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onstration Research Corporation's analysis of several demonstrations that used workfare, at least on a short-term basis, indicates that the workfare programs appear to have been carried out in ways that are generally considered fair by participants and productive by their supervisors.

Together, the findings from the numerous studies of work-related programs reviewed here provide a more solid basis for conclusions about such programs than do the findings from any individual study. The variation in estimates, though, also serves as a reminder of the uncertainties involved. The results of these studies should be viewed as a general indication of effectiveness in achieving the various goals, not as precise measurements.

### EFFECTS ON INCOMES

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Nearly all the studies of work-related programs reviewed here indicate that such activities increase the average earnings of economically disadvantaged female participants, usually by moderate amounts.

#### Comprehensive Employment and Training Act

Most evaluations of CETA training programs found statistically significant gains in earnings for adult female participants; women who had little previous employment generally had larger gains than others. <sup>1/</sup> Most of the estimated average annual earnings gains for women during the first year after participation were between \$800 and \$2,000 in 1985 dollars. CETA does not appear to have increased the average earnings of adult male participants.

The joint study by the Congressional Budget Office and the National Commission for Employment Policy, which examined the effects on the post-program earnings of a sample of the adults who entered CETA training programs between January 1975 and June 1976, provides representative estimates. <sup>2/</sup> The average earnings of women increased by about \$1,700 annual-

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1. The terms "insignificant" and "significant" are used throughout this chapter to denote whether or not the researchers calculated that an estimate different from zero might have been a random occurrence associated with small sample size. For example, an estimate that a group's average earnings increased by \$1,700, significant at the .10 level, means that there is less than a 1-in-10 chance that the population from which the sample was drawn had no average gain in earnings.
  2. CBO/NCEP, *CETA Training Programs--Do They Work for Adults?* (1982). The study did not examine the effects of participating in the public service employment activities also authorized by CETA.

ly (in 1985 dollars), to a level about 40 percent above their estimated earnings in the absence of the training. About four-fifths of the estimated gain for women was associated with an increase in the number of hours they worked (compared with the number they would have worked in the absence of the program). The remaining one-fifth of the gain was associated with increased hourly wage rates.

CETA training appears to have been much more effective for participants without previous work experience than for other participants.<sup>3/</sup> The estimated average annual earnings gain of women who had not been employed during the five years preceding enrollment in CETA was about \$3,300 (in 1985 dollars), double that of the women who had been employed during that period.<sup>4/</sup> For men, the effect of CETA training on earnings was small and statistically insignificant.

The CBO/NCEP study also found that the impact of CETA training on the earnings of women appeared to be positively related to the length of training and did not diminish during the first two or three years after participating in the program. The type of training--classroom training, on-the-job training, and work experience--did not appear to affect the size of the gains.

#### Work Incentive Program

Studies of the effects of participating in WIN activities during the mid-1970s also suggest that work-related activities for AFDC recipients, especially women without prior employment, can increase their earnings.

The study by Ketron, Inc., for example, estimated that during the first year after participating in WIN, women on AFDC earned an average of almost \$600 (in 1985 dollars) more than they otherwise would have (see Table 5). These gains were sustained in the second year, but were no longer statistically significant by the third year. The women without prior employment gained much more than did other women in the first year, and they continued to benefit from their participation in the second and third years.<sup>5/</sup> Men initially gained

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3. Ibid., p. 26. For the purpose of this analysis, "no previous work experience" is defined as having no earnings reported to the Social Security Administration between 1970 and entry into a CETA program about five years later.
  4. Only 12 percent of the women in the sample did not have work experience during the previous five years. Among the 88 percent who did, the average gain was about \$1,600.
  5. Prior employment means that the individual reported having a prior occupation.

TABLE 5. ESTIMATED EFFECTS ON THE ANNUAL EARNINGS AND ANNUAL AFDC RECEIPTS OF WOMEN AND MEN PARTICIPATING IN THE WORK INCENTIVE PROGRAM IN 1974 AND 1975 (In 1985 dollars)

Group	Years After WIN Participation		
	One	Two	Three
<b>Average Annual Earnings</b>			
<b>Women</b>			
No prior employment	920*	980*	750*
Prior employment <u>a/</u>	360	260	90
All women	570*	520*	340
<b>Men</b>			
No prior employment	2,420*	480	-1,180
Prior employment <u>a/</u>	630	80	-280
All men	840*	140	-370
<b>Average Annual AFDC Receipts</b>			
Women	170	120	140
Men	-190*	-340*	-240

SOURCE: Congressional Budget Office using data from Ketron, Inc., "The Long-Term Impact of WIN II: A Longitudinal Evaluation of the Employment Experiences of Participants in the Work Incentive Program, Final Report" (Wayne, Pa., January 1980), pp. 83-84.

NOTE: The original estimates by Ketron were adjusted to reflect the increase in the Consumer Price Index between 1975 and 1985, and were then rounded.

(\*) indicates that the estimate is significantly different from zero at the .10 level.

a. Prior employment means that the individual reported having a prior occupation. About 55 percent of the women and 80 percent of the men reported having prior employment.

more than women (though not in percentage terms), but their gains did not last; by the third year, the men were estimated to incur losses, though the estimates are not statistically significant. Ketron estimated that participation in the program reduced AFDC receipts of the men but had no significant impact on the AFDC receipts of the women.

Ketron also attempted to determine which types of services provided by WIN were most effective. Many WIN participants in the sample had received job placement assistance but did not report any additional activities relating to education, job training, or work experience. Assistance with job placement was estimated to be the least effective approach in increasing participants' earnings, though readers are warned that "job placement assistance" was a broad category that could have included participants who received few, if any, services. Subsidized work experience and public service employment were estimated to increase participants' earnings by more than did vocational training. It is not clear, however, whether the researchers were successful in fully adjusting for any tendency of program operators to place the most employable participants in these activities.

Caution must be exercised in interpreting the WIN estimates for three reasons. First, the estimates are based on the WIN program and its participants more than a decade ago, and therefore might not be relevant for assessing the effectiveness of the current program. Second, the AFDC rules, particularly concerning earnings disregards, have changed dramatically since these studies were conducted. Third, and most important, the techniques used to estimate program effects are subject to considerable uncertainty.

### Recent Demonstrations

Evaluation of the recent demonstration programs by MDRC generally confirm and extend some of the key results reported above for CETA and WIN. Because MDRC's studies used random assignment of individuals to an experimental or control group, greater confidence can be placed in their estimates of the direct effects of the programs on participants' earnings and receipt of AFDC payments. Moreover, because the activities were carried out after the major changes in AFDC rules concerning earnings disregards were made in 1981, the estimates of welfare savings are more relevant to the current situation.

The interpretation of their findings, though, is still not straightforward. The design and operation of the demonstrations differed among sites. Moreover, the environments within which the demonstrations operated varied between locations and over time. The observed effects differ considerably from one site to another and, occasionally, from one cohort of participants to another at the

same location. It has not been possible to isolate the extent to which these differences result from the variation in the design of the demonstrations themselves, rather than from other causes.

In four of the five demonstrations evaluated by MDRC, most people in the experimental (treatment) groups who engaged in any activity participated in job search assistance. However, their other activities--for example, whether they received training or participated in workfare projects--differed considerably among sites. The number of people actually participating in activities also differed greatly. The estimated effects for the demonstrations discussed here are the effects of being in a treatment group--not of actually receiving work-related assistance. <sup>6/</sup>

Earnings and Employment. The average earnings of members of the treatment group exceeded those of the control group in each location except West Virginia, although the gains were not statistically significant in all cases (see Table 6). In Arkansas and Virginia, both of which emphasized job search assistance, the average gains during the period for which earnings data were available (two and three quarters, respectively) were about \$30 to \$40 per quarter. As a percentage, however, the Arkansas gains were quite substantial--the members of the treatment group earned an average of 36 percent more than their counterparts in the control group.

Much larger increases in earnings were recorded for the demonstration in San Diego that combined job search and workfare--about \$140 per quarter during the observation period. Moreover, data for participants who were followed for two additional quarters indicate that these gains persist, averaging about \$140 per quarter during this period as well.

A major cause of the average earnings gains for members of the treatment groups is that more of them obtained jobs than would have in the absence of the program. In Arkansas, Virginia, Baltimore, and the job search/workfare demonstration in San Diego, the majority of the gains in earnings was associated with statistically significant increases in the employment rates of the members of the treatment group, relative to the control group, during most of the observation periods. For example, in the San Diego job search/workfare demonstration, during the last quarter for which information is available for

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6. Because even members of the experimental group who received no work-related assistance were subject to stronger work-related requirements than were members of the control groups, the comparison groups must include them. In Baltimore, about half of the members of the treatment group participated in one or more activities, including 40 percent who received education or training assistance. In San Diego, too, about half participated; most of the participants attended group sessions for job search assistance, and over one-fourth were also in short-term workfare.

the full sample, 42 percent of the treatment group was employed, compared with 38 percent of the control group. The average quarterly earnings of job-holders in the treatment group and the control group were about \$2,200 and \$2,000, respectively. <sup>7/</sup>

The estimates for participants in the San Diego experimental group for whom the only activity was job search are so sensitive to which cohort they were in that no conclusions can be reached about this demonstration's effect on earnings (they are not shown in Table 6). <sup>8/</sup> Moreover, the inability to account for the difference in outcomes between the two cohorts highlights the need to be cautious in generalizing from any specific set of results. The results for West Virginia provide strong evidence that--under the specific conditions in which the demonstration was operated in that state, which included a chronically depressed labor market in a rural setting--requiring AFDC nonexempt recipients to participate in workfare as long as they remain on welfare does not improve their average earnings or increase their employment rates. As emphasized by MDRC, this finding was not surprising to the program's proponents, and they did not consider it a sign of failure. The major goal in West Virginia was to provide participants with useful work experience, not to increase their earnings or to save money. Had earnings increased, it would have been an additional benefit.

Other estimates from these demonstrations support the previous finding that work-related programs tend to be most effective in increasing the earnings of women who lack substantial work experience. In Baltimore, members of the experimental group who had not worked in the year before being randomly assigned increased their earnings during the first year by over \$300, while those who had worked during that year experienced no significant effect on their earnings. In San Diego's job search/workfare demonstration, those who had

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7. The average earnings of job-holders were estimated by dividing the quarterly earnings of the group by the proportion employed during that quarter. The earnings data only indicate whether an individual held a job any time during the quarter and, if so, what he or she earned during the entire quarter. Therefore, it is not possible to determine hourly wage rates or the number of hours worked. In other demonstration sites, the earnings levels of job-holders were generally lower--for example, about \$1,000 during the third quarter in Arkansas and about \$1,600 during the fifth quarter in Baltimore.
  8. Based on the gains in earnings observed for individuals who entered the experiment during October 1982 through March 1983, one would conclude that the demonstration was quite successful in increasing average earnings, with gains of between \$100 and \$250 per quarter, and significant gains in four of the seven quarters observed. But the cohort who entered the experiment during April 1983 through August 1983 experienced losses in earnings during all five of the quarters observed, including one loss that was significant.

TABLE 6. ESTIMATED SHORT-TERM EFFECTS ON THE EARNINGS AND EMPLOYMENT OF PARTICIPANTS IN FIVE WORK-RELATED DEMONSTRATIONS

Quarter <u>a</u> /	Estimated Quarterly Earnings (In current dollars)			Estimated Percentage Employed During Quarter	
	In Absence of Program <u>b</u> /	Impact of Program <u>c</u> /		In Absence of Program <u>d</u> /	Impact of Program <u>e</u> / (In percentage points)
		Dollars	Percent		
<b>Arkansas</b>					
Second	86	54*	63*	9.6	5.0*
Third	127	23	18	12.2	3.1*
Average	106	38*	36*	10.9	4.0 <u>f</u>
<b>Baltimore, Maryland</b>					
Second	333	-14	-4	24.0	3.2*
Third	408	60*	15*	27.9	4.5*
Fourth	505	66	13	31.6	3.1*
Fifth	513	65	13	31.6	5.0*
Average	440	44	10	28.8	4.0 <u>f</u>
<b>San Diego, California <u>g</u></b>					
Second	369	141*	38*	28.7	6.9*
Third	538	163*	30*	32.3	7.8*
Fourth	693	117*	17*	36.9	5.5*
Fifth	729	119*	16*	37.5	5.4*
Sixth	773	161*	21*	38.1	3.8*
Average	620	140*	23*	34.7	5.9 <u>f</u>
<b>Virginia</b>					
Second	285	0	0	26.4	1.9
Third	346	35	10	27.9	3.3*
Fourth	407	46	11	30.5	3.9*
Average	346	27	8	28.3	3.0 <u>f</u>

(Continued)

TABLE 6. (Continued)

Quarter <u>a/</u>	Estimated Quarterly Earnings (In current dollars)		Estimated Percentage Employed During Quarter		
	In Absence of Program <u>b/</u>	Impact of Program <u>c/</u> Dollars      Percent	In Absence of Program <u>d/</u>	Impact of Program <u>e/</u> (In percentage points)	
<b>West Virginia</b>					
Second	95	6      6	9.9	-0.8	
Third	112	21      19	11.2	-0.3	
Fourth	155	-7      -5	13.1	-1.0	
Fifth	173	-11      -6	13.8	-1.1	
Sixth	178	-9      -5	13.8	-0.4	
Average	143	0      0	12.4	-0.7 <u>f/</u>	

SOURCE: Congressional Budget Office using data from the Manpower Demonstration Research Corporation.

NOTE: (\*) indicates that the estimate is significantly different from zero at the .10 level.

- a. Because some of the earnings and employment in the first quarter occurred before individuals were randomly assigned, they are not included here. The quarterly average reflects only those quarters reported here.
- b. Quarterly earnings of control group.
- c. The impact of the program is measured as the difference between the earnings of the experimental group and those of the control group (after adjusting for minor differences in the characteristics of the two groups).
- d. Percentage of the control group employed at any time during the quarter.
- e. The impact of the program on employment of the experimental group.
- f. Significance tests for the average effects on employment are not available.
- g. Includes estimates for the experimental group eligible for job search assistance and short-term workfare; estimates for group eligible only for job search assistance are not reported here.

TABLE 7. ESTIMATED SHORT-TERM EFFECTS ON RECEIPT OF AFDC BY PARTICIPANTS IN FIVE WORK-RELATED DEMONSTRATIONS

Quarter	Estimated Quarterly AFDC Receipts (In current dollars)			Estimated Percentage Receiving Any AFDC During Quarter	
	In Absence of Program <u>a/</u>	Impact of Program <u>b/</u> Dollars	Percent	In Absence of Program <u>c/</u>	Impact of Program <u>d/</u> (In percentage points)
<b>Arkansas</b>					
First	258	-9	-3	69.0	-2.4
Second	317	-41*	-13*	71.4	-5.8*
Third	289	-43*	-15*	63.8	-6.9*
Average	288	-31*	-11*	68.1	-5.0 <u>e/</u>
<b>Baltimore, Maryland</b>					
First	672	7	1	92.1	0.4
Second	672	7	1	87.5	-0.2
Third	593	0	0	78.2	-0.8
Fourth	569	-6	-1	73.2	-1.5
Fifth	558	-15	-3	70.4	-1.7
Average	613	-2	0	80.3	-0.8 <u>e/</u>
<b>San Diego, California <u>f/</u></b>					
First	752	-18	-2	80.3	-2.0
Second	765	-70*	-9*	67.6	-3.4*
Third	653	-71*	-11*	56.2	-4.5*
Fourth	580	-67*	-12*	47.9	-2.0
Fifth	501	-39	-8	41.1	-1.7
Sixth	445	-22	-5	36.2	-1.2
Average	616	-48*	-8*	54.9	-2.5 <u>e/</u>
<b>Virginia</b>					
First	551	-9	-2	82.9	-0.2
Second	547	-24*	-4*	76.4	0
Third	478	-30*	-6*	67.5	-1.6
Fourth	430	-20	-5	59.8	-0.1
Average	502	-21*	-4*	71.6	-0.5 <u>e/</u>

(Continued)

TABLE 7. (Continued)

Quarter	Estimated Quarterly AFDC Receipts (In current dollars)			Estimated Percentage Receiving Any AFDC During Quarter	
	In Absence of Program <u>a/</u>	Impact of Program <u>b/</u> Dollars	Percent	In Absence of Program <u>c/</u>	Impact of Program <u>d/</u> (In percentage points)
<b>West Virginia</b>					
First	449	3	1	93.2	1.0
Second	454	5	1	86.7	0.9
Third	413	-2	0	79.0	-1.0
Fourth	377	-7	-2	72.5	-1.5
Fifth	351	-15*	-4*	67.8	-2.3
Sixth	337	-9	-3	63.5	-1.7
Seventh	341	-16*	-5*	60.7	-2.8*
Average	389	-6	-1	74.8	-1.1 <u>e/</u>

SOURCE: Congressional Budget Office using data from the Manpower Demonstration Research Corporation.

NOTE: (\*) indicates that the estimate is significantly different from zero at the .10 level.

- a. Quarterly AFDC receipts of control group.
- b. The impact of the program is measured as the difference between the AFDC receipts of the experimental group and those of the control group (after adjusting for minor differences in the characteristics of the two groups).
- c. Percentage of the control group receiving AFDC at any time during the quarter.
- d. The impact of the program on AFDC receipts of the experimental group.
- e. Significance tests for the average effects on percentage receiving AFDC are not available.
- f. Includes estimates for experimental group eligible for job search assistance and short-term workfare; estimates for group eligible only for job search assistance are not reported here.

not worked in the previous year gained three times as much as the others. <sup>9/</sup> These findings are especially noteworthy because, unlike the CETA estimates, they could not be attributed to failure to adjust fully for selection bias.

Receipt of AFDC. Significant reductions in the average amounts of AFDC received by the experimental groups (compared with the corresponding control groups) were estimated by MDRC in Arkansas, San Diego, and Virginia, but not in Baltimore (see Table 7, previous page). Significant reductions in the percentage of the experimental groups receiving benefits were estimated in two of the three quarters in Arkansas and two of the six quarters in San Diego. In West Virginia, where the workfare program had no effect on earnings, little impact on AFDC was found.

Predicting longer-term effects of program participation on total family incomes and other measures of economic well-being is especially difficult. In some demonstrations (for example, in the San Diego job search/workfare program), the decline in AFDC benefits was considerably smaller than the increase in average earnings during the observation period, but this effect was not observed in other demonstrations (Arkansas, for example). Even if an individual's earnings gains exceeded the reduction in AFDC and other cash transfers, the related loss of Medicaid eligibility--and whether the new employers provide health insurance--could be critical. <sup>10/</sup> Costs of child care and other work-related expenses must also be taken into account. On the other hand, although the immediate gains in earnings might be small, the new employment could open up opportunities for subsequent higher-paying jobs that might not otherwise have been available.

## EFFECTS ON GOVERNMENT BUDGETS

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Whether a work-related program for AFDC recipients costs or saves governments money depends on the magnitudes, if any, of the following elements: the operating costs incurred (including costs for child care and other supportive services); the savings from AFDC and other transfer programs attributable to their reduced use by program participants; the revenue gains resulting from the participants' increased earnings; the costs of AFDC and other transfer programs resulting from their increased use by nonparticipants; and the revenue losses caused by nonparticipants' reduced earnings. Any estimates of a program's budgetary effects must be based on information or assumptions about each of these components (see accompanying box).

9. Those who had not worked during the previous year gained about \$1,050 during the five quarters for which data are available, compared with \$350 for the others; the latter estimate is not statistically significant.
10. MDRC did not collect information on health insurance coverage.

**ESTIMATING THE MAJOR BUDGETARY EFFECTS OF A  
WORK-RELATED PROGRAM FOR AFDC RECIPIENTS**

**1. Operating Costs**

For most work-related programs, these costs would occur during the year in which a person enrolled, and could be estimated from program records. In addition to the direct expenses associated with operating these programs, costs might be incurred for providing supportive services, such as child care and transportation allowances.

**2. Savings from AFDC and Other Transfer Programs Attributable to Reduced Usage by Program Participants**

Outlays for benefits and administrative costs for AFDC, Food Stamps, Medicaid, and other transfer programs for participants in work-related programs might decrease.

Estimation of savings during the period for which the participants' actual usage has been observed requires a basis for figuring what their usage would have been in the absence of the program.

Estimation of savings beyond the observation period requires a basis for projecting the rate at which the savings would rise or fall.

**3. Tax Revenues Attributable to Increased Earnings of Work Program Participants**

Income, payroll, and sales taxes paid by, or on behalf of, participants might grow as a result of any increase in their earnings and total incomes.

Estimation during and beyond the observation period involves issues similar to the ones discussed above.

**4. Costs of AFDC and Other Transfer Programs Attributable to Increased Usage by Nonparticipants**

Individuals who attain higher earnings as a result of their participation in a work-related program could do so by obtaining jobs that, if not for the program, would have been held by others. Costs of transfer programs would rise to the extent that nonparticipants' earnings are reduced and their use of AFDC, unemployment insurance, or other programs is increased.

Estimation during and beyond the observation period requires making assumptions about the extent to which displacement would occur and the characteristics of those displaced.

**5. Revenue Losses Attributable to Reduced Earnings of Nonparticipants**

Income, payroll, and sales taxes paid by, or on behalf of, nonparticipants might decrease as a result of any reduction in their earnings and total incomes.

Estimation during and beyond the observation period involves the same type of assumptions about displacement as noted above.

The most pertinent information about the direct effects of work-related programs on governmental costs comes from the demonstrations evaluated by MDRC. For each demonstration, MDRC calculated the costs incurred by federal, state, and local governments, and the extent to which these costs were offset by reductions in welfare payments to participants and by increases in taxes paid by them. They did not, however, calculate any effects on nonparticipants' use of transfer programs or tax payments. MDRC's estimates of the direct effects on all levels of government are shown in Table 8. <sup>11</sup> In these demonstrations, the costs to government agencies of operating these programs ranged from less than \$200 per member of the experimental group in Arkansas to about \$1,000 in Baltimore. (Recall that all estimates of costs and benefits in each of these studies are calculated for the entire group, not just the individuals who received services; the average costs for those actually receiving services would be larger.)

Most of the outlays were for direct operating costs, such as the wages of staff to administer the program and provide the activities to participants. The estimated costs attributable to being in the demonstration are those incurred for the experimental group net of those incurred for the control group.

Some government funds were also spent for child care, transportation allowances, and other supportive services (included in the operating cost estimates reported in Table 8). Costs for child care turned out to be a minor portion of total costs even in Arkansas, where many of the participants were the mothers of children ages three through five. In that demonstration, for example, less than 10 percent of the demonstration's costs were for child care. One reason why child care costs were so small is that many of the participants' activities could be done on a part-time basis. For example, the group sessions for job search assistance in the Arkansas demonstration met only three hours a day. Similarly, in West Virginia, costs for child care accounted for less than one-quarter of the average cost of \$260 per person. There, most workfare activities for mothers were held during the school year and during school hours.

In Arkansas, San Diego, and Virginia, the demonstrations are estimated to have reduced the average cost of providing AFDC and benefits from other transfer programs to members of the experimental group by at least as much as the cost of operating the program. Increased tax revenues provided additional

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11. MDRC reports contain ranges of estimates, depending on assumptions about the extent to which the effects of a program would diminish (or "decay") after the observation period. For each demonstration, one of the assumptions was that of moderate decay (between 22 percent and 30 percent per year). The numbers in Table 8 reflect this assumption. The implications of alternative decay rates used by MDRC are discussed below.

budgetary gains. In Arkansas, for example, the cost of transfer programs for the average member of the group would decrease by an estimated \$800 over a five-year period, compared with an operating cost of \$158; in addition, she would pay \$49 more in taxes. Thus, over a five-year period, the Arkansas program is estimated to pay for itself several times over. In contrast, the transfer program savings and increased tax revenues attributed to the Baltimore demonstration over the five-year period are estimated to be substantially below their operating costs, despite the program's positive effect on participants' earnings and, therefore, on tax revenues.

Finally, West Virginia's demonstration was the only one in which operating costs were projected beyond the observation period. Unlike the other programs, this one requires eligible recipients to participate for as long as they are receiving benefits. Small savings in transfer programs are estimated to offset only about one-third of the operating costs.

Several elements of MDRC's methodology should be borne in mind when interpreting these results. First, in most sites the majority of the estimated offsetting savings and revenue gains are based on projections of what will happen after the observation periods end. The estimates shown in Table 8 are based on the assumption that benefits observed during the most recent half-year will diminish at a moderate rate over the remainder of the five-year estimation period.<sup>12/</sup> During the observation periods, the effects for the Arkansas and San Diego demonstrations were sufficiently large to offset the programs' costs, but those for the Virginia demonstration were not. The Baltimore program's estimated net cost would be much higher if there were no effects estimated beyond the observation period.

MDRC also estimated the budgetary effects of several of the demonstrations based on alternative assumptions about the rates at which the effects diminish (known as the "decay rate"). One assumption was that the benefits observed during the most recent half-year will persist for the remainder of the five-year period. Under this assumption, the estimated savings in transfer programs and revenue gains are, of course, larger. Consequently, the estimated budgetary effects of the demonstrations would be more favorable. For example, the net savings for the Arkansas project would be about \$1,160, rather than

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12. The observation periods used in Table 8 are longer than the ones reported in Tables 6 and 7. In those tables, estimates of the short-term effects for the full sample in each demonstration site were reported. Information is also available for a longer period for part of the sample (the earliest ones to enter the experiment). For purposes of estimating effects over a five-year period, MDRC used this information as well.

TABLE 8. ESTIMATED FIVE-YEAR BUDGETARY EFFECTS OF FIVE WORK-RELATED DEMONSTRATIONS (Impact per member of experimental group, in 1984 dollars)

	Location				
	Arkansas	Baltimore, Maryland	San Diego, California <u>a/</u>	Virginia	West Virginia
<b>Operating Costs</b>					
Total	158	1,038	636	430	260
Observation period	158	1,038	636	430	158
Projected <u>b/</u>	0	0	0	0	102
<b>Costs of AFDC and Other Transfer Programs</b>					
Total	-800	-500	-1,215	-440	-88
Observation period	-321	-273	-667	-147	-66
Projected <u>b/</u>	-479	-227	-550	-293	-25

SOURCE: Calculated by Congressional Budget Office using estimates from the Manpower Demonstration Research Corporation.

NOTE: The estimates are averages for members of the AFDC experimental groups, including individuals who might not have received any services. They indicate the average change in costs or revenues caused by the demonstrations for all levels of government combined.

Details may not add to totals because of rounding.

a. Estimates are for the group eligible for job search and short-term workfare.

TABLE 8. (Continued)

	Location				
	Arkansas	Baltimore, Maryland	San Diego, California <u>a/</u>	Virginia	West Virginia
	Revenues <u>c/</u>				
Total	49	247	371	149	3
Observation period	10	81	147	35	7
Projected <u>b/</u>	39	166	224	114	-5
	Net Impact (Assuming No Displacement of Workers) <u>d/</u>				
Total	-691	291	-950	-159	169
Observation period	-173	684	-178	248	85
Projected <u>b/</u>	-518	-393	-774	-407	82

- b. MDRC projected budgetary impacts using alternative assumptions about the extent to which effects estimated for the most recent half-year would persist for the remainder of the five-year period. The estimates shown here are based on the MDRC projections for which effects were assumed to diminish at a moderate rate: 30 percent for Arkansas; 22 percent for Baltimore, Virginia, and West Virginia; and about 25 percent for San Diego. See the text for additional information about MDRC's assumptions and about the effects of using alternative ones.
- c. Revenue additions reduce the net cost of a program.
- d. In each site, the net impact equals the estimated operating costs minus the estimated reduction in transfer program costs and the estimated increase in revenues. A negative net impact indicates that the program is estimated to save governments money (in the absence of displacement), and a positive net impact indicates that it is estimated to cost money.

\$690; and the net loss for the Baltimore demonstration would be reduced from \$290 to \$60 per member of the experimental group. The net savings for the Virginia demonstration would more than double, from \$160 to \$340.

The assumptions used for the projections can only be tested by acquiring additional data. <sup>13/</sup> The quarterly patterns observed in most of the demonstrations suggest that MDRC's assumption that the effects will diminish at only a moderate rate is a reasonable one, but they do not provide sufficient information to make an accurate projection. <sup>14/</sup> MDRC may be too pessimistic or too optimistic about the extent to which the observed effects will persist. If, for example, the assistance provided to recipients enabled them to acquire work experience that increases their long-term employability, then the program may have put them onto a permanently higher earnings path. If the program only helped them find jobs a little faster than they would have on their own, however, then the effects might diminish at a faster rate than assumed by MDRC.

MDRC's exclusion of any effects beyond the five-year period appears overly pessimistic. Presumably some of the effects would persist beyond that time. <sup>15/</sup> Moreover, MDRC used a real discount rate of 5 percent per year to reflect the lower present value of benefits to be received in the future. This rate is somewhat higher than the discount rate commonly used by analysts of government programs. Had MDRC used a longer projection period or a lower discount rate, their estimates of the savings in transfer programs and gains in revenues would have been higher.

Another key assumption underlying the estimates in Table 8 is that no displacement occurred. If, at the other extreme, one assumed that each AFDC recipient who obtained a job as a result of program participation displaced a similar person who then entered or remained on AFDC, the net budgetary impacts of the demonstrations would simply equal their operating costs (that

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13. MDRC is currently tracking the effects of the Baltimore demonstration beyond the two years used in the final report.
  14. The decay rate used by MDRC for the majority of their projections--22 percent per year--was based on the decay rate estimated by Ketron in their evaluation of WIN's effects in the mid-1970s. That estimate is subject to considerable uncertainty. The effects projected for the San Diego program were based on decay rates estimated for the observation period.
  15. The present value of such effects would, of course, be smaller for later years than for the immediate years. For example, assuming effects will diminish at a rate of 22 percent and using a discount rate of 5 percent, the present value of a \$100 savings in AFDC costs this year would diminish to less than \$30 by the fifth year and less than \$10 by the tenth year.

is, there would be no budgetary offsets). Neither alternative is realistic. The chance of displacement makes MDRC's revenue estimates especially problematic, because if aggregate earnings are unaffected, then there will probably be no revenue gain. <sup>16/</sup> On the other hand, welfare savings would still occur to the extent that the displaced individuals did not receive transfer payments. As discussed in Chapter III, probably no more than one-fifth of these people would be eligible for AFDC, although some might be eligible for other transfer programs.

Finally, the revenue estimates were made under tax rules before passage of the Tax Reform Act of 1986. The reduced effective income tax rates for low-income families under the new law will almost certainly lower (and could eliminate) federal income tax revenues on their increased earnings. Federal income taxes account for about 40 percent of the revenue gains estimated for Arkansas, Baltimore, and Virginia, and about 50 percent for San Diego. <sup>17/</sup> In contrast, both employees and their employers would still incur Social Security taxes, and the employees would still pay state income, sales, and other taxes.

In sum, the findings from these studies suggest that the participants in several recent demonstrations will have reduced their use of transfer programs and increased their tax payments by enough to offset operating costs within five years. In the absence of displacement, for example, the Arkansas and San Diego demonstrations show net savings even if there were no effects beyond their observation periods. Estimates for the Virginia demonstration indicate that the program would save money even if the effects diminished at a much more rapid rate than was assumed by MDRC.

Without knowing the extent to which the participants might have displaced others people, however, firm conclusions cannot be reached about whether or not work-related programs "pay for themselves." In the Arkansas demonstration (assuming that the effects diminish at the rate indicated), displacement would need to be very high before the program would no longer show a savings; in Virginia, on the other hand, an offset of about 30 percent as a result of displacement would change the estimate from one of moderate net sav-

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16. Total revenues could even decrease if the income tax rates of the displaced workers would have been higher than those of the AFDC recipients who obtained the jobs.
  17. For example, MDRC's final report for Arkansas indicates that \$21 of the \$49 in estimated revenue gains for the five-year period is from the federal income tax; \$18 is from the Social Security tax; and \$10 is from state income, sales, or other taxes. The reports for Baltimore, San Diego, and Virginia provide the disaggregation of revenues for the observation periods only.

ings to one of small net costs. <sup>18/</sup> Using a lower decay rate or discount rate or a longer projection period would result in more favorable estimates, while using a higher decay rate or the current federal income tax schedule would result in less favorable estimates.

### EFFECTS ON RECIPIENTS' CONTRIBUTIONS TO SOCIETY

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Some observers argue that work-related requirements are important, whether or not they increase the incomes of participants or lower governments' costs for welfare programs. As discussed in Chapter I, such requirements are advocated by people who want to assure that recipients contribute to society in whatever way they can and to discourage individuals who can get jobs from being on welfare. The Job Training Partnership Act and its predecessors have not been used directly for these purposes because participation has been voluntary. WIN was established partly to impose and enforce an obligation on recipients to at least participate in a job search assistance program. It has not been successful in doing so, however, in that only a minority of eligible recipients have had to participate. This failure is commonly attributed to a lack of funds.

A major objective of the relevant provisions of the Omnibus Budget Reconciliation Act of 1981 was to encourage states to require that more AFDC recipients participate in work-related programs, including workfare. States were given the authority to do so and were given access to additional federal funds. One purpose of the recent demonstrations was to test the feasibility of operating a program in which a larger portion of the eligible population would be required to participate, and to gauge the reactions of the people affected. In practice, few jurisdictions have opted to impose and enforce new work-related requirements on larger numbers of their eligible AFDC populations. In most places, participation in job search assistance programs has been the only required activity. The program component that has probably caused the most controversy--workfare--has played only a minor role.

Nonetheless, the results of the recent demonstrations suggest that it is feasible to engage a higher percentage of AFDC recipients in work-related

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18. The estimates reported in Table 8 indicate that the transfer program savings and revenue gains in Arkansas were over five times the program's cost. Therefore, even if four-fifths of these effects were offset by higher transfer costs and lower taxes for nonparticipants, the program would still be estimated to pay for itself. For the San Diego job search/workfare demonstration, savings to governments from participants' reduced use of transfer programs and higher tax payments would be insufficient to pay for the program if job losses by nonparticipants offset about 60 percent of these effects. For the Virginia demonstration, the margin would be even smaller.