agencies to reimburse welfare expenditures, so most W-2 participants keep all child support paid on their behalf.

The W-2 program has a work-first emphasis and provides little support for formal education. The program does, however, offer child care and intends to offer health care assistance. The child care benefit requires a participant co-payment, the level of which is based on family income and on the number of children in care. The co-payments are structured so as not to exceed 16 percent of family income and to be 30 percent lower for child care that has received county-level “certification” than for child care fully licensed by the state.

Wisconsin has also requested approval of a federal waiver to expand the current Medicaid program in a way that would serve most W-2 participants. Under the waiver request, submitted formally in January 1998, the state would offer a new form of insurance, called BadgerCare, that would extend the state’s current Medicaid benefits to a broader population, including all W-2 participants who do not have employer-paid insurance. Families with incomes up to 200 percent of the federal poverty line would be eligible for the program; those with incomes above 150 percent of the poverty line would pay a monthly premium of 3 percent to 3.5 percent of family income.

In general, the W-2 program reflects efforts by program planners to adhere to six core principles:

1. Parents without a disability should work and should obtain no entitlement to cash assistance in the absence of work.
2. Expectations for success in the labor market should be high; custodial parents will live up or down to the expectations imposed upon them.
3. All cash benefits should be time-limited.
4. Government programs should provide child care and health care assistance to the working poor, defined in W-2 as families with incomes up to 200 percent of the federal poverty line, not just to public assistance recipients. (W-2 grants and employment assistance are available only to families with incomes below 115 percent of the poverty line.)

5. Those who receive grants and other benefits should face the conditions that affect the working poor: grant recipients should have to work; their first grant check should come only after a period of work; workers who receive public child care assistance and health care insurance should have to pay part of the cost of their benefits; and program participants should receive all child support paid on behalf of their resident children.
6. Competition to meet selected outcome criteria, not government monopolies, should determine who administers public assistance. Key administrative choices ought not rest upon traditional relations between the state and its counties or traditional conceptions that only public employees should have access to sensitive information and control program benefits.

## DISTINCTIVE FEATURES OF W-2

It is harder than some readers might expect to compare TANF programs among the states (or among counties in states like California, which permits much local flexibility). Program nuances can greatly affect the experiences of TANF participants, and outsiders trying to collect information on all 50 states face a severe challenge in understanding the nuances in each location and then capturing them in a way that is manageable for users of comparative data. Several efforts are now under way to describe and compare state TANF programs in subtle yet parsimonious detail; the Income and Benefits Policy Center at the Urban Institute, for example, has devoted considerable resources to this effort.

The Urban Institute's task is difficult. Interstate comparisons are easier in state-administered programs that retain a basic federal core, such as Medicaid. Federal Medicaid law outlines a list of mandatory services which state programs must offer and another list of optional services for which state governments may receive federal assistance at a pre-established percentage of program costs. Because a state's annual Medicaid plan must indicate whether it provides an optional service in order to claim matching funds, federal staff know whether each state does or does not offer each optional service and can summarize that information efficiently. The federal Health Care Financing Administration annually publishes a grid of Medicaid Services State by State, listing all the states and territories vertically and all the optional services horizontally. The table shows whether each state provides the service for all its

Medicaid participants, for only participants eligible for Medicaid under particular criteria, or not at all. It is possible to look at the grid and quickly compare states concerning the more than 30 optional Medicaid services they may provide.

The simple grid has limitations (for example, it says nothing concerning the percentage of providers who accept Medicaid clients), but it is more revealing of state Medicaid programs than comparable efforts which have so far described state TANF programs. Among the best of these efforts is a grid created by the National Governors Association (NGA), which primarily describes the exercise of state options specifically allowed under TANF. The grid is available at the NGA Web site ([www.nga.org](http://www.nga.org)). For the 50 states plus the District of Columbia, Guam, Puerto Rico, and the Virgin Islands, the grid compares programs under the following headings:

1. Is the state continuing any AFDC waiver programs? (31 yes, 14 no, 8 no waivers to continue, 1 no information)
2. Is the time limit for receiving assistance shorter than 60 months? (20 yes, 34 no)
3. Is community service required after 2 months? (5 yes, 49 no)
4. Is work required sooner than 24 months after first receiving TANF assistance? (21 yes, 33 no)
5. Does the state TANF program treat families who recently moved from another state differently than state residents? (40 no, 14 yes)
6. Does the state provide TANF to non-U.S. citizens legally in the state? (52 yes, 2 no)
7. Does the state deny TANF benefits to drug felons? (37 yes, 17 no)
8. Does the state provide transitional child care assistance for longer than 12 months? (29 yes, 25 no)
9. Does the state provide transitional Medicaid benefits for longer than 12 months? (12 yes, 42 no)
10. Does the state require drug testing of TANF participants? (8 yes, 45 no, 1 pending legislation)
11. Does the state continue benefits at the same level if a family on TANF has an additional child? (21 yes, 32 no, 1 no information)
12. Does the state allow Individual Development Accounts? (27 yes, 26 no, 1 no information)

13. Does the state offer payments or loans to families diverted from participating in TANF? (30 yes, 24 no)
14. Does the state subsidize employers who hire TANF participants? (37 yes, 16 no, 1 no information)

The grid is quite helpful for determining how states have responded to many options specifically made available under federal law, but the real difficulty lies in attempting to understand program details not specified as options in the federal legislation. An important feature of W-2, for example, is its immediate work requirement and the absence of financial support except through work or participation in work-like programs. New applicants to W-2 see an FEP within 5 working days after they apply and—if their income, assets, residency, custody of children, and Social Security number can be verified in time—must be assigned to a W-2 placement within 7 working days after that.

The state's W-2 policy document (Wisconsin Department of Workforce Development, 1997b, p. III-1) notes that “while W-2 agencies must provide sufficient subsidized employment opportunities to eligible individuals, there is no entitlement to cash payments. Placement in a subsidized position is appropriate only for individuals with barriers to unsubsidized employment, as determined by the W-2 agency.” Participants judged capable of finding a job are placed in the unsubsidized employment category and are expected to receive their income through finding a job and earning the wages associated with that job. Although participants may receive job access loans from their W-2 agencies, if the loans are necessary to obtain or continue employment and if repayment within a year appears likely, no cash grant is available during the job search process, or in the initial weeks of employment before the first paycheck, or if the participant does not succeed in finding a job. In some W-2 agencies, standard practice is to limit the period of initial job search to 7–10 days before strong consideration is given to placement in a lower level of W-2. In other agencies, no pre-established limit on job search is applied; these agencies generally note the emphasis in state training of W-2 agency personnel that client assessments are “rolling,” or subject to change based on new information or further experience with the client.



Participants judged to be unsuitable for a regular, unsubsidized job in the labor market are placed in one of the other levels of W-2. If placed in a trial job, their income derives from their employer (part of whose costs are reimbursed by the W-2 program), and participants who fail to show up for work are not paid. For the two lower levels, a penalty of \$5.15 is applied for each missed hour of participation without good cause. Full participants in a community service job (CSJ) assignment, for example, receive \$673 per month, but the hourly penalty of \$5.15 would reduce that grant to zero after 131 hours (slightly over 3 weeks) of unexcused nonparticipation in a month.<sup>1</sup> The participant could also receive a further penalty, termed a “strike,” for patterns of nonparticipation or failure to cooperate. A record of three strikes in a level of W-2 removes all further eligibility for services in that level (Wisconsin Department of Workforce Development, 1997b, p. II-69).

From the perspective of participants, then, a critical feature of W-2 is its requirement that all income under the program demands active participation in a job or, for those in the W-2 transition tier, a set of other obligations. It is difficult to determine how common this feature is in other state TANF programs, because the kind of program detail contained in the two preceding paragraphs does not (and perhaps cannot) appear in summaries of every state program. The closest approximation to this information in the NGA grid concerns whether work is required sooner than the federally mandated 24 months after first receiving TANF assistance. The grid indicates that, of the 21 states requiring work within less than 24 months of assistance, 11 require immediate work. The states are California, Florida, Iowa, Michigan, Montana, Oklahoma, Oregon, Tennessee, Texas, Utah, and Wisconsin.

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<sup>1</sup>Under current W-2 administrative procedures, the FEP must take action to impose a penalty; the W-2 case management computer system does not automatically reduce benefits for hours missed. During the early implementation of W-2, at least some FEPs seem to have been quite accepting of excuses for missed hours, not requiring participants to show the existence of circumstances beyond their control at least in the first few cases of missed time for each participant and if the participant seems sincere in promises to improve attendance in the future. The state’s W-2 policy document (Wisconsin Department of Workforce Development, 1997b) does not promote (and may not allow) such interpretations of “good cause,” and it is likely that good-cause exemptions will become harder to obtain in the future.

But immediate imposition of work requirements involves different activities in different states. Both Iowa and Michigan, for example, require immediate participation, but the requirements and penalties differ sharply from those in Wisconsin. Under the TANF program in Iowa, applicants must participate in immediate orientation sessions and develop an individualized Family Investment Agreement (FIA). The FIA may call for participation in paid or unpaid employment or in education or training programs. It includes a date by which the family should attain self-sufficiency, although the date can be modified if barriers outside the family's control arise. The penalty for failure to meet the terms of the FIA is entry into a Limited Benefit Program, which reduces benefits for 3 months and, if the family still does not comply, then eliminates benefits for the next 6 months.

Under the TANF program in Michigan, new applicants are assessed and, if they are not deemed job-ready, have 60 days to sign a contract specifying the steps they will take to become job-ready. After a contract is signed, noncompliance may result in a financial penalty, and if a financial penalty of at least 25 percent is imposed within 4 months, the case is closed and the participant must reapply.

TANF participants in Iowa, Michigan, and Wisconsin thus have immediate obligations, but the first obligation in Iowa and Michigan is to sign a contract or agreement specifying efforts to reach independence, and a grace period of at least 2 months is allowed before financial penalties for noncompliance with the contract ensue. In Wisconsin, in contrast, the FEP has full authority to determine a placement (although the FEP is required to develop an employability plan and attempt to secure the participant's signature on it), and no grace period is available before financial sanctions apply.

This comparison of Iowa, Michigan, and Wisconsin is possible in part because the three states belong to an upper-Midwest peer assistance network, sponsored and funded by the Joyce Foundation of Chicago, in which officials from participating states share program information and concerns. Although comparative judgments among all TANF programs must be imperfect, owing to the difficulty of understanding all of them in sufficient detail, at least three key features of W-2 are unusual and perhaps

unique. First, except for W-2 participants in the lowest tier of the program, the only income available is through work, and financial penalties for failure to work start immediately.

Second, W-2 contains less social contract language, in which the state and the public assistance recipient agree on reciprocal obligations—the one side to make opportunities available and the other to pursue those opportunities—than is the case in many states. The difference between Wisconsin and some other states in this regard is subtle but meaningful. W-2 certainly provides help to program participants, especially with child care and health care. Moreover, the administrative rules for W-2 require local agencies “in consultation with the W-2 participant [to] develop a written employability plan for a W-2 participant which includes the participant’s W-2 employment position placement, required activities . . . and an identified unsubsidized employment goal” (Wisconsin Department of Workforce Development, 1997a, p. 17). The state’s W-2 policy document also allows FEPs to excuse participants from work requirements if child care is unavailable. But unlike many states, the FEP has complete discretion to make this determination of child care unavailability and complete authority to determine whether a participant needs a subsidized job. An applicant can appeal a decision of the FEP to the W-2 agency, which must rule on the FEP’s decision within 45 days. Even if the appeal is successful, however, the applicant receives no back payment for the appeal period (Wisconsin Department of Workforce Development, 1997b, p. IV-18). Although some FEPs may alter these emphases in their daily practice, the primary focus of W-2 is on the participant’s obligations to follow the employability plan or, if considered ready for an unsubsidized job, to secure one. The emphasis is not on the responsibilities of the state or the W-2 agency to find jobs for participants or to train them for emerging opportunities.

A third atypical feature of W-2 is its treatment of child support. With the exception of 4,000 families included in a control group for evaluation purposes, all other W-2 families will be able to keep all child support paid on their behalf. This marks a change from the policy that existed under AFDC, when a family could keep only \$50 per month of child support paid on the family’s behalf. Any

additional child support reimbursed the state and federal governments for their AFDC expenditures. Wisconsin is the only state that has chosen to pass through all child support to the resident parent. In fact, 30 states plus the District of Columbia have used their new flexibility under TANF to move in the opposite direction, keeping for the government all child support paid on behalf of a TANF family (U.S. Department of Health and Human Services, 1997a).

## POLITICAL SUPPORT FOR W-2

In a state which, at the start of Republican Governor Tommy Thompson's administration in 1986, offered the fifth highest AFDC benefit levels in the country (U.S. House of Representatives, 1992, Table 7-12), the transition to a program with the unusual features of W-2 calls for some explanation. The origins of the new policy are described elsewhere (Corbett, 1995; Wiseman, 1996); this section briefly reviews the early events before considering at greater length the recent politics of W-2.

The political beginnings of W-2 extend back at least to the 1986 gubernatorial election in Wisconsin, when Thompson, then minority leader of the State Assembly, ran for and was elected governor against a one-term Democratic incumbent. Many factors contributed to Thompson's victory, which at the time was considered a surprise. These factors included unpopular state tax increases imposed early in the term of the incumbent governor, a controversial effort by the incumbent to place a new prison near downtown Milwaukee, and Thompson's sheer hard work during the campaign. Welfare issues also played a role. The incumbent governor, who had begun ambitious changes in child support policy and some employment and training reforms similar to those required by subsequent federal JOBS<sup>2</sup> legislation, chose, for reasons still unclear, not to discuss these innovations during his re-election campaign. Thompson, on the other hand, repeatedly addressed welfare issues. He emphasized the state's

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<sup>2</sup>The Job Opportunities and Basic Skills Training program (JOBS) was mandated by the Family Support Act of 1988.

high AFDC benefit levels and argued that some people were moving to Wisconsin to take advantage of the generous benefits. A central feature of his campaign was a promise to reduce AFDC benefits and stop welfare-induced migration to the state.

After his election, Governor Thompson moved quickly to reduce AFDC benefits by 6 percent and then to continue welfare reform as a prominent theme of his administration. He did so primarily through use of the liberalized federal waiver policy that first became available during the mid-1980s. The Thompson administration waiver proposals came in three groups. The first set, in the late 1980s, was dominated by the Learnfare proposal, one of the earliest attempts to condition full AFDC benefits on behavior (in this case, school attendance by teens). The second group of waivers was implemented in 1992 during a period in which Governor Thompson enjoyed a close friendship with President George Bush, who was then encouraging states to try bolder welfare reforms. The most notable Wisconsin reform initiatives in this set of waiver proposals were the Two-Tier Benefit proposal (which gave AFDC recipients new to Wisconsin up to 6 months of assistance at the benefit level they would have received in their old state) and the Parental and Family Responsibility (PFR) initiative. PFR, dubbed “Bridefare” by its opponents, was an attempt to modify fertility and family-formation behavior among teens and improve their economic well-being. The third set of Thompson’s waiver proposals came under the Clinton administration. The most notable of this set was a two-county (Fond du Lac and Pierce) demonstration program called Work Not Welfare (WNW), which introduced strict work requirements and a 2-year time limit on benefits and sought to change the mission of welfare offices.

It is tempting in hindsight to view these programs as orderly steps on the road to W-2, but the central themes of W-2—personal responsibility, work, and moving the mission of welfare offices away from simply providing financial aid—emerged only gradually and haltingly from the decade of welfare experimentation. Perhaps no single welfare reform program with the scope of W-2 would have emerged,

at least in the pre-TANF period, if Democrats in the Wisconsin legislature had not started a kind of political contest over the WNW proposal.

Work Not Welfare was Governor Thompson's first waiver request sent to the Clinton administration and was widely viewed when submitted (July 1993) as the governor's attempt to beat President Bill Clinton to a time-limited welfare system. In response, several Wisconsin Democrats, apparently tired of reacting to (and generally accepting) Governor Thompson's welfare initiatives, tried to seize the initiative by claiming that WNW reflected mere tinkering with the welfare system, which really needed replacement, not reform. When WNW came before the state legislature for authorization, the Democrats accepted the proposal but added a requirement that AFDC must end in Wisconsin and be replaced by a wholly new system before December 31, 1998.

The bill passed by the legislature imposed several restrictions on the replacement program, stipulating that it had to assure adequate child care and health care, guarantee income for those who could not work, and assure jobs for people who could work but were unable to find employment. After a period of public discussion, the governor accepted the Democrats' challenge of terminating and replacing AFDC. Using his extensive line-item veto authority, the governor left in the bill language specifying that AFDC must end and that the Wisconsin Department of Health and Social Services (DHSS) must propose a replacement for it by December 1, 1995; however, he deleted all restrictions on the replacement program. The governor thus crafted a requirement that a cabinet agency under his direct control propose an indeterminate replacement for a welfare system now mandated to end. As in the development of AFDC in the Social Security Act of 1935, and the development of the War on Poverty in the Economic Opportunity Act of 1964 (Gillette, 1996; Witte, 1963), the replacement for AFDC would be designed, at least in this state, by a committee of the executive branch.

This comparison of the origins of W-2 with those of AFDC and the War on Poverty is not entirely idle. The Hudson Institute, a conservative think tank with national influence, opened a Wisconsin

office when the governor signed the bill and offered to help develop the nation's first post-AFDC policy as a model for the country. The state accepted the offer. A small group of state DHSS officials, with assistance from the Hudson Institute, developed the plans for W-2 over a period from late 1994 through early 1995. Key participants in the development effort were Andrew Bush, a consultant from the Hudson Institute with experience as Republican staff for the U.S. House Ways and Means Committee; Shannon Christian, director of planning for the DHSS and a former official in the Bush administration; Laura Kaye, a DHSS planner; Anna Kondratas, then with the Hudson Institute and best known for her book *Out of the Poverty Trap: A Conservative Strategy for Welfare Reform* (Butler and Kondratas, 1987); Jean Rogers, the director of state welfare programs and formerly a Republican Party activist in Wisconsin; Jason Turner, employment and training director in DHSS and also a former federal official in the Bush administration; and Gerald Whitburn, then Secretary of the DHSS. Resources to help with planning were provided by the Hudson Institute and three foundations, one generally viewed as conservative (the Bradley Foundation) and two as liberal (the Annie E. Casey and Charles Stewart Mott foundations).

The planning process was not publicized as it occurred, and few details of the deliberations have since become available. Planning meetings were held in what participants referred to as a secure "war room," in an effort to avoid premature exposure that might enable opponents to mobilize resistance before the hopefully dramatic vision of W-2 was deemed ready for the public. The architects of W-2 believed their program would transform the welfare debate, and they did not want to defend a partial vision. The governor announced the completed W-2 proposal and distributed a detailed description (Wisconsin Department of Health and Social Services, 1995) with some fanfare in August 1995. Enabling legislation was introduced in the legislature as Assembly Bill 591 on October 2, 1995, passed by the legislature on March 13, 1996, and signed into law on April 25, 1996.

## Legislative Review of W-2

With a strong and popular governor making a request that would help define him nationally to a state legislature controlled by members of his own party, ultimate passage of W-2 seemed assured. Yet Governor Thompson's proposal experienced significant modification. The major issues raised during legislative consideration included:

*1. Program administration.* The architects of W-2 sought dramatic change in how assistance for poor families would be managed, and they believed this would ultimately require a transformation of operating style that public welfare workers and managers might not be able to achieve. The Thompson administration's W-2 legislation proposed to identify geographic areas for the local administration of W-2 and to allow any agency—public or private, profit or not-for-profit—to bid to operate the W-2 program in a particular area. Several county boards of supervisors, public welfare officials, and public employee unions expressed concerns about this approach, and a legislative compromise emerged. All counties were subject to a pre-W-2 trial period during which they were evaluated against standards that prescribed a level of engagement of program participants in program requirements and specified an anticipated reduction in AFDC caseloads. Counties meeting the standards, as most did, had a “right of first selection,” the right to administer the W-2 program in their county for the initial contract period (September 1997 through December 1999). Not all counties exercised their right of first selection. In eight of the 71 counties outside of Milwaukee, W-2 is administered by a private agency. Milwaukee County was divided into six W-2 regions; the county chose not to seek a right of first selection in these regions, and the administering agency for each area was opened for selection through competition.

*2. Child care.* The governor's initial W-2 proposal sought to expand the supply of child care providers by creating a new, less-regulated category of providers and to expand the use of child care by paying a portion of its cost (with participants paying the rest in the form of a co-payment). Both the reduced regulation for a new class of child care providers and the co-payment schedule proved



controversial in the legislature. The regulatory change passed largely intact, but legislative Republicans managing the W-2 bill took the lead in using funds derived from falling welfare caseloads and a generous (at least in its first years) federal block grant to increase child care resources substantially and to reduce the level of required co-payments by recipients.

3. *Health care.* In its initial W-2 proposal, the Thompson administration argued that loss of health care benefits under the then-current AFDC system acted as a strong disincentive to movement into the labor market. Their proposed response was to provide a transitional cushion of expanded Medicaid benefits to the working poor. The governor's administration said this would require no new financial resources, proposing to limit the costs of the new eligibles by imposing extensive monthly premiums and restricting benefits to those who had no employer-provided insurance. The proposal would also have imposed new premiums on existing Medicaid client groups, a change that required a federal Medicaid waiver. Health care provider and advocacy groups in Wisconsin criticized the proposal, and the federal government declined to grant the waiver. After a long period when no W-2 health care program seemed likely, federal passage of Title XXI of the Social Security Act (the Child Health Insurance Program) made it possible for the state to use new federal resources under that act to offer Medicaid benefits to the full W-2 population, without imposing premiums on existing Medicaid-eligible groups. This initiative will also require a federal waiver because some who become newly eligible for Medicaid benefits owing to the expanded eligibility features will have to pay a premium of between 3 percent and 3.5 percent of their income. To date, no state groups have criticized the new plan. Federal reviewers have questioned state cost estimates, the state's planned use of Title XXI funds for parents, the lack of entitlement for some of the program beneficiaries, and other aspects of the proposal. The parties are continuing to negotiate, and federal approval remains uncertain.

4. *Grants or wages?* The architects of W-2 viewed community service and transitional slots not as "real" work but as short-term preparation for positions in the regular labor market. They argued that

because positions in the two lower tiers are not real jobs, the positions need not pay the minimum wage for the full 40 hours per week of assigned activity, provide eligibility for state and federal Earned Income Tax Credits, impose payroll tax requirements, or confer Social Security or Unemployment Insurance benefits. In contrast, a coalition led by the mayor of Milwaukee viewed these positions as real jobs for those “left behind” by a labor market that creates, at least in some parts of the state, too few jobs for all who need them. The mayor and his supporters on this issue argued that the positions should pay the minimum wage and confer all normal job benefits. They were in general unsuccessful in their effort to secure this change. They did, however, obtain budget approval for two W-2 agencies in Milwaukee to place CSJ participants entirely in wage-paying jobs and for all other W-2 agencies to place participants in wage-paying jobs for a part of their overall CSJ assignment, up to 15 hours per week. These options will not become available until February 1, 1999.

*5. Work first versus human capital development.* W-2 has a clear work-first orientation and does not emphasize preparation for higher paying jobs that would require extensive preparatory training. “Education and training under W-2 should prepare participants for entry level employment,” and “full-time education and training is not acceptable,” says the W-2 policy document (Wisconsin Department of Workforce Development, 1997b, pp. II-52–53). During W-2 transition and CSJ programs, participants can receive 10–12 hours of training per week (and more in some weeks if the average is limited to 10–12 hours per week), but the training must be tied directly to jobs obtainable after brief preparation, such as food preparation and nursing assistant positions. Opponents of this work-first strategy have argued that W-2 should prepare participants for higher-paying jobs that would allow full independence from government assistance. This has been a controversial issue, and the Thompson administration recently created a W-2 Workforce Training Options task force to discuss the possibility of more extensive training for W-2 participants who have worked for a period in an entry-level position (Flaherty, 1998).

Although legislative review was protracted and changes were made, most of the fundamentals of W-2 remained after legislative review. As was the case under the initial program design, the obligations on participants are absolute—they must work. Also as originally designed, the state and the W-2 agencies have obligations as well, but of a different order. The agencies must, for example, make decisions on cases within time limits and review cases periodically, but they have no obligation to find work for those whom they identify as appropriate for unsubsidized employment or to provide extensive educational support for their clients.

The most significant change from the original conception of W-2 concerns the awarding of contracts to W-2 agencies, with most counties obtaining a right of first selection for the initial contract period. Even this provision, however, represented no sharp change from the original conception. The right of first selection did not apply in Milwaukee County, which contained over 60 percent of the AFDC caseload in the state, and may not apply in the rest of the state for long. Many county officials expect that they will have to compete for the next contract beginning in January 2000.

Not only did the fundamental characteristics of the W-2 proposal remain unchanged, little effort to make such changes was even exerted. After the W-2 legislation had already been enacted, the archbishop of the Milwaukee Catholic Archdiocese argued strongly and publicly that guaranteed social provision for the poor was a moral necessity which W-2 failed to provide. In an op-ed essay published in the *Washington Post* on July 4, 1996, Archbishop Rembert Weakland called W-2 a “tragedy for the poor and a moral blemish on the earth’s most affluent society” (quoted in Aukofer, 1996). The archbishop urged President Clinton to deny the needed waivers for W-2, a request rendered moot by the enactment of TANF later that summer. The archbishop and the governor (who is Roman Catholic) then engaged in a much-publicized dispute. Governor Thompson said the Bible contains many examples of the need for personal responsibility and for strenuous effort to support one’s own family. He said the archbishop, just returned from a 6-month sabbatical studying music at Columbia University, “should come back to

Wisconsin to read his Bible instead of playing piano in New York” (Jones, 1996). The governor also stated in a Milwaukee speech that the “welfare check, which has only served to trap generations in welfare dependency and despair” is the “immoral” force, not W-2 (Dresang, 1996). This flurry occurred in July 1996, 4 months after legislative passage of W-2. The archbishop and the governor declared a truce soon after their disagreement surfaced. Both before and after the dispute, the loss of entitlement to income or assistance was little discussed.

It was perhaps not surprising that one of the distinctive features of W-2, the full pass-through of child support, received little attention or criticism during legislative review. Liberals could approve of the increased income to needy families, conservatives could endorse the potential for increased support from absent fathers which this feature of W-2 was meant to stimulate, and the provision helped the Thompson administration satisfy its principle of conferring upon public assistance recipients many of the same obligations and benefits applicable to low-income workers.

The broad acceptance of the other unique features of W-2, however, seemed more surprising. In a state which a decade earlier had offered the fifth highest AFDC benefits in the country, the dearth of criticism surrounding the immediate loss of entitlement and the shift of obligation to the participant and away from the state merits some explanation. Part of that explanation lies in the constraints under which critics of W-2 were forced to operate. A vigorous coalition of W-2 opponents was active during legislative consideration of W-2. The coalition included disability groups (because some parents received AFDC to stay home and care for their disabled children and because some AFDC parents have disabilities), the Welfare Warriors (a group of mothers on public assistance, primarily in Milwaukee), the Wisconsin Council on Children and Families (a long-time statewide advocacy group), the Institute for Wisconsin’s Future (generally composed of faculty and staff at college campuses around the state), child care providers and advocates, and the social action committee of the Catholic Archdiocese of Milwaukee. Organizations representing primary care health providers were part of this coalition until the federal

government made it clear that the waivers needed to implement the original W-2 health care proposal would not be forthcoming.

Shortly after Governor Thompson introduced W-2, the members of the coalition decided that, because of broad legislative support for the general direction of W-2, they would not try to defeat the overall initiative, but rather would attempt to change the program on its margins. “We’ve never said that welfare didn’t need to be reformed. We’ve said it had to be done carefully,” the director of the Council on Children and Families and a leader in the coalition later recounted (Dresang, 1996). The coalition’s effort to improve W-2 was successful to some extent, certainly in securing a sizable increase in resources for child care, but the result of their decision to influence W-2 only at the margin was to guarantee political victory for the immediate loss of entitlement and the shift of obligation from the state to individuals. Yet their decision was understandable. Because key members of the Democratic Party, which contained most of the natural allies of the coalition, had already proposed the termination and replacement of AFDC, the coalition’s ability to argue for a continuation of something similar to AFDC was sharply curtailed. The coalition might have proposed a different kind of replacement, perhaps a program offering participants a longer period of assistance without work before the withdrawal of cash benefits, or one which made the obligations of participants more directly contingent on the provision of services or the availability of jobs. But designing an alternative required more unity of purpose than the disparate members of the coalition could achieve. Moreover, although W-2 appears to be a sharper break from AFDC than most states have tried, the provisions requiring immediate work not contingent on the availability of services or jobs, and giving no short-term assistance to most people except through work, may not be inimical to all types of contemporary U.S. liberals.

This claim of some liberal receptiveness to W-2 requires brief expansion. From the birth of Progressivism in the early twentieth century through much of the New Deal in the 1930s and early 1940s, U.S. liberals argued for an expanded governmental role but differed over how to define that role

(Brinkley, 1989, 1995). One group of liberals emphasized antitrust actions to combat large economic concentrations and to keep the components of the economy small and controllable. A second group sought a form of corporatism, in which government, labor, business, and consumers would jointly plan the broad economy and agree on targets for economic initiative and on their share of any economic growth or retraction. A third group emphasized the development and expansion of government regulatory agencies. Yet a fourth group, smaller until the 1940s, stressed the compensatory or countercyclical role government could play, such as by expanding spending when individuals were spending little.

President Franklin Roosevelt's New Deal accommodated the four strategies at different times, for example through the regulatory Securities and Exchange Acts of 1933 and 1934, the effort at corporatist planning under the National Industrial Recovery Act of 1933, and the turn to antitrust efforts following the recession of 1937. Although Roosevelt also employed the compensatory strategy, he did not grow fully comfortable with it until U.S. entry into World War II required heavy government spending in what was still a depressed economy. The most visible advocates of the compensatory approach during the 1930s were economist John Maynard Keynes in England and columnist Walter Lippmann in the United States. In 1934, Lippmann published a description of the tasks of compensatory government which foreshadowed, among other initiatives, the Old Age Insurance program soon to become part of the Social Security Act. Compensatory governments, Lippmann wrote, should

maintain a working, moving equilibrium in the complex of private transactions. In substance, the state undertakes to counteract the mass errors of the individualist crowd by doing the opposite of what the crowd is doing; it saves when the crowd is spending too much; it borrows when the crowd is saving too much; it economizes when the crowd is extravagant, and it spends when the crowd is afraid to spend; it contracts when the crowd is expansive; it becomes enterprising when the crowd is depressed; it buys in sellers' markets and sells in buyers' markets; it taxes when the crowd is borrowing, and borrows when the crowd is hoarding; it becomes an employer when there is private unemployment, and it shuts down when there is work for all. Its ideal is to prevent excess; its general principle is not to impose a social order conceived by officials but to maintain in a changing order, worked out by the initiative and energy of individuals, a golden mean (Lippmann, 1992 [1934], p. 59).

Compensatory liberalism grew briefly dominant during World War II (Brinkley, 1989, 1995). While not the only form of liberalism to survive the war, it has remained important, as exemplified by strong interest during the 1970s (including among members of the Nixon administration) in a negative income tax and other automatic transfers of money to people whose income remains low or declines, and by growing acceptance of countercyclical monetary policy to combat inflation and recession.

In recent social policy, efforts to promote authoritative government programs requiring work among welfare recipients use arguments which evoke, but do not mirror, compensatory liberalism. An example is the writing of Lawrence Mead, whose calls for more authoritative work requirements (Mead, 1986, 1992) have influenced recent welfare reform in many states. (In Wisconsin, Mead is a member of the W-2 Management and Evaluation Project, appointed by Governor Thompson to guide the management and evaluation of W-2.) Mead has taken care to distinguish between the authoritative “new paternalist” welfare programs, which he recommends, and compensatory programs (for example, in schools) that provide services but impose no obligations (Mead, 1997a).

It is true that the language of obligation so important to new paternalist welfare reform is foreign to compensatory liberalism. Yet Mead has also insisted that the new paternalism he proposes is of benefit to those subject to it because it compensates for a lack of authority in their past. “To some extent,” Mead writes (1997a), “public programs must provide the boundaries for their clients that healthy families, churches, and other neighborhood institutions would provide if more of them existed in poor neighborhoods.” Authoritative welfare case managers, says Mead (1997b), are often welcomed by the dependent poor in part because, “in their formative experiences, authority figures commonly treated them harshly and inconsistently.” New paternalist welfare policies are thus alleged to have a compensatory feature through their imposition of consistent requirements that parents and neighborhood institutions may have failed to assert earlier. These compensatory features, which could in theory exacerbate as well as compensate for some of the problems facing the dependent poor, appear to have appealed to some

liberals in Wisconsin. One long-time advocate for low-income women, the executive director of the Milwaukee YWCA (a private agency with a state contract to serve W-2 clients), thus argued that W-2 “is a tremendous opportunity. It’s a once-in-a-lifetime possibility to make families self-sufficient and rebuild the central city” (Stingl, 1997).

#### THE EARLY IMPLEMENTATION OF W-2

The W-2 program started on September 1, 1997, the first day on which new applicants for public assistance were required to obtain their TANF assistance from W-2 agencies. Because federal regulations require that public employees determine eligibility for food stamps and Medicaid, new applicants for W-2 in Milwaukee and other counties in which the W-2 agency was not the public welfare department had to undergo review and processing by two agencies. To ease this process, Milwaukee County distributed its “economic security” staff among the six W-2 regions. Applicants were thus able to meet with county staff in the same buildings in which they met their FEPs, and most county staff joined small teams with FEPs sharing the same caseload. The collocation and teaming were important implementation innovations, although county economic security staff sometimes did not meet with applicants or process their cases as quickly as either the applicants or W-2 agency staff wished.

The W-2 agencies had the last 3 months of 1997 and the first 3 months of 1998 to move existing AFDC cases to other programs. AFDC recipients wishing to transfer to W-2 had to come to the W-2 agency and request the transfer. Those who did not respond to letters and, in some cases, phone calls and visits to their homes were dropped from AFDC by March 31, 1998. Not all the conversions from AFDC were to W-2, because Wisconsin had also used its AFDC program to provide assistance to two types of cases in which the adult was not expected to work, namely, families in which the adult was disabled and received SSI (only the children were part of the AFDC grant), and families in which the adult (often a grandparent) was not legally responsible for the children and only the children were part of the AFDC



grant. These approximately 15,000 families had to be moved to other programs (Caretaker Supplement for those headed by SSI recipients and Kinship Care for those headed by “nonlegally responsible relatives”).

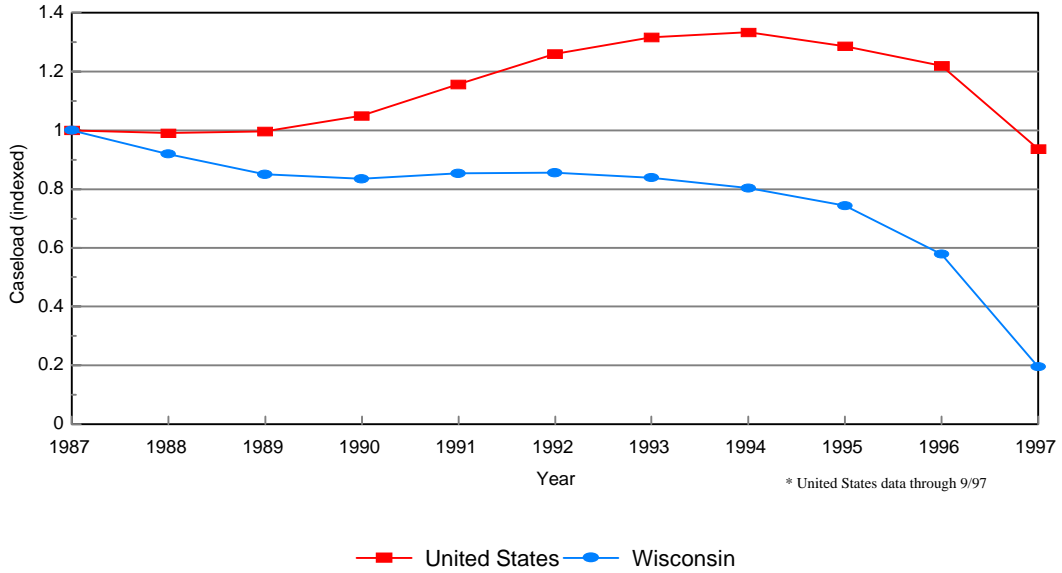
The transition from W-2 to AFDC occurred in the context of a decade-long reduction in the number of AFDC cases in Wisconsin. As Figure 1 indicates, AFDC caseloads in Wisconsin began a steady decline in 1987, avoided the national caseload increases of the early 1990s, and dropped sharply in the mid-1990s. By 1997, the AFDC caseload had fallen by 80 percent over the previous decade (from over 100,000 cases to about 22,000 cases). As Wisconsin officials developed final plans and budgets for W-2 agencies, TANF caseloads continued to fall faster in Wisconsin than planners had anticipated, dropping, for example, by 50 percent between December 1996 and December 1997.

A key result of this caseload trend was a surplus of resources. The Wisconsin legislature had appropriated funds for the W-2 program, and state administrators had allocated funds to W-2 agencies, based on estimates of much higher caseloads. As a result, W-2 agencies could provide a high level of service to each W-2 participant without worrying about cost overruns, cash flow problems, or difficulties in meeting net revenue projections. The unexpected level of financial comfort eased the implementation process in the early months of W-2 and provided context for the following trends in the very early stages of W-2 implementation:

1. *Informal limits on the use of unsubsidized placements.* Because FEPs, rather than the actual labor market experience of participants, determine whether a participant is ready for an unsubsidized job, and because W-2 agencies benefit financially by restricting services to participants, a major concern of W-2 skeptics has been that agencies would too aggressively assign participants to unsubsidized placements, whether they were able to find jobs or not. The participants could then languish in the labor market with no income, with the FEPs maintaining that the participants could find a job if they tried harder or differently. In the first few months of W-2 operation in Milwaukee, the county legal services

**FIGURE 1**

**AFDC/TANF Caseloads 1987 - 1997**



**Notes:** Figures include both the AFDC-Basic and AFDC-Unemployed Parent programs. All annual figures are averages of the 12 monthly figures for the year. Both the U.S. and Wisconsin caseload figures are indexed to 1 in 1987 to show comparative trends over the subsequent decade.

**Sources:** U.S. figures are unpublished data from the Administration for Children and Families, U.S. Department of Health and Human Services. Wisconsin figures are unpublished data from the Research and Statistics Section, Bureau of Welfare Initiatives, Wisconsin Department of Workforce Development.

office heard complaints of just such practice. The complaints seem to have declined since that time. With the ample financial resources available for current W-2 participants, the Milwaukee agencies have on their own developed informal limits on the length of time participants can be in the job market without a subsidy. Participants not finding a job within that time limit receive a community service job while reasons for their lack of success in the labor market are evaluated.

2. *Heavy use of CSJ placements.* Especially among the Milwaukee W-2 agencies, placement in a community service job has become almost a default assignment, representing about 63 percent of all W-2 placements in Milwaukee as of April 30, 1998. This pattern stemmed in part from the requirement for rapid conversion of AFDC participants to W-2. Some W-2 agencies, in their rush to convert AFDC participants before the March 31 deadline, held three or four group sessions per day for 30 to 40 AFDC recipients at a time. Participants filled out and signed their employability plans at these group sessions, and session leaders instructed them to select CSJ as their preferred initial assignment. (The agencies seem to have no trouble finding community service jobs, which range from child care centers aides to janitorial and light maintenance work in housing authorities. Milwaukee County staff have taken the lead in arranging many of the job slots.)

The heavy use of community service jobs may also reflect a scarcity of alternatives. Less than 1 percent of placements statewide in April 1998 were in trial jobs; employers seem in general uninterested in utilizing this category, saying in focus groups and other settings that they would rather hire regular employees who appear qualified—and discharge those whose performance is deemed inadequate—than assume the additional paper work and oversight associated with trial jobs.<sup>3</sup> Assignments to W-2 transition have been more frequent, accounting for 12 percent of placements statewide as of the end of April 1998. But based on my own limited observations of such placements, they are used primarily for

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<sup>3</sup>The focus groups were conducted by Elisabeth Boehnen and Thomas Corbett, Institute for Research on Poverty, University of Wisconsin–Madison, under the Marketplace Analysis: Matching Skills and Opportunities—Welfare to Work project.

parents who are caring for a child with severe disabilities or for participants assigned to a Medicaid-funded outpatient mental health or drug abuse treatment program. For participants without these characteristics and who do not find an unsubsidized job, the only likely placement is to a community service job.

3. *Strong emphasis on time limits.* W-2 participants are limited to 5 years of cash benefits, the maximum period for which the federal government will support most participants under TANF. Many W-2 agencies place a heavy rhetorical emphasis on the time limits, stressing in interviews with participants that the economy is good, that most people can find an unsubsidized job, and that anyone who can obtain an unsubsidized job should do so immediately because, if the economy deteriorates, they may have a future need for cash assistance.

Time limits have apparently been presented differently to program participants in some other states. A recent evaluation by the Manpower Demonstration Research Corporation of time limits in one Florida County (Bloom et al., 1998) found that program participants cited time limits as the least important factor in their decision to seek a job. The largest proportion of respondents—nearly half—said that their decision to seek a job had been strongly influenced by the availability of support services such as child care. Recipients also generally rated the availability of employment and training services, advice and assistance from staff, and financial incentives as more important than time limits in their job search motivation. These survey responses were consistent with group discussions held with participants, many of whom “were focused on day-to-day problems, and saw the time limit as a distant concern” (Bloom et al., 1998).

Still, as the authors of the report note, time limits may have larger impacts in other settings. Florida provided low AFDC benefits, so the consequences of losing benefits were not as severe as they are in Wisconsin. Moreover, county program staff did not stress a message of saving available months for a time when they might be needed more. The primary message of the Florida limits was that participants

should use their available time to develop skills likely to help them obtain better positions in the future. Time limits may have greater motivational impact in a state with a work-first program in which staff emphasize saving limited months for future contingencies.

4. *Low use of child care resources.* Part of W-2 program design was the creation of substantial new resources for child care. One of the more ambitious aspects of W-2, in fact, has been its effort to create a simpler, better funded, and more efficient system of child care assistance for families below 200 percent of the federal poverty line, reducing five categorical programs, several with long waiting lists, to one program with one set of benefits and co-payments. In the legislation creating W-2, the state doubled over a period of 2 years the annual funds available for child care, increasing them from \$90 million in 1996–97 to \$180 million in 1998–99 (Wisconsin Legislative Fiscal Bureau, 1997).

The new resources have gone largely unused. State budget estimates assumed that 77,000 children would be in state-supported child care in December 1997. The actual number was 19,500, which was less than the total actually served or on waiting lists 12 months previously. The general decline in W-2 caseloads may be part of the reason for the low utilization, although child care assistance is not limited to W-2 employment participants. Lack of publicity and relatively high co-payment requirements may also play a role. Policy makers in both the executive and legislative branches are likely to devote considerable attention to this issue. In doing so, they may have to confront a conflict between core values of W-2 program designers, who wanted both to enhance child well-being and to assure that low-income recipients of W-2 services, like other low-income parents, maintain responsibility for paying for a portion of the services they receive.

5. *The important role of FEPs.* Several observers have noted the significant role which case managers play in welfare-to-work programs (Bardach, 1997; Mead, 1997b). In W-2, FEPs determine individual employability plans, assign participants to levels of W-2 and to particular assignments within each level, suggest appropriate resources in the community, motivate participants to comply with the

letter and spirit of W-2, and sanction participants for failures to comply. If the FEPs work for public agencies, they determine eligibility for food stamps and Medicaid. In many W-2 agencies, FEPs are also responsible for initial sessions with prospective participants and for diversion to other programs. This multiplicity of roles suggests several possible metaphors for what FEPs actually do. An obvious possibility—FEP as social worker—seems to have limited applicability to W-2 as it now operates. As in most states, public agency staff in Wisconsin with degrees and certification in social work generally serve frail seniors, the disabled, or families under investigation or receiving casework for child abuse and neglect. Wisconsin's FEPs, in contrast, usually have a background as county economic support workers or as staff in a JOBS program and often do not hold a college degree or professional certification, although some have bachelor's or master's degrees in fields as varied as business administration and vocational rehabilitation.

The much-studied welfare-to-work program of Riverside County, California, suggests another possible metaphor—case manager as salesperson. As part of the interview process to obtain a case manager position, applicants in Riverside County had to simulate selling a used car, a process which suggests the important role of case managers in selling welfare recipients on the importance, and realistic possibilities, of finding a job. Eugene Bardach (1997) has suggested yet another metaphor—case manager as coach—which seems more descriptive of W-2. Like coaches, Wisconsin FEPs are presumed to have learned their craft more through experience than through college course work or certification programs. Also like coaches, FEPs are presumed to exercise moral authority for the good of their charges. In W-2, much of their claim for moral authority seems to derive from the FEPs' past experience. In every one of the six sessions between FEPs and participants I have observed, and in most (but not every) interview I have had with FEPs, the FEP has mentioned either her own background as a welfare recipient who achieved independence or her mother's success in moving from economic distress to a more comfortable life.

6. *Potholes or chasms?* Several problems with W-2 and closely associated programs surfaced in the first 6 months of W-2 implementation. For example, the Wisconsin Department of Workforce Development agreed with a public interest law firm that one Milwaukee W-2 agency cut families off public assistance without notification, took too long to meet with or return calls from applicants, and denied or delayed benefits to eligible families (Dresang, 1997). (The W-2 agency promised to rectify the problems quickly.) Moreover, some child care providers have had difficulty receiving timely reimbursements from county social service agencies for care provided to W-2 children, and insufficient funds appear to have been appropriated for children of nonlegally responsible relatives in the Kinship Care program. One observer of W-2 noted in a conference that “the road is still pretty much full of potholes in terms of implementation” (Dresang and Derus, 1998). Difficulties in implementation are naturally to be expected in any large new endeavor, and even the mature AFDC program created problems for participants and administrators. Whether the flaws of W-2 are easily correctable implementation potholes or fundamental deficiencies remains uncertain.

#### EVALUATING THE DISTINCTIVE FEATURES OF W-2

The remainder of this paper proposes strategies for evaluating impacts of the full pass-through of child support benefits, the immediate work obligation with no grace period before financial penalties begin, and the shifting of obligations toward the participant and away from government. The strategies suggested here will allow only a basic evaluation of the features. With additional resources of time and money, more complete evaluations which better disaggregate the effect of these changes from the rest of W-2 would be possible, but a basic evaluation has two advantages. First, it can be accomplished within restricted budgets, not a trivial advantage when governments wish to reserve as much of their funding as possible for administration and services. Second, the basic evaluation proposed here does not hinge

entirely on an experimental design; for reasons discussed below, an experimental evaluation of the immediate work requirement and the shift in obligations would be very problematic.

The key impacts I propose to emphasize—the income, public assistance receipts, earnings, and labor force progression of W-2 participants and noncustodial parents—apply to all three features of W-2 under discussion. If the immediate work obligation with no grace period functions as intended, W-2 participants should either immediately obtain income from W-2 (as participants in the W-2 transition or CSJ programs) or from an employer in either a subsidized or unsubsidized job. If the shift of obligation toward the participant and away from government works as its proponents hope, then W-2 participants should over time secure an unsubsidized job and perhaps even improve their job status and earnings. If the full child support pass-through is successful, then the total income of custodial parents should rise. The earnings of noncustodial parents, all of whose child support payments will now go to their children, might also rise if some noncustodial parents previously shunned work to avoid making child support payments to the state. The full pass-through should probably also generate larger child support collections.<sup>4</sup>

Consistent with the needs of an inexpensive, basic evaluation, all the data elements listed in the preceding paragraph can be captured from existing administrative data sources in Wisconsin. Information on income and job progression is available from public welfare databases, from quarterly unemployment insurance files (which show earnings and the employer for most jobs), and from state Department of Revenue income tax files. Information on child support payments and receipts is available from the child support administrative data system.

These data sources have limitations. One is their failure to capture fully those who move out of state or do not file income tax returns because they are not required to do so (families with taxable

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<sup>4</sup>Some of the discussion that follows can be found in greater detail in Kaplan and Meyer (1997), although I here propose an even more basic evaluation than appears in that paper.



incomes below about \$6,000 need not file state tax returns). Wisconsin offers a generous refundable credit for low-income renters and homeowners, however, making it more likely that a low-income family will file a state income tax return in Wisconsin than in other states. Further, incorporating information from state unemployment insurance earnings and welfare records increases the coverage, because individuals who do not file tax returns frequently have income in these other records. Analyses conducted with data from a Wisconsin child support research project suggest that income estimates should be available for about 90 percent of a low-income sample. Nonetheless, the 10 percent for whom we lack income information are likely to be the most vulnerable group, perhaps deserving more research attention. (One supplemental approach, extending beyond a basic evaluation, would be to identify, locate, and survey those who were initially W-2 or AFDC recipients but who do not appear in later administrative records.)

A second limitation created by use of administrative data concerns measures of family income. Taxable income does not include some income sources, including transfers (cash and in-kind) and child support (and child support administrative data can only partially compensate for this). For those not filing tax returns, earnings records from the unemployment insurance system are limited in that they only report earnings in covered employment, which does not include earnings as an independent entrepreneur or in the informal sector.

Third, tax records provide only limited information on family composition, and this is needed to make measures of family income meaningful and sometimes to help determine it. The income tax record includes only the ages of the adults, filing status, the number and ages of children, and address. Tax filing status can tell us whether the taxpayer is married or not on December 31 but not at what point a marriage or divorce occurred. The tax forms offer no way to identify other adults in the home (cohabitators, roommates, relatives); to the extent that these individuals contribute to the family's income, we will underestimate income. Moreover, exact correspondence does not always exist between where children

live and where they are claimed as dependents for tax purposes. For families who do not file taxes and have never received AFDC or W-2, and who appear in the sample only as part of the unemployment insurance earnings file, we would not even know this information. Thus for many families we will not know basic data like race and educational level. This information will be available for families who ever received AFDC or W-2, but even for these families we will not know anything about their family of origin, and we will have only sketchy information on work experience.

Although the lack of such information is serious, the volume of data in the administrative records offers some compensation. For example, families in the sample only because they are part of the unemployment compensation files will have to be excluded from multivariate analyses using characteristics like race or educational background about which we have no information for this group. But the overall sample will be so large that meaningful multivariate analyses will be possible for sizable and important subsamples, such as those receiving food stamps and filing an income tax return.

An evaluation of the distinctive features of W-2 should include measures beyond income, earnings, job progression, and the use of public assistance, particularly measures concerning the well-being of children. If, for example, the immediate work requirement with no grace period before loss of income functions as intended, children should at least be no worse off than they were under previous policies. Child well-being can be assessed partially through administrative data covering attendance and grades in school, reports and substantiations of child abuse or neglect, and use of foster and institutional care. These administrative data, however, are difficult to obtain in Wisconsin. Individual children are often not personally identified in the state's current electronic data on child abuse and neglect, and records on grades and attendance are dispersed among the state's 427 school districts, each of which has different procedures for allowing access to data that identify particular children. With effort, many of these data could be obtained, but this would almost certainly have to be the second phase of a basic evaluation.

Child well-being can also be assessed through questions of parents in surveys, but it is difficult to use surveys to compare current well-being with that of an earlier period. The ability to compare over time will be critical if an experimental evaluation with randomly assigned treatment and control groups is not suitable for these policy changes, an argument I now consider.

### Experimental Evaluation Designs

The standard for acceptable impact evaluations of welfare and training programs for low-income people now involves experimental evaluations with randomly assigned treatment and control groups. This standard arose in part out of research on the dynamics of welfare caseloads in the early 1980s, demonstrating that many people left the welfare rolls without any special interventions (Bane and Ellwood, 1983). A National Academy of Sciences report published in 1985 recommended the use of randomly assigned treatment and control groups as a way to control for these “normal” exits and thus to generate unbiased estimates of the impact of a particular program intervention (Gueron and Pauly, 1991). If we have grounds for believing (1) that the people in each group do not differ in relevant characteristics upon entry into the program, (2) that the treatment and control groups do not “contaminate” each other during the experiment, (3) that the two groups are equally affected by other changes occurring at the same time, and (4) that the interventions given the treatment and control groups in the experiment are identical to the programs that would have been provided in a nonexperimental setting, then any posttreatment differences between the two groups yield an unbiased measure of the impact of the treatment in an ongoing program.

The arguments in favor of experimental design with randomly selected treatment and control groups seemed so persuasive that the Family Support Act of 1988 mandated that all evaluations of programs under the act be done by random-assignment experiments. Yet such evaluations have always had critics (for example, Heckman and Hotz, 1989; Manski and Garfinkel, 1992; Moffitt, 1996) as well as supporters. Meeting the four necessary conditions for experimental evaluation is quite difficult, at

least for complex program interventions that make many changes simultaneously. Potential problems include:

1. *Entry effects.* Program changes can influence the behavior of people not participating in the program at the time of experimental assignment. A new program can, for example, have entry effects (that is, the program may increase or decrease the likelihood that some eligible people take up the program). An experiment that compares the behavior of people already in the program with those prohibited by the experiment from entering it (by being placed in a control group) cannot measure these entry effects.

2. *Program distortions generated by the experiment.* The demands of running the experiment may be so large as to compromise the treatment. The experience of those who receive the treatment may thus be different from what it would have been had administrators not had to operate a control group. Similarly, the experiences of control group members receiving the “traditional” welfare or work program may not be representative of the experiences of those in the traditional program before the experiment began because the agency faces the administrative demands of simultaneously operating a new, experimental program.

3. *Social messages and control group contamination.* Comprehensive welfare reforms of the type now popular often bundle new requirements for school attendance, work, or a daily activity that leads to work, along with modified policies for adjusting family income according to family size, into packages designed to generate social messages that discourage dependency on public assistance, promote work, and influence family-formation decisions. Such messages may be less effectively communicated in an environment of random assignment to treatment and control groups than in a more universal program. If the messages are effectively conveyed, they are likely to influence the control group as well, and thus render its members invalid as a true control.

4. *Nonlaboratory conditions and control group contamination.* In a small social experiment, it is often possible for evaluators to retain tight enough control of the experiment that conditions approaching those of the laboratory obtain. But in large experiments, in which line program staff must behave differently depending on whether they are interacting with a member of the treatment or control group, the purity of laboratory conditions is harder to sustain. Members of the control and treatment groups know one another, know they are receiving different treatments, and, if the difference seems meaningful, want to know why. If not rigorously monitored, line staff may downplay the differences, perhaps by suggesting that they are just temporary, a suggestion which could in itself alter how the two groups respond to their circumstances. In reforms like W-2, which depend heavily on the individual judgments of FEPs, it is especially hard to exert the control necessary to prevent these kinds of informal adjustments from contaminating the experiment.

5. *Ethical concerns.* If we have no firm grounds for estimating in advance of a new initiative whether it will be good or bad for its participants, an experimental evaluation through random assignment raises no ethical concerns; the experiment is simply a means of generating an unbiased estimate of the program impact. If, however, we have reasonably firm grounds for believing that a new intervention will be good for people, then giving most people the new intervention and denying it to some people, solely to create a social experiment, may raise ethical concerns. These are not easy issues to resolve, because the new intervention—whatever the benefit to its recipients—may entail costs to the broader society that an experimental evaluation can identify. It may sometimes be wise in these situations to keep the treatment group small and have most people continue with the status quo. Ambitious program planners, however, confident that the intervention will prove successful, often wish to give most people the new intervention and reserve the status quo for only a small control group, whose members can then appear to have been disadvantaged by their arbitrary restriction to a control group.

These potential problems do not invalidate random-assignment experimental evaluations. Any other kind of evaluation raises problems as well. Yet evaluating the immediate work requirement feature of W-2 and the general tilt of obligations in the program through experimental evaluation seems especially fraught with difficulty. Experimental designs work best when (a) only a few program elements are undergoing change (because it is then administratively feasible to operate an experimental and control program), (b) the agencies that would implement random assignment are cooperative (Hotz, 1992), (c) the control group can easily be isolated from “contamination” introduced by the experiment (Cook and Campbell, 1979), and (d) the intervention is not expected to create social messages that reinforce particular behaviors (Garfinkel, Manski and Michalopoulos, 1992). W-2 meets none of these conditions. It is an attempt to create an entirely new, radically different program; it is unlikely that agencies implementing W-2 (especially, but not only, the Wisconsin Department of Workforce Development) would be willing to operate a parallel AFDC system in some locations; a control group cannot be isolated; and the designers of W-2 hope that it causes a fundamental restructuring of norms in low-income communities.

The evaluation strategy I prefer is built around three main comparisons of pre-W-2 and post-W-2 conditions. It involves:

1. comparing the income, earnings, job progression, and, when available, school progression and referral to child welfare services of W-2 participants with AFDC recipients before and after W-2 began;
2. comparing the income, earnings, job progression, and, when available, school progression and referral to child welfare services of a broader sample of low-income families (those with incomes less than twice the federal poverty line) before and after W-2 began; and
3. comparing the income, earnings, job progression, and, when available, school progression and referral to child welfare services of a broader sample of higher-income families (those with incomes beyond three times the federal poverty line) before and after W-2 began.

For all three comparisons, the basic strategy would compare 3 to 7 years of data under the AFDC policy regime (probably 1987 or 1991 through 1993) with 3 to 7 years of data under the W-2 regime

(probably starting in 1999, the first year in which W-2 will be fully operational). For the first comparison only (the comparison of AFDC and W-2 participants), two samples would actually be drawn—a sample of those who entered the program during the first year and a sample of those who were participating at the beginning of the first year. This extra sampling is necessary because many analyses show that new entrants and current recipients are quite different (for example, Cancian and Meyer, 1995; Friedlander and Burtless, 1995). The 1994 through 1998 period in which no sampling occurs creates an unfortunate gap. The gap may be unavoidable, however, because (a) the state converted its public assistance data system in 1994, yielding data of questionable accuracy for that year and the first part of 1995, and (b) by 1996, the state was phasing in some of the early provisions of W-2.

A pre/post time-series design such as this has many limitations. They include:

1. *The problem of simultaneous change.* A key problem is the possibility that something else changed at about the same time that AFDC was changed to W-2 (Cook and Campbell, 1979). Clearly, some major factors did change. For example, the minimum wage increased in 1996 and again in 1997, making an evaluation of W-2's effect on wages in the low-skill labor market problematic. Similarly, benefits under the Earned Income Tax Credit (EITC) were altered significantly in 1990 and in 1993 through phased increases, so an increase in employment among low-skill workers may be the effect of EITC changes rather than the replacement of AFDC with W-2. Finally, the ending of AFDC, changes in the Food Stamp program, and changes in the Supplemental Security Income (SSI) program—all components of the federal welfare reform passed in 1996—took effect approximately contemporaneously with W-2, further complicating the simple comparison of W-2 and AFDC.

Several strategies, none entirely satisfactory, are available to try to account for these changes. The change in the minimum wage provides an example. One way to compensate for its impact would be to use the results of other studies on the effect of the increase in the minimum wage on family income. Evaluators could then subtract this effect from any observed difference in income, assuming that the

remainder was owing to W-2. A second approach would be to simulate what income in the AFDC situation would have been like had the new minimum wage been in effect, and to compare income under W-2 and the new minimum wage with simulated income under AFDC and the higher minimum wage. This approach is conceptually simple but complicated in practice. Presumably an increase in the minimum wage has three effects: low-wage individuals gain higher wages, some low-wage individuals lose their jobs, and some nonworking individuals begin working because work is more worthwhile. By combining empirical estimates of the magnitude of these effects with several plausible scenarios, evaluators could estimate what income might have been had the new minimum wage been in effect. Whenever, as in this case, alternative approaches seem justifiable, a researcher might profitably conduct multiple analyses, report the results of different analyses, and make the data available for others who would prefer another approach.

Still another method of increasing our confidence that any observed change in incomes was due to W-2, rather than to other factors, would be to include the third suggested comparison (that is, compare incomes over time of higher-income families with children, defined as having taxable income, based on income tax records, above 300 percent of the poverty line) in the study. This would provide one estimate of general changes in income over these periods and could strengthen our confidence in determining whether observed changes between AFDC and W-2 were owing to W-2 or to other changes in the economy. This analysis, however, only enables the researcher to control for factors that affect individuals of all income levels; the researcher still could not distinguish between effects of W-2 and effects of other changes that affected only low-income individuals.

*2. The definition of program recipients under different policy regimes.* Another issue facing this analysis involves defining who is a W-2 recipient in a way that does not prejudice comparisons with AFDC recipients. Individuals receiving trial jobs, community service jobs, or W-2 transition placements are clearly W-2 participants. Although families that receive child care subsidies only could also be



considered W-2 participants, they cannot be in these analyses because we generally lack information on families that only received child care assistance from the AFDC period. Another difficult W-2 group includes those who come for help, are referred to a private sector unsubsidized job, begin working, and receive no other services. While W-2 managers consider these individuals clients, and appropriately will count them as successes, they cannot be included in the sample of “W-2 clients” because a comparable person was not included as an AFDC client (some individuals did receive this type of help from AFDC, although presumably a much smaller number). The analysis of income changes using the entire low-income sample may enable us to estimate effects on this “referral only” population.

3. *What to hold constant in the analysis.* This is a well-known problem of quasi-experimental designs. In evaluating the effect of W-2 effect on income, for example, one perspective is that investigators should examine effects on single-parent families and husband-wife families separately. The argument for doing so is straightforward. Because husband-wife families typically have higher incomes than single-parent families, and because a higher proportion of W-2 recipients are likely to be husband-wife families, a finding that W-2 participants have higher incomes than AFDC participants may merely reflect the composition of the caseload rather than an effect of W-2. On the other hand, W-2 could affect family-structure decisions, and under this perspective, an evaluation of the effect of W-2 on income should not control for family structure. Similarly, an evaluator might want to control for the local unemployment rate, because a change in the unemployment rate could confound an analysis of the effect of W-2. On the other hand, if W-2 affects the local unemployment rate, the investigator should not hold this constant. Both perspectives have limitations; the best solution would be to conduct both types of analyses.

If the basic evaluation proposed here is successful, it will shed light on the impact of W-2 on earnings, labor market progression, welfare utilization, and, eventually, school progression and referral to child welfare services, in comparison to the impact of AFDC on these same outcomes. The evaluation

will say nothing, however, about the independent impact of the various components of W-2. This limitation will be partially addressed by an experimental evaluation of the child support pass-through which is now under way. The U.S. Department of Health and Human Services held that the full child support pass-through could be implemented only under a federal waiver. A condition of granting the waiver was an experimental evaluation, with 4,000 control group members who receive a partial pass-through of child support.

The evaluation required by the federal terms and conditions will likely be costly, in part because a consideration of impacts which can only be assessed through surveys of family members is mandatory. One of the federal terms and conditions, for example, requires the evaluation to address this question:

Does the demonstration affect non-custodial parent involvement with his children?  
Outcome measures related to this question include, at a minimum: time spent visiting the child; type and amount of in-kind contributions to the child; time spent attending to the child's medical needs and education; and time and resources spent providing child care to assist the custodial parent (U.S. Department of Health and Human Services, 1997b).

Answering this question will require surveying a sample of both custodial and noncustodial parents and comparing differences between treatment and control group members. The noncustodial parents, whose prior experience with agencies seeking to contact them about child support have probably concerned enforcement, are likely to present special challenges to the achievement of an adequate survey response rate. Whether such efforts are justified by the increased knowledge they help create is in part a value judgment. It would certainly be difficult without an experimental evaluation and extensive surveys to separate the impacts of the child support pass-through from another component of W-2 thought by many local child support and W-2 managers to exert much influence on custodial parents: the new time limits on W-2 benefits (in contrast to the more permanent status of child support payments).

Only control group members who are in the two lower tiers of W-2 or in a temporary, 12-week status as a caretaker of a newborn child are now limited to the first \$50 or 41 percent, whichever is greater, of child support paid on their behalf. These partial-pass-through recipients are among the most

disadvantaged residue of a rapidly shrinking public assistance program. In December 1995, 55,917 families were on the AFDC Regular and Unemployed Parent programs in Wisconsin; that fell to 45,148 families in December 1996 and to 22,016 families in December 1997 (Bureau of Welfare Initiatives, 1995, 1996, 1997).<sup>5</sup> Many relatively disadvantaged custodial parents are likely to have modest expectations for child support. For partial-pass-through recipients who do not expect to receive more than \$50 per month, the distinction between being in the treatment and control groups is irrelevant—their level of child support will be the same regardless of their experimental status.

The difference between full and partial pass-through may thus not have a large effect on the relatively disadvantaged populations to whom the difference applies. Perhaps some custodial parents in the two lower categories of W-2 will be influenced by the potential for the full pass-through of child support to offer greater assistance in identifying and locating the absent parent, although the time limits on W-2 benefits will also exert influence in this direction. In the particular environment of W-2, a basic pre/post comparison of child support collections, with an effort to account for other changes that occurred at about the same time, will provide useful information at a moderate cost. The experimental evaluation of the pass-through may provide more definitive information, but at a much higher cost.

## SUMMARY AND CONCLUSION

The Wisconsin W-2 program is unique in its immediate work requirement, its emphasis on the obligations of program participants rather than program providers, and its full pass-through of child support. The program has enrolled many fewer adults in work programs, and many fewer children in

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<sup>5</sup>The caseload total for December 1997 included all AFDC and W-2 cases, including 3,361 W-2 cases in unsubsidized jobs not receiving a grant, but excluded two types of AFDC cases counted in the figures for 1995 and 1996: (1) cases in which the parent received SSI and only children received an AFDC grant and (2) cases headed by a nonlegally responsible relative. Approximately 8,000 of these cases had been transferred from W-2 to other assistance programs.

child care programs, than planners had anticipated. W-2 agencies have thus had ample resources to carry out the program at its current scale. The agencies have so far utilized community service jobs more heavily than other resources.

Efforts to learn the impacts of this program through an experimental design with random assignment to treatment and control groups are likely to be problematic. Although alternative evaluation designs also present difficulties, investigators could most efficiently assess the impacts of this version of welfare reform through a nonexperimental comparison of program participants and other low-income people for 3 years under AFDC and another 3 years under W-2. The comparison would have to make heavy use of administrative data and rely on complex estimates of the impact of other changes occurring at the same time. While difficult, such a pre/post comparison should offer a useful tool for coming to know the impacts of one comprehensive, statewide welfare reform.

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