programs than has generally been done, at least in these five jurisdictions. MDRC found that the majority of the individuals in the treatment groups in most of their evaluation sites received, at a minimum, the services of a job search assistance program within one year of entering the demonstration. Recipients, for the most part, complied with the new requirements, and few were penalized for not fulfilling their obligations. 19/

In several of the demonstration sites evaluated by MDRC, workfare was required of certain recipients--usually following unsuccessful job search assistance and usually limited to a maximum duration of three months. Only in West Virginia was the workfare requirement open-ended. There, monthly participation rates in workfare projects peaked at about 20 percent among the AFDC population available for assignment and at almost 70 percent among the AFDC-UP population. The latter percentage occurred under favorable circumstances, including special funding for a "saturation" demonstration and an agency staff with a strong commitment to the program.

An important reason for imposing a work requirement on recipients may be for the general public to obtain something of value from recipients in return for their benefits. In West Virginia, in particular, the planners of the workfare demonstration promoted it partly as a way of providing public services that had previously been provided through the CETA public service employment program, and that they could otherwise not afford. 20/

MDRC's analysis of the work performed by the workfare participants in West Virginia and elsewhere suggests that this goal was achieved. Recipients were assigned to a wide range of government agencies and nonprofit organizations. The majority of AFDC workfare assignments were in clerical and service jobs, while the majority of AFDC-UP assignments were in maintenance and construction activities. Surveys of worksite supervisors indicated that the AFDC workers were, on average, at least as productive as regular employees and that the value of their output exceeded the cost of the program. 21/

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19. For example, within nine months after random assignment in the West Virginia workfare demonstration, 1.8 percent of the experimental group of AFDC recipients had been sanctioned (that is, penalized for not complying) compared with 1.7 percent of the control group. Among the AFDC-UP participants in West Virginia's workfare program, 6.3 percent were sanctioned, compared with 2.8 percent in the comparison group.

20. The background for West Virginia's decision to operate workfare programs is described in MDRC's final report. The public service employment program ended in 1981, the year in which the proposal for the workfare demonstration was prepared.

21. In West Virginia, the average productivity of the AFDC participants and of the AFDC-UP participants was judged to be 8 percent and 22 percent higher, respectively, than that of regular workers doing the same jobs.

Finally, an interesting question is whether the recipients perceive the work-related requirements to which they are subject as fair, or whether they comply with them only because the value of their AFDC and Medicaid benefits still outweigh the personal costs. MDRC's surveys of participants in workfare activities found that the majority of participants appeared to accept the requirement as a legitimate objective of the welfare system.

EFFECTS ON SOCIETY AS A WHOLE

The above discussion of program impacts has focused primarily on their effects on recipients' incomes, on government budgets, and on the extent of recipients' participation in work-related activities. A broader framework would be to consider the effects of these programs from the perspective of society as a whole. Instead of estimating whether a program subtracts from or adds to a government's net expenditures, for example, one could examine whether the nation as a whole is made better off or worse off by the program. Most evaluators use an approach known as "benefit-cost analysis" to address this issue.

The costs of a work-related program to society as a whole include the costs of the resources expended, regardless of who pays for them. These costs are compared with the gains to society in terms of the increased value of the goods and services produced as a result of the program. Its effects on the amount of AFDC and other transfer payments and on tax revenues are not part of a societal benefit-cost analysis, because these effects involve the distribution of goods and services, not their level. (Any savings in the costs of administering transfer programs as a result of a reduction in their use, however, is a savings to society as a whole and is therefore included in the estimates.)

Using this approach, MDRC estimated that, over a five-year period, each of the five work-related demonstration programs discussed here had societal benefits that exceeded their costs--with the net gains per member of the experimental group ranging from about $300 in Arkansas to $2,000 in San Diego. In each site except West Virginia, the major benefit to society was the increased output associated with the earnings gains of the participants. In the West Virginia demonstration, the value of the output produced by the workfare participants was the major benefit.

The uncertainties discussed above are relevant here as well. In particular, displacement of nonparticipants would reduce the benefits to society, except for gains to society associated with the redistribution of job opportunities. Moreover, as MDRC notes, their estimates do not include many costs and benefits that are more difficult to quantify. The effects on the children of their mothers' working, rather than receiving AFDC, for example, are not measured even though these effects could be more important to society than those that are estimated. These effects could be positive or negative. Similarly, the participants and other members of society may prefer that they work for reasons other than the value of their output as such. For example, work might provide recipients with a higher self-esteem, and taxpayers might feel better about providing transfer payments to individuals whom they perceive as trying to help themselves.

CHAPTER V

ISSUES AND APPROACHES IN DESIGNING WORK-RELATED PROGRAMS FOR WELFARE RECIPIENTS

The studies reviewed in Chapter IV indicate that carefully designed work-related programs for AFDC recipients have the potential to achieve many of the goals sought by their proponents. These outcomes, though, are not always realized, and the best available information is not always good enough for predicting the circumstances under which they will occur.

An important lesson from these studies is the need to have moderate expectations about whether work-related programs are likely to meet one or more of their goals: raising living standards of recipients and their families, reducing welfare costs, and requiring recipients to contribute to society in whatever ways they can. For example, reductions in the number of participants receiving transfer payments and in the amounts they received offset at least part of the costs of operating the demonstration programs recently evaluated by the Manpower Demonstration Research Corporation, but whether these activities pay for themselves in the long run is not known.

This chapter draws on the findings from the earlier parts of this report to examine issues and options concerning eligibility criteria, program activities, and financing that the Congress might consider if it decided to change the current work-related programs for AFDC recipients or to develop new ones. Issues considered include:

- How to define eligibility for--or the requirement to participate in--work-related activities;

- Whether to require states to enroll minimum percentages of their eligible AFDC population in work-related programs;

- Whether to reward states for increasing the earnings of participants, reducing welfare costs, or achieving other objectives in their work-related programs;

- Whether to encourage or require states to concentrate work-related activities on specific groups;

- o Whether to encourage or require states to emphasize specific activities, such as job search assistance, education, training, workfare, or child care subsidies; and

- o The amount of funds to be provided by the federal government.

The resolution of these issues would most likely reflect the priority given to the various possible goals, as well as the information available about the potential effects of one approach or another. Those people whose primary objective is to increase the incomes of welfare recipients, for example, might make different decisions than would those whose first priority is to reduce welfare costs--even if they agreed on the evidence.

In deciding many of these questions, the Congress would also need to address an important set of cross-cutting issues: How prescriptive should the federal government be in setting the terms under which the programs operate, and how much flexibility should the states be given? Many of the specific issues relating to program design can be thought of as involving two decisions:

- o Should the federal government tell the states what to do?

- o If so, what should the mandate be?

For example, should the decision about whether to exempt mothers of young children be made by the federal government or by the states? If the former, what should the decision be? Should the federal government require all states to operate specific types of work-related programs, such as workfare or education? If so, which ones and for whom?

The usual argument in favor of being highly prescriptive in the design of federal programs administered by the states is that this is the best way of assuring that the national purpose will be achieved. State governments, given considerable latitude, would set their own priorities, which could differ from those for which the program was enacted. The standard argument in favor of providing states with flexibility is that they are in the best position to determine what would be most effective, because they are most knowledgeable about the environment in which the programs operate. 1/

1. In the general debate over welfare reform, this issue has also arisen in the context of whether the federal government should set minimum benefit standards and whether it should require states to provide benefits to unemployed parents.

Five proposals introduced in early 1987 exemplify the range of possible approaches the Congress could adopt. The Administration's Greater Opportunities through Work (GROW) bill, for example, would require states to enroll specified percentages of the eligible AFDC population. Recipients would be required to participate in one or more work-related programs, including job search, workfare, education, and JTPA-funded training. Caretakers of young children would no longer be exempt from participation, except for mothers up to six months following birth. State costs would be matched on an open-ended, 50/50 basis (except for education and training costs).

The Work Opportunities and Retraining Compact (WORC) bill would require states to develop comprehensive employment and training plans for AFDC recipients and to offer education and training options to those who need them to become employable. The federal government would pay for at least 70 percent of education and training costs, increasing its share to 75 percent for states who meet specified performance standards. Exemptions would be similar to current law, except that states would have the option of requiring participation for recipients caring for children between the ages of three and six if child care were provided; individuals could refuse employment if it would result in lower income. Costs for administration and supportive services would be matched on a 50/50 basis.

The Fair Work Opportunities bill would substantially increase funding for WIN and require states to establish comprehensive programs, including education, training, job search, and supportive services; workfare would be prohibited. 2/ States would be required to match 25 percent of the additional amount and would receive extra funds for meeting or exceeding specified performance standards.

The Jobs for Employable Dependent Individuals (JEDI) bill would give states bonuses for providing education and training programs for certain recipients who then find jobs and go off AFDC for at least one year. The size of the bonuses to states would be based on the average federal benefits paid to those recipients and their families during the two years before qualifying for the bonus. 3/

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2. Title IV-C of the Social Security Act authorizes the appropriation of such sums as may be necessary for WIN activities. About $200 million was appropriated for 1986 and about $100 million for the first nine months of this year. The Fair Work Opportunities bill would authorize $500 million for 1988 and such sums as may be necessary in later years.

3. Participants who might qualify states for bonuses would include heads of households who received AFDC benefits and who meet either of two criteria. First, they received benefits continuously for two years and did not work during the previous year. Second,

The Family Welfare Reform bill would establish a National Education, Training, and Work (NETWORK) program. States would be required to offer a wide range of activities to participants, including educational programs for those who have not completed high school, job search and placement assistance, and employment counseling. States would have the option of requiring caretakers of children under age six to participate in the program on a part-time basis if child care assistance were guaranteed by the program. The federal government would reimburse states for 75 percent of the program's costs. 4/

The costs of these and other work-related proposals are extremely difficult to predict. In general, the operating costs would depend on the specific terms of the proposal and on how states chose to respond to the requirements or incentives established. For example, the costs for child care associated with the GROW proposal would depend on the extent to which the mothers of pre-school-age children were used to meet the targets for participation rates. The education and training costs associated with the WORC proposal would partly depend on the extent to which states expanded such activities. The net impact on federal and state budgets would also depend on the extent to which the program costs would be offset by reductions in outlays for AFDC and other transfer programs.

ELIGIBILITY CRITERIA

Under current law, only about one-third of all adult women receiving AFDC are required to participate in WIN or other work-related activities. Narrowing the grounds for exemption could be advocated either as a means of helping more recipients increase their incomes, of reducing welfare costs, or of involving more recipients in work-related activities.

Because the most common reason for exempting recipients over age 16 is that they are caring for young children, the question of whether to change this rule is an especially important one. Some states have received temporary waivers from the Secretary of Health and Human Services permitting them to require mothers of younger children to fulfill work requirements. In these states, much smaller percentages of the mothers are exempt. In Oklahoma,

they are less than 22 years old, did not complete secondary school or its equivalent, and did not work during the previous year. In each case, the participants must be placed in nonsubsidized jobs for at least one year, must earn at least as much as their previous AFDC payments, and must no longer qualify for such benefits.

4. This description is based on the bill (H.R. 1720) introduced in March. The bill is currently being revised.

for example, which does not exempt caretakers on the basis of their children's ages, only about one in ten female adult recipients was exempt in 1984, compared with a national average of two-thirds.

Options that might be considered for altering eligibility criteria include eliminating the exemption from work requirements on the basis of children's ages or lowering the age-of-child threshold, allowing states to make such changes on their own, or encouraging mothers of young children to participate in work-related programs without requiring them to do so. The ET program in Massachusetts, for example, encourages mothers of young children to volunteer for the program and offers participants child care subsidies for up to one year after leaving the program. The Administration's proposal would eliminate the exemption of mothers of children under age six, except during the first six months after birth.

Women who begin receiving AFDC when their youngest child is under age six are more likely than other mothers to be dependent on welfare for a long time. Participation in work-related programs before their youngest child's sixth birthday could provide these women with the job search skills, education and training, or work experience that would help them find jobs and reduce their reliance on welfare payments sooner.

Recent program experience provides some indication that these benefits could be obtained. The basis for drawing conclusions about what would happen if the programs were carried out on a larger scale, however, is limited. The only recent evaluation study that directly addressed the question of the effectiveness of work-related programs for mothers of young children, relative to other mothers, was the Manpower Demonstration Research Corporation's analysis of Arkansas' demonstration program. About half of the participants had children ages three through five, and the rest had older children. Overall, the program appeared to be equally effective for the two groups in terms of its impact on participants' earnings and on their receipt of AFDC payments.

Encouraging or requiring AFDC recipients with pre-school-age children to seek work or to participate in activities that would make them more employable would not be asking them to do something that is unusual, because the majority of mothers of children under age six are now working, though not primarily on a full-time year-round basis. 5/ Many observers view a require-

5. CBO tabulations of the March 1986 Current Population Survey indicate that 9.7 million (61 percent) of the 15.7 million mothers of children under age six worked for pay sometime during 1985. Almost two-thirds of these working mothers (6.1 million) worked primarily on full-time schedules (that is, at least 35 hours per week), although only about one-third (3.6 million) worked full-time year-round.

ment that recipients with young children engage in work-related activities, at least on a part-time basis, as more reasonable today than even two decades ago, when staying home with the children--at least until they started school--was the norm.

Other people argue, however, that single women with children who have not yet started school are already contributing to society by caring for their children, as originally envisioned by the planners of the AFDC program. Society has a strong interest in assuring that the children are properly cared for. Whether, and under what circumstances, the needs of young children are best met by their parents, rather than by others, is highly controversial.

Moreover, the costs of providing suitable child care for recipients while they participate in programs and later, if they find jobs, would diminish the gains to the participants, to taxpayers, or to both. These costs are much higher for infants than for older children. While participating in a work-related program, an AFDC recipient is generally eligible for child care subsidies; so taxpayers would, in effect, pay the bulk of this cost. The extent to which the government would pay the costs of child care for recipients engaged in paid employment is determined largely by the AFDC rules for disregarding certain income, including the deduction of up to $160 per child for monthly child care expenses.

Whether a lack of suitable child care at affordable prices would be a problem if large numbers of mothers of young children were required to participate in work-related programs cannot be determined from existing studies. 6/ MDRC did not find it to be a problem in Arkansas, although this result could merely reflect the small scale on which the demonstration was conducted. On the other hand, this finding could also stem from the ability of program operators to work out part-time schedules that best fit the needs of the mothers and their children, thereby leading to only a modest increase in the demand for child care services.

TARGETS FOR REQUIRED PARTICIPATION

A contentious issue has been whether the federal government should require each state to enroll specified percentages of their nonexempt AFDC applicants

6. Information about the market for child care services is fragmentary, in part because child care is often provided through informal arrangements with friends, neighbors, and relatives, not just through formal child care centers. For a review of this information and a discussion of options for increasing the supply of child care programs, broadening knowledge about available resources, and lowering the cost to low-income families of child care, see Congressional Budget Office, *Reducing Poverty Among Children* (May 1985), pp. 136-148.

and recipients in work-related activities. If so, what level of participation should be mandated, and how should participation rates be measured? The Administration has repeatedly proposed legislation to require all nonexempt applicants for, and recipients of, AFDC to participate in work-related activities. States whose participation rates did not meet specified targets would have their federal payments reduced. 7/

Proponents of specifying targets for participation rates contend that they are needed in order to enforce work-related obligations on a larger number of recipients and to engage them in productive activities. Data on program participation indicate that, under current rules, most states are not opting to enroll large percentages of eligible AFDC recipients in activities other than registration and job search assistance. If this goal is to be given greater priority, changes in the incentives faced by states--such as penalties for not achieving specified participation rates or rewards for doing so--would be appropriate.

Opponents of setting minimum rates of participation argue that such targets would make it more difficult for states to implement programs that would have the largest effects on recipients' earnings or on welfare costs. These opponents want the flexibility to give priority to these goals, even though fewer recipients might be served. 8/

The recent demonstrations, as well as earlier studies, suggest some of the issues that would need to be resolved in order to establish targets for program participation rates. For example, what time period should be used--participation during a month, at any time during a year, or at any time during a recipient's current spell on AFDC? What amount of activity should count as fulfilling the participation requirement during whatever period is used? For the purpose of enforcing work-related obligations, monthly participation rates might be most relevant, although the costs associated with achieving

7. The Administration's proposal last year called for a phase-in period of three years, with states required to achieve participation rates of 25 percent in the first year, 50 percent in the second, and 75 percent in the third and later years. The GROW proposal, introduced this year, provides lower targets for participation rates and a longer phase-in period (five years), increasing from 20 percent in the first year to 60 percent in the fifth and later years. Because most mothers of young children would no longer be automatically exempt, however, the base on which these rates would be calculated would be much larger.

8. For example, Cesar Perales, testifying on behalf of the National Council of State Human Service Administrators, argued that "states deliberately, and quite appropriately, restrict participation in work program activities to ensure that limited dollars are targeted to achieve the best results." Testimony before the Subcommittee on Public Assistance and Unemployment Compensation, House Ways and Means Committee, March 13, 1986.

monthly targets might discourage states from providing intensive services to participants, perhaps reducing the chances of achieving other goals. To achieve those alternative goals, other measures might be more appropriate--for example, completion of a high school education.

High monthly participation rates might be hard to achieve through ordinary job search assistance and training programs without extensive recycling of participants--an approach that would add to program costs and would probably not result in proportionately larger gains in income or reductions in welfare costs. Job search assistance usually involves participation for one or two months. Job training programs normally last less than six months. For example, the median length of stay of AFDC mothers who left Job Training Partnership Act programs between July 1984 and June 1985 was 17 weeks (see Table 2 in Chapter 2).

One way of achieving substantially higher monthly participation rates might be to require open-ended workfare programs. The evidence from MDRC's study of West Virginia's workfare demonstration suggests that such a program could be carried out on a wider scale than is currently being done nationwide. Although 26 states had set up workfare programs as of January 1987, only six (Michigan, Oklahoma, Pennsylvania, South Dakota, Virginia, and West Virginia) had done so on a statewide basis.

Information from the study of West Virginia's workfare program also suggests that engaging the majority of eligible mothers in workfare assignments might be very difficult. In an average month, only about one in five women in the experimental group participated, even though the cumulative participation rate among eligible AFDC recipients reached 33 percent during a 15-month period. 9/ One reason why these rates were so low was that program staff exercised considerable discretion in not assigning mothers to work schedules that would interfere with caring for their children; participation in the summer months, for example, was much lower than in other months. Achieving higher participation rates would probably require either more rigorous enforcement or additional supportive services. The basic question, then, is whether the value of the work done by the participants and the other benefits--to participants and to society as a whole--associated with their participation would warrant the resulting operating costs.

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9. Manpower Demonstration Research Corporation, *West Virginia: Final Report on the Community Work Experience Demonstrations*, pp. 80 and 88.

PERFORMANCE STANDARDS

Another issue is whether federal legislation should mandate performance standards to reward states that achieve the standards or penalize states that do not. Several bills include provisions to build in performance-based rewards. The WORC bill, for example, would require standards to be developed based on such factors as post-participation employment and wage rates and reduced dependence on AFDC; states that achieved these standards would be given a slightly higher federal matching rate for their work-related activities than would other states.

Performance standards could be used to encourage states to establish work-related programs that would increase recipients' incomes or reduce welfare costs, just as setting targets for participation rates could encourage states to enforce work-related obligations on larger percentages of recipients. Moreover, without performance standards, holding states accountable for meeting national objectives would probably be more difficult. Here, again, issues arise regarding what the federal government seeks to achieve and how prescriptive it should be. If the primary goal is to enforce work-related obligations, then targets for participation rates, rather than performance standards, might be pertinent. But if the primary goal is to increase participants' incomes or reduce costs, and if the Congress wants to hold states accountable for achieving these objectives, then performance standards might be more appropriate.

Findings from some of the studies discussed in this report suggest major difficulties that would need to be overcome for such performance standards to be effective. In particular, data for the general population of women who head households with children and for the eligible recipients in the demonstration sites who were not in the treatment groups reveal sizable fluctuations in earnings and receipt of AFDC. Among the recipients in the control group in MDRC's study in Baltimore, Maryland, for example, one in six was employed and nearly all were receiving AFDC payments during the quarter of random assignment; one year later, one in four was employed and one in five was no longer receiving payments.

These statistics on the normal movement of AFDC recipients off welfare and into jobs underscore the challenge of developing a tracking system that would identify the savings and earnings gains that would be properly attributable to an individual's participation in a work-related program. The obvious method--tracking each participant's subsequent welfare receipts and earnings--would be severely flawed by the absence of a benchmark for comparison. Indeed, one would need to be concerned about inadvertently giving states incentives to avoid serving the most difficult cases. Moreover, a performance incentive based on short-term indicators might steer states toward activities with faster payoffs, even if the returns were not as long-lasting.

The use of placement rates as the standards of performance, for example, could prompt states to enroll the most employable recipients in their programs. To deal with this problem, it would be necessary to measure a base (pre-program) placement rate for each state, or to develop a statistical method of adjusting placement rates for differences in state unemployment rates, population characteristics, and other factors. Whether it is feasible to design and implement an effective procedure for making such adjustments is uncertain.

PRIORITIES AMONG RECIPIENTS

A fundamental question in the employment and training field is how best to allocate scarce program resources among eligible individuals. Options that might be considered in establishing priorities include allowing states to determine which eligible individuals are to be emphasized, or requiring states to give priority to certain groups. The NETWORK program, for example, would require states to give priority to recipients in families with parents who were under age 18 when their first child was born, to long-term recipients, and to families with children under age six.

Which priorities, if any, should be established in the legislation depends very much on one's general perspective about the degree to which the federal government should be prescriptive and about the goals one is seeking to achieve through work-related programs. If the primary objective were to achieve long-term savings in welfare costs, for example, priority could be given to individuals most likely to remain on AFDC for long periods--new recipients with young children, women who have never married, women who began receiving AFDC at an early age, and those without recent work experience. Such patterns of AFDC receipt, however, could mask substantial differences in long-term dependency among recipients within each group. For example, although, on average, new recipients with young children are on AFDC for many years, some of these recipients do leave quickly. This variation within groups would argue for continuing to allow states considerable flexibility in deciding whom to serve.

PRIORITIES AMONG ACTIVITIES

In considering work-related legislation, the Congress might require or encourage states to provide specific types of activities, prohibit certain activities, or leave all decisions about activities up to the individual states. The most common activity in work-related programs designed specifically for AFDC recipients is job search assistance, while the majority of the AFDC recipients in JTPA programs are engaged in training.

Existing proposals differ in the types of work-related activities that would be required or encouraged. The Administration's bill, for example, would encourage states to provide job search assistance and workfare by matching funds for these activities, but it would provide no money for education and training beyond what is already granted to states through JTPA. In contrast, the WORC and NETWORK bills would also match state funds for any education, training, or employment-related services, while the Fair Work Opportunities bill would specifically prohibit states from using mandatory workfare. Some proposals would provide additional child care and other supportive services to recipients after participation in work-related activities, in order to facilitate their transition into unsubsidized employment.

The evaluation studies reviewed in Chapter IV offer several broad indications of which types of activities might be effective in achieving various goals. They should be used with caution, however, because their applicability hinges on the extent to which results of activities carried out in specific places under specific circumstances would be replicated in other areas or nationwide. Job search assistance and training appear to increase the earnings of economically disadvantaged women, including mothers receiving AFDC. Workfare alone for the duration of one's receipt of benefits enables participants to contribute to society, but does not appear to increase their long-term earnings or significantly reduce their receipt of AFDC--at least under the poor economic conditions in which it operated in the West Virginia demonstration.

The various studies offer little basis for identifying which types of activities are most successful in cutting outlays for welfare. Although one would generally expect activities that produce the largest gains in earnings ultimately to produce the largest welfare reductions, this was not always the case. Differences between study sites--particularly in AFDC benefit levels--make it hard to isolate the effects of different activities. Moreover, since different activities cost varying amounts, even less is known about their net effects on federal or state spending.

As a means of increasing recipients' contributions to society, workfare might be appropriate, either alone or in combination with job search and other assistance. The recent demonstrations indicate that where workfare has been used, it appears to have been carried out in ways that are generally considered fair and productive. Proponents argue that participating in workfare is a reasonable "quid pro quo" for receiving benefits. In addition, they contend, it can help deter individuals capable of finding paid employment from applying for, or continuing to receive, AFDC payments.

Opponents of workfare, on the other hand, point out that recipients' participation in other activities, such as training or education, could ultimately be more productive for society and be more likely to reduce the participants' future dependence on welfare. Moreover, they question whether workfare could be carried out on a large scale in a way that would provide useful employment without displacing regular workers or undercutting their wages and without demeaning the participants. Opponents also argue that most AFDC recipients would rather work than be on welfare and that the problem is mainly a lack of employment opportunities, not motivation.

Finally, some proposals would provide individuals who find jobs and go off AFDC with continued assistance--particularly child care subsidies and continued Medicaid coverage--in order to ease their transition to unsubsidized employment. The potential increase in child care and health care costs faced by AFDC recipients could be a major barrier for some recipients who might otherwise be able to go to work. Particular concern has been raised about the potential cost of health care for those who no longer qualify for Medicaid and work for employers who do not provide adequate health insurance. 10/ The evaluations reviewed in this report did not provide any information about the effectiveness of programs that would continue assistance after the participants left AFDC.

FEDERAL FUNDING

Current federal funding arrangements for work-related activities differ markedly from one program to another. Each year, the Congress appropriates WIN

10. CBO tabulations of the March 1985 Current Population Survey indicate that about one-quarter of all employed unmarried women with dependent children are estimated to be without health insurance. These estimates are for workers who report being paid on an hourly basis. About 60 percent of these women report having insurance provided by their employers, and 15 percent report having other insurance. The likelihood of being insured is generally smaller among workers with lower wage rates.

funds that are allocated to the states; the states are required to pay 10 percent of program costs and the federal share is 90 percent. Federal expenditures for work-related activities funded through Title IV-A of the Social Security Act are open-ended entitlements to states based on a 50/50 matching formula. JTPA Title II-A funding is provided by annual appropriations, with no matching requirement for states.

Among funding issues the Congress might face in changing the current programs or developing new ones are whether to increase federal expenditures for work-related programs for recipients; whether to provide the funds through appropriations or open-ended entitlements; whether to require states to match federal expenditures and, if so, at what rate; and whether to continue separate funding for WIN. Recent proposals illustrate several approaches that might be considered. The Administration's bill, for example, would continue the 50/50 matching requirements for work-related activities funded through AFDC, but it would abolish WIN. The WORC proposal would increase the federal share of expenditures for AFDC-based work-related activities to at least 70 percent for all education and training costs and would continue to provide 50 percent of administrative and support costs. The Fair Work Opportunities bill would sharply increase federal WIN appropriations, with a requirement that states match the funds above the current level on a 75/25 basis, with 25 percent provided by the states.

In each of these proposals, the net impact on the federal budget would depend, in part, on how states respond to the requirements or incentives established and on the extent to which the program costs would be offset by reductions in outlays for AFDC and other transfer programs. Increasing the matching rate or the range of eligible activities could substantially increase federal outlays. CBO is currently estimating the costs and offsetting savings for a number of proposals.

Some analysts argue that because the federal government receives a large share of the budgetary gains attributable to work-related programs, it would be equitable for it to pay a large share of the costs as well. This arrangement would give states a greater incentive to operate programs, especially relatively intensive ones, because their costs would more closely match their share of the savings. 11/ For example, MDRC estimated that the federal government would

11. In 1986, the federal government paid for about 54 percent of AFDC and Medicaid benefits, on average, and 100 percent of food stamp benefits; it paid about half of the administrative costs for each program. Its share of AFDC and Medicaid benefits varies from state to state, but is always at least 50 percent.

receive two-thirds of the gains from reduced use of AFDC and other programs and from increased tax payments attributable to being in the AFDC job search/workfare treatment group in San Diego. 12/

On the other hand, work-related programs also achieve other goals, including some that might not primarily benefit the federal government. Workfare programs provide unpaid labor that state and local agencies and community organizations find worthwhile, for example. Some observers contend that paying for expanding these work forces is not a federal responsibility.

12. MDRC, *Final Report on the San Diego Job Search and Work Experience Demonstration,* 1986, p. 180. Total estimated reduced costs to governments and increased tax revenues over a five-year period were $1,586 per member of the treatment group, of which the federal government's share was $1,079, or 68 percent. Similarly, MDRC staff estimated that the federal government would receive about two-thirds of the benefits in the Arkansas demonstration and four-fifths of the benefits in the demonstration in Baltimore, Maryland. The latter is higher partly because a larger percentage of the benefits were from increased tax payments (especially federal income and Social Security payroll taxes), rather than reduced use of AFDC.