

# Using Government Programs to Encourage Employment, Increase Earnings, and Grow the Economy

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Ron Haskins

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## **Abstract**

There has been a steady decline over six decades in the share of adult men in the labor force. After five decades of historic increases, in 2000 the share of women in the labor force peaked and has declined slightly since. The 1996 welfare reform law imposed work requirements on mothers on welfare and increased employment among single mothers. But the work rate of single mothers has declined or stagnated since 2000. Millions of households have no earnings and are dependent on public benefits. Other public benefit programs also have provisions designed to increase work rates, but they have met with only modest success. The major purpose of this paper is to propose a new system of experiments, coordinated by a federal board with representation from cabinet agencies, to encourage state demonstration programs that would develop and test new ways to promote work and training across welfare programs and, thereby, increase the labor force participation rate of men and women, especially parents.

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# **Using Government Programs to Encourage Employment, Increase Earnings, and Grow the Economy**

Ron Haskins

The unemployment rate goes up and down in step with the nation's economy. But those who have left the labor force and are not even looking for work pose a more serious challenge than unemployment in the fight to help families become financially self-sustaining. Worse, the problem of males leaving the labor force is a chronic issue that has been growing for six decades (Eberstadt 2016; Sawhill and Krause 2017). The share of single mothers not working is also a problem highlighted by the fact that if single mothers do not work, their family is almost assured of living in poverty. Fortunately, the employment rate of single mothers, and especially never-married single mothers, enjoyed a major growth spurt in the 1990s and, although declining slightly in some years, has maintained a historically high level compared with the level preceding the 1990s. Still, a substantial fraction of never-married single mothers are not employed, and many have left the labor force.

Given the decline or stagnation in the share of both males and females in the labor force, the purposes of this paper are (1) to provide an analysis of the historical data on labor force participation by various demographic groups; (2) to examine the features of welfare programs aimed at getting recipients back into the labor force; and (3) to propose government-led solutions that could raise both work rates and earnings levels for families that are poor or near-poor.

## **Declining Work Rates and the Consequences**

There is an important distinction between unemployment, defined as out of work but looking for a job, and labor force dropout, defined as neither working nor looking for work. Most

people looking for jobs eventually find them, but there is no prospect of work for those who have left the labor force. A frequently used measure of leaving the labor force is the labor force participation rate (LPR), calculated by dividing the number of people in the population of interest who work or are looking for work by the total number of people in that population.<sup>1</sup> The LPR differs from the employment-to-population ratio because it includes both people who have a job and people without a job but who are looking for work in the numerator. The LPR can be calculated for various demographic groups, such as all men or all women, never-married mothers, or males or females within a certain age range. In all these calculations, those in the military and those who are incarcerated are not included in the analysis. It will become evident in the discussion to follow that a major goal of public policy should be to keep people in the labor force by encouraging non-working adults to continue looking for work, perhaps after short-term education or training.

One of the more remarkable economic developments of the last several decades is the slow but continuous decline in the LPR of prime-age males (ages 25 to 54). Over the entire period of nearly five decades shown in figure 1, the male LPR declined from 96.2 percent to 88.0 percent, about 9 percent. Although figure 1 shows LPRs since 1969, the decline for prime-age males actually began in the early 1950s, so it has been occurring for more than six decades. In contrast to the long-term decline in workforce participation by males, figure 1 shows a historic increase in the LPRs of all women, from 48.8 percent to 74.3 percent over the entire period between 1969 and 2016, an increase of more than 50 percent. Of even greater significance for the purposes of this paper, the LPRs of never-married mothers, the group most likely to enroll in welfare programs, increased from 50.5 percent to 72.4 percent, a rise of nearly 45 percent, over

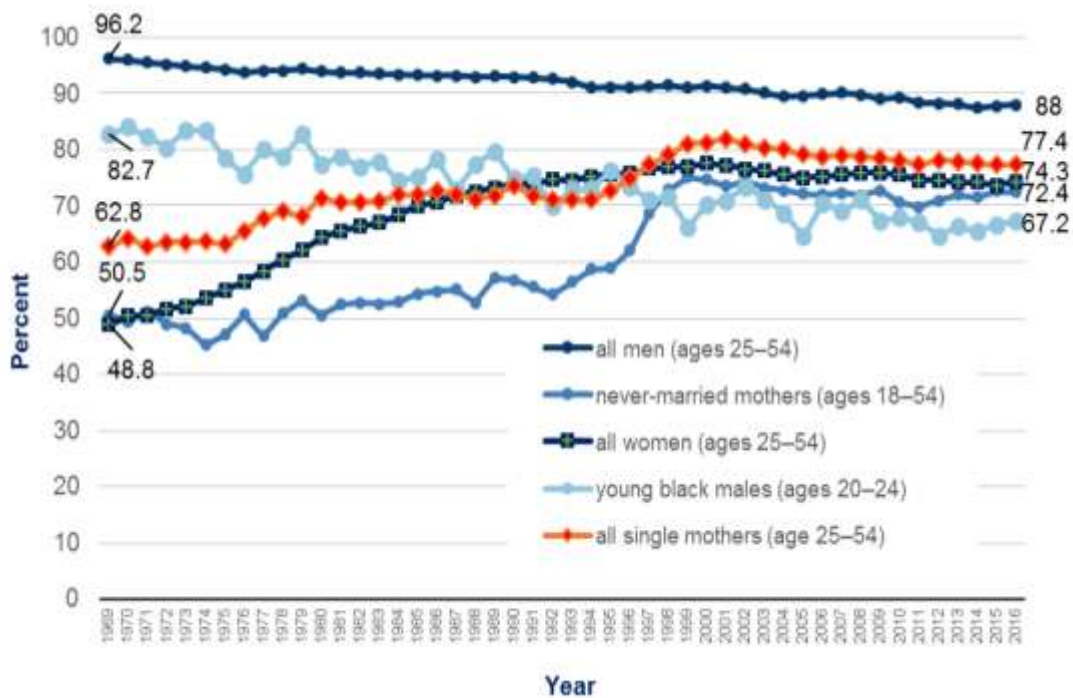
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<sup>1</sup> People in institutions (old age homes, prisons, and mental institutions) or the military are not included in the numerator or denominator of the LPR.

the same period. Most of this increase occurred between 1995, the year before the welfare reform legislation of 1996, and 2000, a recession year, when the LPR for never-married mothers increased by 27 percent. However, since the peak of just over 75 percent in 1999, the LPRs of never-married mothers have declined somewhat in many years and have remained stuck in the low 70 percent range (Blau and Kahn 2013).

As figure 1 shows, the LPR for young black males ages 20 to 24 is lower than that of any other group almost every year and declined still further in fits and starts after 1989. Over the entire period, the LPR for young black males declined from 82.7 percent to 67.2 percent, nearly 20 percent.

**Figure 1. Labor Force Participation Rates for Select Groups, 1969–2016**



Source: Author’s calculations from the March Current Population Survey, 1969–2016. See Flood et al. 2017.

The most obvious consequences of non-work are low income and high poverty. In an extensive analysis of work and income of households headed by an able-bodied worker between ages 25 and 54, my colleagues Isabel Sawhill, Edward Rodrigue, and Nathan Joo (2016) found that in all their analyses of income, non-work or lower levels of work were the most important correlates of poverty. They found, for example, that 17 percent of households in the bottom third of income, compared with 1 percent of households in the top two-thirds, did not work at all and that there was a direct correlation between how many hours the household head worked and household income.

It would be a serious error to think that low income and poverty are the only important outcomes of non-work. Work also creates a time structure and routines for daily life; has a major influence on an individual's status and identity; and creates numerous opportunities for constructing a social life. In addition, many studies have shown a connection between non-work and a range of personal and medical challenges, including nonmarriage and divorce (Autor, Dorn, and Hanson 2017; Lindner and Peters 2014; Ribar 2015); suicide (Kposowa 2001); alcohol abuse (Popovici and French 2013); increased incidence of life-threatening diseases (Lynge 1997); and even a shortened lifespan (Montez and Zajacova 2013; Case and Deaton 2015). It would be difficult to imagine a social problem that has been shown to play a greater role in so many of the nation's major financial, social, medical, and personal problems than non-work—all the more reason to believe that policies designed to promote work are of great importance.

### **The Work Support System**

Despite the decline or stagnation in the share of American adults who work, one of the most important public policy achievements in recent decades in promoting work and economic

security among low-income families is the evolution of the nation's work support system that supplements the earnings of low-income workers and aims to increase the incentive to work. Means-tested benefits, defined as benefits that are provided to poor and low-income families who have earnings below a specified level, are generally considered to be a work disincentive because they give people cash and other benefits that allow them to live without working. The most fundamental and long-standing conservative argument against means-tested benefits is that they inherently interfere in the most basic motivation to work; namely, the need to pay for food, clothing, and housing—the basic necessities of life (Himmelfarb 1985; Murray 1984). In response to this unfortunate effect, means-tested programs have some features that are designed to offset the work disincentive of providing the benefit. In some cases, programs allow working recipients to disregard part of their income in computing their eligibility for the benefit and the level of the benefit. Similarly, most means-tested programs phase out the benefit over a range of earnings to avoid the drastic work disincentive of a sudden loss of benefits at a given level of earnings, even though phasing out means-tested benefits more slowly can be expensive because more people can become eligible for the benefit and those receiving the benefit can stay on the rolls longer. In other cases, recipients of means-tested benefits are required to participate in work programs or programs, such as employment and training, that prepare them for work. These work requirements vary greatly across means-tested programs, especially in how strong the “requirement” is in practice.

Government could help millions of families working for low wages by supplementing their incomes with means-tested benefits designed to encourage work and increase total income. Doing so would both improve the economic well-being of children and families and increase the incentive to escape poverty and welfare dependency through work. The phase-out of means-

tested benefits constitutes a work disincentive, surely, but the benefits nonetheless supplement the earnings of poor and low-income workers and across broad ranges of earnings; recipients who work and also have means-tested benefits have more total income because of the combination of earnings and benefits. A careful study of the marginal tax rates of families receiving cash from the Temporary Assistance for Needy Families (TANF) program and the Supplemental Nutrition Assistance Program (SNAP) by Elaine Maag and her colleagues at the Urban Institute (Maag et al. 2012) found a huge range in marginal tax rates across states and earnings levels. In most circumstances in most states, low-income families have more total income by combining earnings and benefits, but in some states and some earnings ranges, the marginal tax rate exceeds 100 percent, meaning the family has less total income by working. Fortunately, the 100 percent marginal tax rate seems to be rare, although I was unable to find a study that analyzed a large group of actual families with no earnings or low earnings that showed the marginal tax rates families would face at various levels of earning.

The work support system, which was gradually built up over more than three decades, has seven primary programs, all of which were created, expanded, or modified over these years so they would be more effective in promoting work and supplementing earnings. The work support programs include Temporary Assistance for Needy Families (TANF), the Earned Income Tax Credit (EITC), the Child Tax Credit, SNAP, housing, childcare (housing and childcare include several individual programs), and Medicaid. In this section, I provide an overview of six of these seven programs and their benefits, including their provisions on promoting work. I save analysis of the TANF program for the next section because of its importance.



## *The Earned Income Tax Credit (EITC)*

**Figure 2. Value of Federal Earned Income Tax Credit for a Single Head of Household with Two Children, 2016**



Source: Center on Budget and Policy Priorities. October 2016a. "Policy basics: The earned income tax credit." *Center on Budget and Policy Priorities*.

The most important program that promotes work is the EITC, which provides a cash wage subsidy to low-income workers through the tax code. Initiated in 1975 under Gerald Ford and expanded many times since, in 2016 the EITC delivered \$64 billion in cash and reduced tax liability to 26.4 million low-income families; 97 percent of that benefit went to families with children (Maag 2017). As figure 2 shows for a single head of household with two children in 2016, the EITC is constructed in such a way that it has both work incentives and work disincentives. Thus, it provides a bigger benefit for every dollar of earnings between the first dollar and about \$14,000, at which point the family would qualify for the maximum EITC benefit of nearly \$5,600. Then between the income range of about \$14,000 to around \$18,200, the single parent would continue to qualify for a flat \$5,600. Above \$18,200, the benefit phases

out at the rate of 21 percent of each dollar earned, reaching zero at around \$44,650. Thus, there is little question that the EITC provides incentive for additional earnings up to about \$14,000 because the worker receives additional cash for each dollar of earnings. In the flat range between \$14,000 and \$18,200, there is no penalty for additional earnings, but above \$18,200 the EITC is reduced by about 21 cents for each additional dollar of earnings, thereby constituting a work disincentive. In 2015, 27.7 million individuals received the EITC; the EITC removed around 6.5 million people from poverty, about half of them children (Center on Budget and Policy Priorities 2016a).

The federal government is not the only source of EITC benefits for low-income working families. In 2017, twenty-nine states plus the District of Columbia provided EITC benefits that augmented the income of recipient families by at least \$4 billion (Center on Budget and Policy Priorities 2017c; Williams 2016). It is worth emphasizing that the EITC goes only to families that work.

### ***Child Tax Credit***

The EITC is not the only cash benefit the tax code provides to low-income families with at least one worker. The Child Tax Credit (CTC), enacted in 1997 and expanded with bipartisan support on several occasions since 1997, provides a tax credit of up to \$1,000 per child under age 17. Parents subtract the CTC from their tax liability. For example, if a family owes \$8,000 in income taxes and the family has two children, parents can subtract \$2,000 (\$1,000 for each child) from the \$8,000 they owe and pay income taxes of only \$6,000. Families at the bottom of the income distribution and families with substantial income receive either a partial credit or no credit at all through the regular CTC. Families below \$3,000 in adjusted gross income (AGI) receive no CTC; for families with AGI above \$75,000 (\$110,000 if married), the credit begins to phase out

and reaches zero for single-headed households at \$115,000 (and \$150,000 for couples). When first enacted in 1997, the CTC provided no benefits until the family reached \$10,000 in earnings. But the stimulus legislation enacted by Congress during the recession that began in December 2007 greatly expanded eligibility for the CTC by reducing the income above which the CTC would be paid to \$3,000 from the original \$10,000. This reform, which created eligibility for millions of low-income families, was made permanent in 2016.

Like the EITC, the CTC is refundable. However, the provision on refundability, labeled the Alternative Child Tax Credit (ACTC) in the tax code, differs from the EITC refundability provision. The ACTC is refundable for 15 percent of earned income above \$3,000. If a family has \$9,000 in income and at least one child, they can claim a credit of 15 percent  $\times$  ( $\$9,000 - \$3,000$ ), or \$900. The IRS sends such families a check. In 2015, IRS sent out checks worth \$20.6 billion in refundable payments and an additional \$29 billion in tax credits that were paid by reducing the recipients' income tax payments. In that year, the combined impact of the CTC (and the ACTC) and the EITC was to lift 9.8 million people, including 5.1 million children, out of poverty (Center on Budget and Policy Priorities 2016b).

### ***Supplemental Nutrition Assistance Program***

In addition to the EITC and the CTC, there are several means-tested benefit programs that supplement the earnings of low-income workers, although these programs provide some or most of their benefits to families without workers. Arguably, the Supplemental Nutrition Assistance Program (SNAP) is the most important of these programs because it provides so much cash equivalent value to families and serves so many families. Based primarily on low-income status, over 42 million people (83 percent of those eligible) received SNAP benefits that averaged about \$255 per household per month or \$126 per person per month in 2016

(Center on Budget and Policy Priorities 2017a). In the 2002 Farm Bill, the Bush administration inserted several provisions recommended by the American Public Human Services Association that would simplify the procedures by which working families could apply for and receive SNAP from the states.<sup>2</sup> In part as a result of the reforms in the 2002 Farm Bill, there was a substantial increase in the number of families, many of them with a worker, receiving SNAP. In 2002, there were about 19 million SNAP beneficiaries; by 2007 before the Great Recession began, there were a little over 26 million beneficiaries, an increase of about 7 million recipients between 2002 and 2007 (US Department of Agriculture 2017b).

But the increase in SNAP enrollment between 2002 and 2007 was modest compared with the increase during and after the Great Recession of 2007 to 2009. The increase in rolls, from 26.3 million in 2007 to 47.6 million at its peak in 2013, was owing both to the rise of unemployment and the consequent decline in earnings and to SNAP reforms enacted in both the 2002 and 2008 farm bills. During this period, the caseload increase was accompanied by an increase in the SNAP take-up rate, the share of those eligible for SNAP who actually joined the program, perhaps because employment and earnings declined so greatly during the recession and people needed the additional income. There has been abundant scholarly and political dispute about whether the SNAP reforms in the 2002 and 2008 farm bills or the huge rise in unemployment caused by the recession itself was more important in accounting for the large and unprecedented magnitude of the increase in the SNAP rolls (Ganong and Liebman 2013; Mulligan 2011; Stone, Sherman, and Keith-Jennings 2015). But for our purposes, taking a position in this debate is not necessary. It is enough to point out that the rule changes led to a

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<sup>2</sup> Although the SNAP benefit is paid for entirely by the federal government, states administer the program and split administrative costs on a 50-50 basis with the federal government. The federal government has a strict quality assurance program that examines state SNAP payments, determines an error rate, and imposes fines on states in proportion to their error rate.

more generous SNAP program and that millions of additional working and non-working families now take advantage of the reforms in benefit rules to increase their income, reduce their chances of living in poverty, and in general improve their financial condition.

Work rates among SNAP recipients have long been a contentious issue (Haskins 2006). Unsurprisingly, SNAP features a provision specifically designed to increase work rates. If a recipient has earnings, a 20 percent deduction from earned income is permitted in the computation of eligibility for and the benefit level of SNAP. This policy has the effect of making more working families eligible for SNAP and increasing the size of their SNAP benefit. More to the point, this policy is designed to increase the motivation to work by SNAP recipients. About 40 percent of SNAP benefits go to households with at least one worker (Jacobs, Perry, and MacGillvary 2015; Center on Budget and Policy Priorities 2017a). Of course, as we will see, the earnings disregard and phase-out rates of SNAP interact with the disregards and the phase-out rates of other benefit and tax programs in a complex way (Maag et al. 2012).

### ***Medicaid***

Medicaid is one of the nation's largest social programs, third only to Social Security and Medicare in spending and the number of recipients. Medicaid benefits are financed jointly by the federal government and the states. For those who were eligible for coverage prior to the Affordable Care Act (ACA), the federal share varies between 50 percent and nearly 75 percent across the states, with the federal share inversely proportional to state per capita income. The number of people enrolled in the Medicaid and Child Health Insurance Program (CHIP) programs increased 31 percent between 2013, the year before the ACA was implemented, and June 2017, primarily because states were offered the opportunity to cover low-income childless adults (below 138 percent of the federal poverty level) with Medicaid rather than through the

healthcare exchanges. In the case of those covered by Medicaid under the ACA, instead of the regular matching rate of federal-to-state dollars, as an incentive to join the program the federal government gave states an enhanced Medicaid match rate of 100 percent for recipients made newly eligible by the ACA until 2016, then phasing down to 90 percent by 2020 and beyond. Medicaid spent more than \$530 billion and, combined with CHIP, served more than 74 million adults and children in 2016 (Medicaid.gov 2017; Kaiser Family Foundation 2017).

The ACA had major impacts on the Medicaid rolls. As part of the 31 percent expansion in the rolls referred to earlier, it is notable that a new group of adults became eligible for Medicaid coverage for the first time. Under the pre-ACA Medicaid program, adults without children were excluded from the program by federal statute unless they were elderly or had a disability and were eligible for Supplemental Security Income. But under ACA, the 32 states that took the Medicaid option could provide coverage to adults if their income did not exceed 138 percent of the federal poverty level (about \$16,400 for a single adult in 2016). This expansion means that the Medicaid rolls now include millions of able-bodied adults who might be expected to work but not all of whom do. The Kaiser Family Foundation (2017) estimates that of the 24 million nonelderly adults (ages 19 to 64) on Medicaid who do not receive a benefit from the Supplemental Security Income program (which would indicate that they have a disability), 41 percent, more than 9.8 million, do not work and 22 percent, nearly 5.3 million, live in a family without a worker.

A feature of the traditional Medicaid program (before the ACA) that should be carefully considered by anyone interested in work incentives is that, unlike the other programs we have reviewed that gradually phase out over a substantial range of income, the Medicaid program has a cliff. Instead of a gradual phase-out, when earnings reach a certain point Medicaid recipients

suddenly lose the entire benefit. Thus, one additional dollar of income means the recipient potentially loses health insurance worth several thousand dollars, depending on the health condition of the recipient. This feature of the program could create a disincentive for additional work when recipients' earnings approach the earnings cliff, which varies widely from state to state.

However, the advent of the ACA changed Medicaid's work incentives substantially. States were allowed to cover single adults, and many of these adults (especially males) had previously been ineligible for Medicaid. States also could cover mothers with income up to 138 percent of the federal poverty level. In both cases, adults could earn more than in the past and continue to receive their Medicaid coverage. Equally important, those who lose Medicaid coverage usually have the option of buying health insurance at a subsidized rate on the exchanges. These former Medicaid recipients would have to make a copayment, but in most states the copayments are modest. Moreover, these adults could continue to receive the subsidy for their health insurance until their earnings reached 400 percent of the poverty level, which will happen for few of these adults. On the exchanges, the premium subsidy and the subsidy for copayments both have phase-out rates with increased earnings. These two features of exchange policy increase marginal tax rates because the premium subsidy falls and the copayment increases with rising earnings and, thereby, increase the disincentive to work.

Nonetheless, the new Medicaid landscape is friendlier for adults with earnings than previously, and the Medicaid cliff does not involve as much lost income and occurs at higher incomes than before. Of course, the 19 states that did not sign up for the Medicaid option still face the cliff problem, albeit with relatively fewer people facing it because these states have not expanded Medicaid coverage to a new group of adults.

## *Housing*

The federal government conducts many housing programs, both in the tax code and as discretionary spending. The major means-tested programs are Section 8 housing, which provides recipients with vouchers to rent an apartment or purchase a home of their choice, and Public Housing, which offers an apartment in a publicly owned structure. Households must have income at or below 80 percent of the area median income to be eligible for these benefits, although nearly all households newly admitted have incomes at or below 30 percent of the area median because Congress appropriates only enough funds to cover a minority of people below 80 percent of area median income. In fact, less than 20 percent of eligible families receive a housing benefit because of this shortage of funds (Falk et al. 2015).

The administrative responsibility for housing programs resides with local Public Housing Authorities (PHA). Funding comes directly from the federal government to the PHAs, bypassing states. In 2016, almost 10 million individuals benefited from these housing programs at a cost of around \$41 billion for Public Housing and Section 8 programs (Center on Budget and Policy Priorities 2017b).

Like other means-tested programs, the housing benefit given to recipients is generally considered to be a work disincentive. Although there is historically less pressure in housing programs for able-bodied recipients to work, the program does have a modest built-in work disincentive in that recipients must pay 30 percent of their earnings toward the cost of their benefit. However, major housing reform legislation enacted in 1998 provided local housing authorities with significant new flexibility to increase their work incentives and even to consider whether families work as a factor in their qualification for receiving a housing subsidy, especially in public housing (Sard and Lubell 2000). A demonstration program initiated in 1998



that took advantage of the new flexibility, especially in charging flat rents that did not go up when recipients got a job and in offering employment services, produced increases in employment and earnings that lasted at least six years (Riccio 2010). The program tested in this study, called Jobs Plus, suggests that housing programs could do more to help recipients get jobs and improve their financial status.

### *Childcare*

The nation has a huge and diversified childcare market with facilities that are usually privately owned and operated by individuals, small businesses, and nonprofit organizations, although state governments often provide education-oriented programs for three- and four-year-olds, mostly those from low-income families (Barnett et al. 2017). The care is paid for by both government and parents, sometimes with subsidies from local organizations such as the United Way and churches. This diverse and complex system of care generally serves two purposes: first, to provide a safe place for children to be cared for while parents work and, second, to boost children's development, especially during the preschool years (Haskins, forthcoming). Here we are concerned only with the issue of caring for children while low-income parents work, but we include programs that attempt to boost children's development because they also are a source of childcare.

In the 1996 welfare reform law, Congress combined several childcare programs to create the Child Care and Development Block Grant (CCDBG) for states to pay for childcare used by low-income families with a parent who worked or enrolled in education that could lead to work. In 2015, the federal government and the states combined to provide such families with around \$7 billion for childcare through the CCDBG. In addition, states used \$4.5 billion in federal and state funds from the Temporary Assistance for Needy Families (TANF) block grant to pay for

childcare, either by paying for the care directly out of the TANF block grant or by transferring TANF funds into the CCDBG. In addition to these funds for childcare, Head Start spent \$8.3 billion on educational programs for three- and four-year-olds, mostly in center-based facilities, and states spent \$6.2 billion of their own money on state pre-k programs, mostly for four-year-olds. In yet another federal support for childcare, the Child and Adult Care Food Program provided just over \$3.3 billion to pay for nutritious meals for well over 3 million children in childcare facilities, both centers and family daycare homes (Haskins, forthcoming).

The tax code also contains subsidies for childcare. The biggest subsidy is the Child and Dependent Care Tax Credit, which provided \$4.5 billion in tax relief in 2015 to families that owed federal income taxes and used paid childcare of any kind. Another provision, called the Dependent Care Assistance Program, gave families federal income tax relief of \$900 million in that year. Few low-income families receive support from these two tax programs because their low income keeps them out of the federal income tax system and the credits are not refundable. Thus, they have no tax liability against which the childcare credits can be claimed.

Although not all these childcare programs are limited to working families, and although discussions with local and state administrators who try to coordinate spending from all these sources show that having so many programs with more or less common purposes creates a bureaucratic maze at the state and local level, these sources of funding for childcare still provide billions of dollars that help working parents place their children in facilities that are often, but not always, safe and developmentally appropriate. Most of the money is spent on low-income families, although the tax code credits are an exception. Not surprisingly, research shows that government subsidies for childcare help many low-income parents improve “their financial well-

being, allowing them to afford non-childcare services, save money, and pay bills or debts” (Forry 2008, 43).

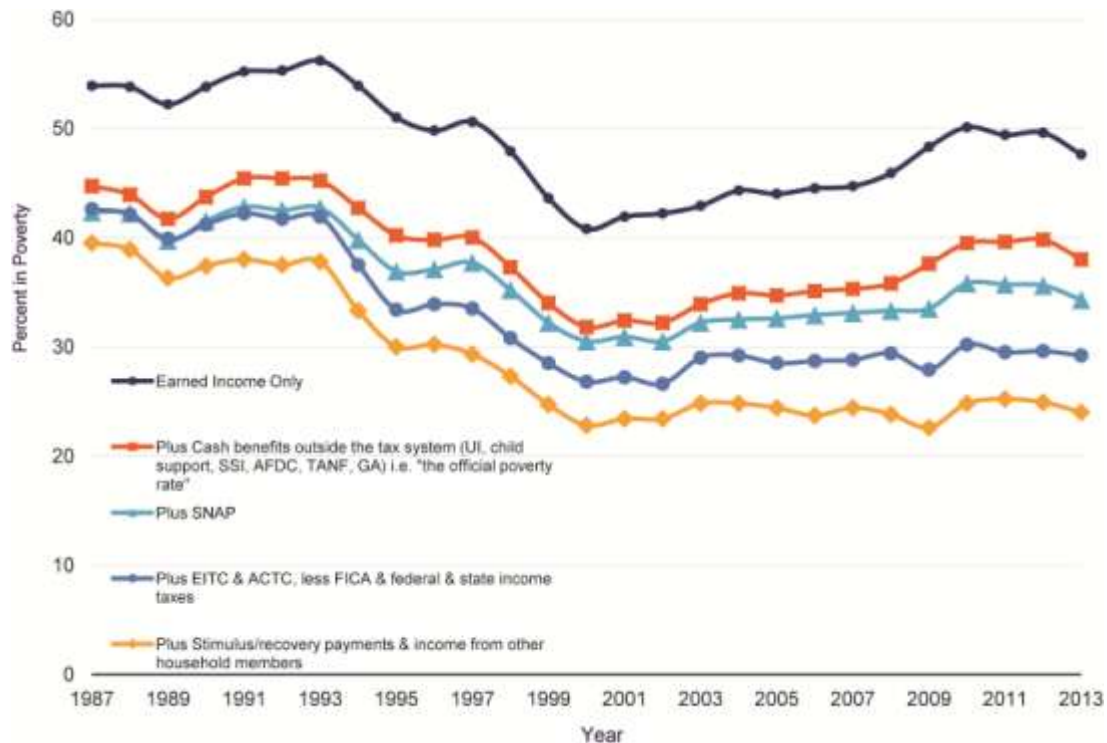
On the other hand, the programs also have different phase-out rates and ranges, making it difficult for parents to comprehend how each additional dollar of earnings will impact their benefit. There seems to be only modest evidence on how these differing phase-out rates and ranges affect the work effort of families, but it would be reasonable to develop practices and policies that help parents at least determine how additional earnings would influence their childcare benefits. It might also be appropriate to try to provide flexibility to families in allowing more time after benefits have phased out under the rules until the reduction or termination of the childcare subsidy actually begins. A recent careful review of the incentive effects of safety net benefits by Robert Moffitt (2016) concluded that for most families the effects are minor. However, Moffitt’s analysis examined primarily SNAP, TANF, housing, Medicaid, and the Supplemental Security Income program, so it is not clear that his conclusion of “modest impacts” would apply to childcare. In fact, Sebastian Leguizamon (2012) examined the marginal tax rates faced by low-income households and found that childcare was “one of the biggest sources of variation” in state marginal tax rates and that marginal tax rates “vary in unpredictable ways.” Leguizamon’s sophisticated work, especially when considered together with the Maag et al. study (2012) of marginal tax rates, suggests that childcare phase-out rates have an important impact on work incentive, even though it might be difficult for typical low-income families to realize what the precise impact might be. Whatever the impact of the childcare phase-out rate is, both studies show that it varies dramatically across states.

### ***But Does the Work Support System Work?***

Across the various programs designed by Congress to increase work incentive by supplementing the income of poor and low-income working families, the most work-targeted spending comes in the form of \$116.6 billion in tax credits (EITC, CTC, and ACTC). The second-largest source of funds for supplementing the income of working families comes from the SNAP program, which provides \$66.5 billion in benefits to needy individuals and families, approximately 40 percent of whom are currently employed. In addition, millions of working families are covered by Medicaid.

Granted, there are problems with this system of benefits, including confusing rules and regulations; a blizzard of requirements that states, localities, and parents must meet; and, in addition to work incentives in the range that benefits are phasing in, there are work disincentives caused both by the fact that the programs provide benefits to recipients who do not work and by the fact that recipients lose some and then all of the benefits as they work more and increase their earnings. Despite these problems, it seems clear that the work support system, in President Clinton's famous formulation, "makes work pay" (Moffitt 2016).

**Figure 3. Effect of Earnings, Transfers, and Taxes on the Poverty Rate of Households Headed by Single Mothers, 1987–2013**



Note: Abbreviations are as follows: Unemployment Insurance (UI), Supplemental Security Income (SSI), Aid to Families with Dependent Children (AFDC), Temporary Assistance for Needy Families (TANF), General Assistance (GA), Supplemental Nutrition Assistance (SNAP), Earned Income Tax Credit (EITC), Additional Child Tax Credit (ACTC), and Federal Insurance Contributions Act (FICA).

Source: Thomas Gabe, *Welfare, Work, and Poverty Status of Female-Headed Families with Children: 1897–2013* (Congressional Research Service, 2014).

To provide an example of how these programs make work pay, we can examine a fascinating analysis that focuses directly on work by single mothers combined with benefits from the work support system conducted by the nonpartisan Congressional Research Service (CRS: Gabe 2014). The CRS analysis, which covers the years 1987 through 2013 (figure 3), aims to examine how increased work by single mothers combined with the earned benefits provided by the government’s work support system impacts the poverty rates of female-headed families and their children. The study uses a special measure of poverty similar to the Supplemental Poverty

Measure developed by the Census Bureau that counts the value of benefits provided by most means-tested programs as income (Renwick and Fox 2016). This special measure of poverty is necessitated primarily by the fact that the official poverty measure ignores the income provided by noncash benefits and tax credits, which, taken together, constitute about 90 percent of means-tested spending.

Figure 3 shows that as work support benefits are added to the earnings of single mothers, the poverty rate as measured by the CRS method falls substantially in every year, but even more in recent years than in the past. During 2013, the last year analyzed by CRS, the poverty rate for single-mother households was reduced from 48 percent to 24 percent, a reduction of 50 percent, primarily because the families received benefits from the work support programs. Figure 3 leaves little doubt that averaged across all low-income for single mothers who work, the work support system improves the financial stability and well-being of these mothers and their children, although their absolute level of income is usually still low. It can be inferred that the work support system provides similar benefits to married couples with children, although the benefits are smaller on average because a higher share of married-couple families have higher incomes than single-parent families and are less likely to be eligible for means-tested benefits. In addition, the implication of figure 3 is that despite the work disincentives created by the existence of means-tested programs and the disincentives of phase-out rates, on balance the work support system provides a substantial work incentive. In this regard, it is worth emphasizing that figure 3 is based on actual income data from a nationally representative sample of single mothers. So even if there are disincentives in the individual work support programs, on balance the income of families is increased and the poverty rate is greatly decreased by these programs. Moreover, the poverty levels in figure 3 are undoubtedly an underestimate of the financial condition of these

families because it is now universally agreed that families underreport their income from means-tested programs (Meyer and Mittag 2015).

In this section, I have featured the fact that millions of working families have their income supplemented by the EITC, the CTC (and ACTC), SNAP, housing, Medicaid, and childcare. But SNAP, housing programs, and Medicaid also provide welfare benefits to people who do not work, including those who have dropped out of the labor force. Labor-force dropouts, who have come in for so much attention in recent years, are the group to which this paper is primarily addressed (Eberstadt 2017; Case and Deaton 2015). To put the matter succinctly, it would be a great advantage to them, to their spouses (actual and potential) and children, and to the entire nation if a way could be found to bring these adults into the labor force. Primarily but not exclusively for that reason, all the work support programs except Medicaid either provide benefits only to working families or have provisions that require many non-working adult recipients to either work or engage in work-related activities to prepare for work. However, the extent to which these requirements are met in practice in some states and cities is in question (Falk, McCarty, and Aussenberg 2014). In sports parlance, these programs attempt to keep welfare recipients in the game, something they cannot do if the work requirements are optional or not enforced. We turn now to examine these work requirements and incentives and to determine whether they are effective before proposing ways to increase work participation or preparation in TANF, SNAP, housing, and Medicaid.

A final point about the work support system is in order. The major programs in the system seem to be permanent fixtures of the nation's social policy. They have rarely been cut. On the contrary, some of them have been expanded on several occasions. Thus the programs are

there and waiting—without the need to try to enact legislation—to increase the income of any and all families that can be convinced to join the workforce.

### **Work Requirements in Selected Federal Programs**

The Congressional Research Service, in a 2016 publication on work requirements and work incentives in TANF, SNAP, and housing, pointed to four traditional arguments that support work requirements in means-tested programs: (1) to offset the work disincentives that are inherent in welfare programs; (2) to support the widely accepted American norm that all able-bodied adults should support themselves and their families and not become dependent on welfare; (3) to help adults get off welfare by providing them with training or work experience; and (4) to combat poverty by helping welfare recipients learn to work, find jobs, and take advantage of the work support system already outlined (Falk, McCarty, and Aussenberg 2014). Regarding the issue of avoiding poverty, it is difficult if not impossible for most households composed of nonelderly, nondisabled members to avoid poverty unless someone in the household works.

Americans strongly agree that able-bodied people on welfare should be required to work. In a Rasmussen poll taken in 2012 (*Rasmussen Reports* 2012), 83 percent of Americans said they believed Americans who receive welfare benefits should be required to work. Only 7 percent of Americans opposed work requirements of this type. Several other polls produce the same or similar results, indicating that Americans expect government to require work when some citizens are taxed so that other citizens who are able-bodied can receive welfare (Federal Safety Net, n.d.).

Despite the arguments for imposing a work requirement on able-bodied people who receive welfare, and despite clear indications that the American public wants and expects



government to impose work requirements on welfare recipients, the review in this section shows that work requirements in TANF, SNAP, and housing are weak and work requirements in Medicaid are nonexistent.

### ***Temporary Assistance for Needy Families***

The widely heralded TANF work requirements appeared to be effective in the first few years after TANF was enacted in 1996 (Haskins 2006; Acs, Loprest, and Roberts 2001), but states have more recently learned numerous ways to avoid the work requirement. Some of the strategies states employ to avoid the work requirement were built into the original legislation. An important conclusion that could be drawn from the TANF experience is that federal legislation must have detailed work and accountability requirements, combined with effective means of data reporting, or many states will figure out ways to avoid them. Perhaps the best way to develop these accountability requirements is to conduct experiments with states to test specific provisions in work requirements and show that the provisions work in practice. The straightforward approach of using the TANF work requirements as a model for work requirements in other welfare programs because of their perceived “great success,” as many Republicans want to do, is flawed because the TANF work requirements have major problems (Germanis 2015, 2016, 2017a).

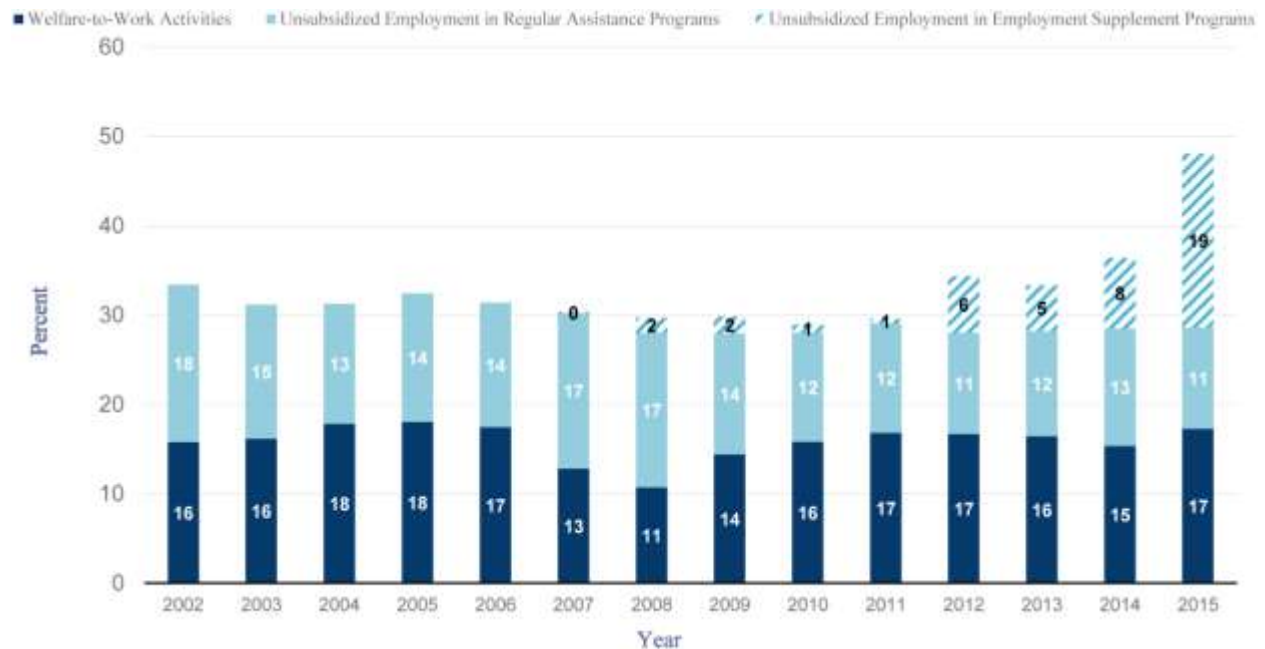
*Work requirement.* Let’s first understand what the TANF work requirement is. A recent report from the nonpartisan Congressional Research Service (Falk 2017b) and several reports from Peter Germanis, an independent analyst (for example, 2017b), provide a thorough and hard-hitting summary of the problems with the TANF work requirement. Based on those reports and other documents (for example, Haskins 2017b; Committee on Ways and Means 2016), what

follows is a summary of the work requirement, an analysis of how states have met the requirement (or not), and an important conclusion about whether the TANF experience should shape work requirements in future government programs.

The TANF work requirement, which includes both actual work in public-sector or private-sector jobs and work-related activities such as education and training, is that states must have 50 percent of TANF families with a work-eligible individual engaged in 1 of 12 work activities specified in the statute for an average of at least 30 hours per week for a month (20 hours for a single parent with a child under six years of age in 9 work activities). In other words, as long as in any given month the average weekly engagement in work activities is 30 hours, that month counts toward the work requirement. A separate work requirement applies to two-parent families. States must have at least 90 percent of families with two work-eligible individuals in the work activities for an average of 35 hours per week for a month (55 hours if the family receives childcare with a federal subsidy). The work rate calculation for the state is based on the number of families meeting the work requirement divided by the number of families subject to the work requirement. The activities that count as work include unsubsidized employment, job search and job readiness assistance, work experience, community service, and vocational education training. The work requirement is backed by financial sanctions on states, whose TANF block grant may be reduced in proportion to how badly they fail to meet the 50 percent work requirement, and on individual recipients, whose cash benefit is reduced by states if they fail to meet the work requirements. States can at least temporarily avoid the penalty by signing a corrective compliance agreement, but the penalty can be reimposed if the state fails to meet the term of the agreement.

In an ideal world, states would meet the work requirement by simply determining annually how many families have a work-eligible individual, taking 50 percent of that number, and then planning their work activities so they involve the required number of individuals in qualifying activities. Instead, states look for ways to get around having to actually put that number of recipients into legitimate activities that meet the work requirement. What follows is an overview of activities, which could with some justification be called “tricks” used by states to fulfill the work requirement.

**Figure 4. Estimated TANF Work Participation Rate (WPR) by Activity and Program Type, FY2002–FY2015**



Note: Employment subsidy programs could only be identified for FY2007–FY2015. For a description of how employment subsidy programs were identified for this analysis, see appendix B of CRS report referenced below. The figure illustrates the WPR computed for the “all families” rate, not the separate two-parent rate. A family is classified as participating in unsubsidized employment only if that is the sole activity of its work-eligible individuals. If a work-eligible individual participated in both welfare-to-work activities and unsubsidized employment, that individual is classified as having participated in welfare-to-work activities.

Source: Data shared courtesy of Gene Falk. “Congressional Research Service (CRS) tabulations of the TANF national data files, FY2002–FY2015,” in Gene Falk, *Temporary Assistance for Needy Families (TANF): The work-participation standard and engagement in welfare-to-work activities*. CRS Report No. R44751. Washington, DC., February 2017b.

*Token TANF payments.* Figure 4 presents the activities states used to meet the work requirement in every year between 2002 and 2015. The activities are divided into three categories. The dark region at the bottom of each bar graph is the percentage of families that participated in one of the eleven work activities (not counting unsubsidized employment) defined in the statute. The second region, colored gray, is unsubsidized employment, which means the recipient has a job in the public or private sector but, because the recipient does not earn enough money to be required to leave the state TANF rolls, they can be counted toward the work requirement. The third region, crosshatched, is unsubsidized employment in employment supplement programs. This is a category invented by states in which states find families with children that have enough hours of employment to meet TANF's work requirement and pay them a token payment (for example, \$5 to \$15 a month) to add them to the rolls, thereby qualifying them as meeting the work requirement. Many states find these families on the SNAP caseload. Figure 4 shows that the unsubsidized employment in employment supplement programs (through the mechanism of "token payments") has boosted state participation rates in increasing numbers since 2007. In 2015, it was the single most important category that helped states meet, or at least get closer to, the 50 percent work participation rate despite the fact that it does not result from states placing recipients in work activities.

*Caseload reduction credit.* Another way states get around the work requirement is through use of the caseload reduction credit, a deliberate provision of the original 1996 TANF legislation. The caseload reduction credit allowed states to reduce their 50 percent work requirement by the same percentage as they reduced their caseload relative to their caseload in 1995. For

example, if a state's caseload had been 5,000 families in 1995 and had been reduced to 2,500 families by 2000, the work participation requirement would be reduced by 2,500 divided by 5,000, or 50 percent, in 2001. This 50 percent is subtracted from the 50 percent work requirement, yielding a final work requirement of 0 percent without necessarily putting a single TANF recipient to work.

Between 1995, the year before TANF was enacted, and 2000, the total TANF caseload declined from about 4.9 million families to 2.3 million families, well over 50 percent, greatly reducing the 50 percent work requirement in the typical state, often to 0. In 2002, 21 states used the caseload reduction credit to fulfill their entire work requirement (Falk 2017b, 5).

The caseload reduction credit was popular among Republicans because it was a strong incentive for states to help, cajole, or force families to leave the welfare rolls, which they did in droves. A problem is that Republicans often avoid examining why recipients leave the rolls. Clearly, given the amazing decline in the caseload over the first years of the TANF program, recipients did leave the caseload in unprecedented numbers. But many left because they were sanctioned, others because of the barriers some states placed on applicants to qualify for or continue receiving benefits, and some because of the state-designed time limits of less than five years (Germanis 2017b, 25–26; Acs, Loprest, and Roberts 2001). Meanwhile, fewer and fewer poor families with children received a TANF cash benefit (Floyd, Pavetti, and Schott 2015), although they did receive benefits from other programs, especially the SNAP program.

Given a provision like the caseload reduction credit that so greatly reduces the incentives for states to put people in work activities once they have reduced their rolls relative to the baseline year, it is little wonder that Congress began to look for a solution to reduce the impact of the caseload reduction credit in all but offsetting the work requirement. The solution appeared

to be simple—just change the base year. Thus, in the 2005 Deficit Reduction Act (DRA), Congress changed the base year from 1995 to 2005. The change had a major impact in almost every state because the credit was now based on a comparison of the much lower 2005 caseload to the caseload in the year before the current year. Caseloads continued to decline after a rise during the Great Recession of 2007–2009, but at a modest rate. Most states can reduce the work requirement much less than before the DRA change in the base year, although they are still able to use the caseload reduction credit to reduce the work requirement. In 2015 all but 12 states were still using the caseload reduction credit.

*Excess maintenance of effort.* In a provision called maintenance of effort (MOE), the 1996 TANF legislation required states to spend their own funds in an amount equal to 80 percent of the amount they spent from state funds in 1994 in the old AFDC program on cash assistance, emergency assistance, job training, and childcare that served welfare families. States are penalized for failing to meet this MOE requirement by reducing the next year's TANF block grant dollar-for-dollar by the amount their MOE spending is below the amount required.

But by spending more state dollars than required by the MOE provision, states could reduce the number of families required to be in work activities. A regulation written by the Clinton administration in 1999 allowed states to exclude from the caseload reduction credit calculation cases on which the state had spent MOE dollars in excess of the basic MOE level. States rarely used this provision to reduce the number of TANF recipients they had to place in work programs while the caseload reduction credit was based on the 1995 baseline that helped so many states virtually extinguish their work requirement. But when the DRA changed the credit's baseline year to 2005 and thereby greatly diminished its usefulness to many states, states began

to use the excess state MOE spending provision to reduce their work requirement. According to a report from the Government Accountability Office (2012), 16 of the 45 states that met the work requirement in 2009 would not have done so without their use of the excess MOE spending provision.

*Reducing the number of recipients required to work.* Another way states meet the work requirement without requiring people to work or train hinges on how states determine who on the caseload is required to work. It may be recalled that the 50 percent work requirement is calculated by dividing the number of TANF families meeting the work requirement by the number of TANF families with a work-eligible individual. Since the number of families required to work rises and falls with the increase or decrease, respectively, in the denominator of the calculation, any provision that allows states to reduce the number of work-eligible cases will reduce the number of participants required to meet the work requirement. The primary way states can reduce the number of work-eligible families is to exclude families that are under a work sanction, although this provision can be used for only three months of the preceding twelve months. States can also exclude families with a child under the age of one year from the denominator. Not surprisingly, every state has adopted procedures that allow them to exclude some families from the denominator.

*Separate state programs.* In addition to the approaches just described, states have developed a way to evade the work requirement. States learned there was nothing in the 1996 TANF legislation that prevented them from establishing a separate state program paid for exclusively by state funds. Funds used to create a separate state program can be counted as MOE, so

TANF rules give states incentive to establish separate programs. Why would states want to go through the trouble of establishing a separate state program? The answer is that states can establish their own rules for these programs, and one rule states favor is that the separate state programs do not have to have any work requirement. Thus, states can remove families that have difficulty meeting the work requirement and put them in a separate state program with no work requirement. Each family put in the separate state program can be excluded from the work participation rate calculation, thereby making the work requirements easier to achieve. In the Deficit Reduction Act of 2005, Congress attempted to close the loophole of separate state programs, but states quickly figured out a way around the new provision and a similar loophole still exists.

*Summary.* Examining these problems with the TANF work requirement leaves little doubt that the TANF approach to requiring work has not proven to be an effective way to help welfare recipients prepare for or find unsubsidized work. New attempts to strengthen the work requirement in TANF and other means-tested programs should learn from, but not follow, the TANF example. In fact, if TANF work requirements are any example, we must find and test new ways to help welfare recipients enter employment. This conclusion is especially important because the unprecedented decline in the TANF caseload has meant that there are now many more families living in poverty, and even deep poverty (below half the poverty level), that do not receive a cash benefit. In 2012, TANF reduced the rate of deep poverty from 9.5 percent to 8.4 percent, a decline of about 12 percent. By contrast, in 1995 the Aid to Families with Dependent Children that TANF replaced reduced the deep poverty rate from 11.3 percent to 6.5 percent, a decline of 42 percent. The two primary goals of TANF are to provide income



support to poor families while they struggle to stabilize their life and to help people achieve self-sufficiency through work. TANF now seems to be achieving neither goal (Falk 2017a).

### ***Supplemental Nutrition Assistance Program***

The concern with work in the SNAP program goes back to the legislation that first authorized the food stamp program in 1971. That legislation required able-bodied recipients to register for work and disqualified adults from receiving benefits if they quit a job or turned down a job offer. The Congressional Research Service (Falk, McCarty, and Aussenberg 2014, 5), in its analysis of the origins of the SNAP program, points out that the House-Senate Conference Committee that approved the 1971 legislation “endorsed” a uniform workfare requirement in welfare programs, although nothing approaching universal workfare has ever been enacted in federal legislation. In the 1977 Food Stamp Act, Congress authorized pilot demonstration programs on work, and in 1981 Congress made workfare programs a state option. Subsequent provisions authorized employment and training activities in the food stamp program. However, none of these provisions imposed a work requirement or even an employment and training obligation on recipients or on states. Everything was done on a voluntary basis.

This brief overview of the origins of the SNAP program and provisions on work seems to suggest that Congress was reluctant to impose a mandatory work requirement on SNAP recipients. This reluctance came to the fore in the debate over welfare reform in 1995 and 1996, with Democrats concerned that true work requirements backed by sanctions could lead to many recipients having their food stamp benefit reduced or even ended altogether. Nonetheless, the 1996 welfare reform legislation—the same legislation that created the work requirements in the TANF program—introduced the concept of mandatory work in the food stamp program. Now, as in the past, all nonexempt recipients must register for work if they are not employed. Further,

registered recipients must accept a job if one is offered, and working recipients cannot quit their job without good cause or reduce their work hours below 20 per week. In some states, recipients are also required to participate in employment and training activities.

The 1996 law also imposed special provisions on able-bodied adults without dependents (ABAWD). This group of recipients cannot receive benefits for more than 3 months in a 36-month period without working. States may exempt up to 15 percent of their ABAWD population from this requirement, and states can obtain a waiver from the US Department of Agriculture to suspend the work requirement if unemployment in the state is high. Currently, 10 states and territories have complete waivers from the ABAWD work requirement while another 26 states have a partial waiver (US Department of Agriculture 2017a). With or without the waivers, the ABAWD work requirement is an important provision that has substantially increased the number and share of SNAP recipients who are subject to a work requirement. However, states were not given adequate funds to involve ABAWDs in work or training activities that would allow them to avoid losing their SNAP benefit due to the requirement that recipients cannot receive benefits for more than 3 months in a 36-month period unless they are working or participating in education and training programs.

According to the US Department of Agriculture (2017d), 22 percent of SNAP participant work full time, are caretakers, or participate in training programs; 64 percent are children, elderly, or disabled; leaving 14 percent of the caseload that could be helped to work. With generous funding from Congress, 10 states are now conducting demonstration projects to test various ways to help this latter group work or prepare for work. No outcomes from these projects are available yet (US Department of Agriculture 2017c).

## *Housing*

Housing programs were formalized in the 1974 Housing and Community Development Act. However, work policy was not part of housing programs until small demonstration programs were established by legislation in 1983. Falk, McCarty, and Aussenberg (2014) assert that initial legislation was silent about work requirements because most housing benefits at that time went to low-income, working families. Over the years, however, the characteristics of housing recipients have changed dramatically so that more and more non-working and very poor families joined the rolls. Thus, housing reforms enacted in 1998 contained the first work requirement in the history of the program. The requirement was that some recipients of public housing participate in community service or self-sufficiency activities for eight hours each month. It is notable, though somewhat perplexing, that this modest work requirement applies to some of the 2.1 million occupants of public housing but none of the 2.2 million occupants of Section 8 housing. According to a 2016 report from the Department of Housing and Urban Development (HUD), about 812,000 or 44 percent of public housing residents are subject to the community service requirement and should be involved in community service or other activities designed to promote self-sufficiency (McCarty 2016).

The HUD Inspector General (IG), in a 2008 report, criticized HUD's enforcement of the community service requirement. The IG argued that at least 85,000 individuals residing in public housing were ineligible to live in public housing because of noncompliance with the community service requirement. In a subsequent report, released in February of 2015, the IG held that 106,000 units were occupied by tenants who were out of compliance with the community service requirement and that the value of housing subsidies paid to these residents was \$37 million per month. There has been something of a struggle between the IG and HUD, with the former

holding that HUD was not enforcing the community service requirement and HUD arguing that the IG claims are not correct. In any case, it seems clear that the community service requirement has not moved public housing program participants in the direction of self-sufficiency.

### *Medicaid*

Implementation of the ACA in 2014 brought many nondisabled, nonelderly adults onto the Medicaid rolls. According to the Kaiser Family Foundation (Garfield, Rudowitz, and Damico 2017), there are 24 million adults on Medicaid who are not also on SSI (which would indicate they have a disability) and who are between the ages of 19 and 64. Kaiser holds that almost 60 percent of these recipients work and almost 80 percent are in families with at least one worker. Assuming the Kaiser figures are accurate, there would still be 9.6 million work-capable adults in households with no workers and 4.8 million in households with someone else who works.

Medicaid has no work requirements. Indeed, work requirements are prohibited by statute (Garfield, Rudowitz, and Damico 2017). One justification for this policy is that many people who use Medicaid are disabled, elderly, or children. Another justification is that it is difficult to place a sanction on the Medicaid benefit. The usual sanction for an individual not complying with a work requirement is to reduce the size of the benefit; for example, less cash in the TANF program or a food credit of reduced value in the SNAP program. But in Medicaid, it is more difficult to impose a sanction because the benefit is not continuously distributed; rather, the individual is either covered or not. If the entire coverage is removed, the person could wind up in the emergency room for all treatment, which would impose costs on taxpayers as well as the former recipient. Further, many Americans would be likely to question the morality of depriving someone of the means to qualify for health services. Another issue in requiring healthy people on Medicaid to meet a work requirement is that they might just let their Medicaid enrollment lapse

until they are sick or in need of some type of medical treatment. Why would such people work for 80 hours a month if they do not use their Medicaid coverage, which many healthy young people do not?

There are at least two responses to these justifications for not requiring able-bodied adult Medicaid recipients to work. First, although many people who receive Medicaid are disabled, elderly, or children, as shown by the Kaiser analysis of the caseload added by the ACA just presented, those subtractions from the caseload still leave millions of able-bodied adults on the rolls. Most of these able-bodied, nonelderly adults were added to the rolls because of the ACA and, more specifically, the Medicaid expansion now being implemented in 32 states. The second response to the claims of those who wish to avoid work requirements in Medicaid is that if we are to build a federal-state system of mandatory work in exchange for public benefits, it makes little sense to completely omit the biggest means-tested benefit program as measured by both expenditures and enrollment. If the intent is to have work requirements for all able-bodied adults who receive public benefits, all means-tested programs should be included. On the other hand, the importance of the Medicaid benefit to the health of a population that already has above-average health issues requires special precautions in allowing states to test Medicaid work requirements.

Although most states probably wish to avoid imposing a work requirement on Medicaid recipients, some states would like to at least try to develop Medicaid work programs. By March 2017, four states (Arizona, Indiana, Kentucky, and Pennsylvania) had applied to the Centers for Medicare and Medicaid Services for a waiver of the Medicaid provision that outlaws work requirements so they could initiate such a program (“Healthy Indiana Plan” 2017). The Trump

administration has said publicly that it will approve waivers of this type, but as of September 2017 the administration has not done so (Musumeci 2017).

### *Summary*

This section shows that the work requirements in the TANF, SNAP, and housing programs do not appear to be very effective. The TANF requirements, which have often been portrayed as highly successful, seemed to have been effective in the years immediately following the 1996 welfare reform legislation. However, states met the work requirement primarily because millions of families left the rolls and up to 70 percent of them worked in unsubsidized jobs (Acs, Loprest, and Roberts 2001). Thus states met the work requirement not by establishing successful work activities to which they could assign recipients to prepare them for work but simply by reducing their caseload. In fact, many states met the entire 50 percent work requirement by reducing their caseload by 50 percent or more, thereby wiping out the work requirement. When Congress changed the base year for meeting the work requirement, most states could no longer help enough people find jobs to meet the 50 percent requirement. So rather than develop work programs and programs focused on work-related activities, they mostly played games, as already described. It follows that the approach to meeting the work requirement taken by states in the TANF program does not provide a model for other welfare programs to follow. It is now essential to help states develop effective work and training programs that can be implemented at scale to help recipients qualify for and find jobs and that repair the hole in the safety net created by the retraction in the number of people served by the TANF program.

## **Experiments on a Unified Work Requirement**

The foregoing overview of federal policy designed to make work pay and to encourage or require welfare recipients to work or prepare for work shows that the work support system augments the earnings of millions of families, especially those with children, but does too little to increase work rates among those who are out of the labor force. In addition, the work requirements in the TANF, SNAP, and housing programs have not shown themselves to be effective. My goal in the remainder of the paper is to propose a federal program that aims to increase the number of people in the workforce and to improve their economic circumstances by developing provisions for welfare programs that encourage or, when necessary, require work or work preparation.

## ***Preliminary Considerations***

The vision of the proposal for a unified work requirement in means-tested programs is that in the long run nearly all able-bodied, nonelderly adults receiving benefits from the major means-tested programs who do not already work at least 20 hours per week would be subject to a work requirement. Recipients subject to the work requirement would have to work, train, or participate in educational activities related to employment the lesser of 20 hours per week or the number of hours determined by the value of their monthly benefit divided by the minimum wage. If the work requirement for states were set so as to require that a specific percentage of the caseload, not to exceed 50 percent, with a work-eligible adult in each welfare program be involved in work-related activities, states would still have a great deal of flexibility in determining whom they enrolled in the program. The work requirement is based on the principle that able-bodied adults who receive welfare and do not have at least a half-time job should be required by the government to engage in training or work. More than 80 percent of

Americans believe welfare recipients should work. Thus, what follows is an attempt to learn how to operationalize what can be called the work principle endorsed by the American public.

The proposed system is based on four broad considerations. First, having been involved in writing the TANF legislation, I would assert that many of the specific work standards in TANF were guesses—guesses informed by a desire among Republicans to fashion a demanding work program, which may have caused them to err on the side of tough requirements. Is requiring an average of 30 hours a week for a month the proper requirement on the number of work hours? How about a work participation rate of 50 percent of a state’s TANF caseload for single-parent families or 90 percent for two-parent families? These requirements are certainly demanding, but we do not have a compelling body of research to determine whether they make sense and, if so, for what purpose. However, the finding that very few states have met the 50 percent work requirement in any year since 2002, shown in figure 4, suggests that the TANF work requirements may be unrealistic. In addition, the fact that states have played so many games, already outlined in detail, to meet the work requirements might be considered *prima facie* evidence that the work standard is difficult for states to meet. In the more than two decades since TANF was enacted, virtually no states have met the work requirement without using one or more of the work-avoiding ploys described. In the system proposed here, I am only slightly influenced by the desire to be demanding. I am looking for requirements that give states the sense that, with good organization and a serious effort, they can meet the work requirement. It will take many years and a great deal of experimentation to establish the specifics of an effective and reasonable state work requirement. Adding confusion to the enterprise, it probably makes sense to have different requirements in different states.



The second consideration is that it would be difficult to enact reforms of the work requirement in TANF, SNAP, or housing and even more difficult to pass legislation that created a work requirement in the Medicaid program. Republicans might support stronger work requirements in one or more of these programs, but they played the pivotal role in creating TANF and the ABAWD requirements in SNAP and are reluctant to accept any but minor changes in either TANF or SNAP work requirements. Doing so would be widely regarded among Republicans as “weakening the work standard,” and anyone who supported such a provision would be pilloried. For their part, Democrats focus on the potentially negative impacts of work requirements. Their concerns, which should be taken seriously, begin with the fear that many welfare recipients are incapable of work because of physical and mental barriers that are not serious enough to qualify them for a federal disability benefit under the Supplemental Security Income or Social Security Disability Insurance programs but serious enough to pose a barrier to work. An especially great fear of progressives is that sanctions will reduce the welfare benefits of people who are poor and who may in some cases lose their entire benefit—as happens on a regular basis in TANF. LaDonna Pavetti and her colleagues (Floyd, Pavetti, and Schott 2015) have shown that the ratio of the number of families receiving TANF to the number of poor families with children in poverty has fallen from 68.4 percent the year welfare reform was enacted to 23.2 percent in 2015. With data like these, it can be expected that any attempt to export TANF-like work requirements to other welfare programs would meet fierce resistance from Democrats. Thus it seems unwise to try to enact new work requirements and engage in a legislative battle that could last for years and still not result in legislation. Something besides a legislative strategy is called for.

Therefore, the third consideration motivating my proposal is that rather than trying to legislate major reforms in the TANF, SNAP, housing, and Medicaid work requirements that probably cannot be enacted for the next several years in any case, we should proceed by conducting large-scale demonstrations that address some of the major questions we need to answer to mount effective state work programs that do not merely require recipients to work but lead to improved employment prospects. The demonstrations I have in mind will require legislation, in large part because of the possible need for the secretary of Housing and Urban Development (HUD) and the secretary of the Department of Agriculture to have expanded authority to grant waivers that would permit experiments with work requirements. Both secretaries have some waiver authority, but perhaps not sufficiently broad to permit them to approve work requirements. By contrast, Section 1115 in the Social Security Act, which should be a model for similar waiver authority in both the HUD and Department of Agriculture programs, gives the secretary of HHS wide authority to approve experiments aimed at increasing work rates. Legislation is also necessary because of the need to appropriate funds to conduct and evaluate the demonstrations.

Thus, funding is the fourth consideration. To signal the seriousness of the experimental program to increase work rates and to have adequate resources to engage many states simultaneously in the experimentation, an annual appropriation of \$1 billion should be made available by Congress. Taking the funding from the TANF program could finance the need, thereby creating a deficit-neutral package that meets budget rules. If possible, when Congress passes legislation to finance the new demonstrations with TANF dollars, it should also restrict the states' use of TANF dollars to providing direct benefits to families admitted into the TANF program and to helping recipients prepare for (including all the 12 employment-related activities

now specified in TANF statute) or find employment. Restricting TANF to these two purposes, gradually implementing this provision over a period of years, is consistent with the intent of Congress when the welfare reform law was enacted in 1996.

### ***The Special Situation of Medicaid***

Medicaid is a special case under the work principle. As we have seen, unlike the TANF, SNAP, and housing programs, Medicaid has never had a work requirement. Arguments against a Medicaid work requirement are reasonable and were especially reasonable before the ACA was implemented in 2014. In the pre-ACA Medicaid program, most recipients were elderly, disabled, or parents and children in single-parent families. Many adults in this latter group were subject to a work requirement because the family also received TANF. Given the composition of the Medicaid caseload and the fact that most able-bodied, nonelderly adults on the caseload (mostly single mothers) are subject to a work requirement in another program, it seemed unnecessary to create a Medicaid work requirement. But after Medicaid became available through the ACA in 2014, we have seen enrollment jump, and the Medicaid rolls now include many more single adults without children (ABAWDs) than in the past. These adults should be subject to a work requirement.

Fortunately, Section 1115 gives the Secretary of HHS the authority to permit waivers that would allow states to test Medicaid work requirements, so there is no need to create statutory language giving the secretary the authority to permit these requirements. Some states applied to HHS for Medicaid waivers during the Obama administration but were denied. The secretary of HHS has the power under Section 1115 to grant Medicaid waivers and approve work demonstrations if they meet certain conditions. The secretary of Agriculture also has substantial

waiver authority, which was expanded under the 1996 welfare reform legislation (Rosenbaum 2002).

One of the primary risks of imposing work requirements on non-working Medicaid recipients who are not disabled or elderly is that they would simply drop off the Medicaid rolls rather than meet the work requirement. Especially, young and healthy adults are not likely to require medical attention very often. So even if they were covered by Medicaid, they may never use it or only rarely use it. Some of these recipients would be likely to compare working 80 hours a month with a benefit that does not help them much and conclude they should simply stay off the rolls or leave the rolls and sign up again when they get sick. As is widely known, many young people have followed this strategy under Obamacare and avoid paying for health insurance until they have an acute condition that requires care (Deloitte Center for Health Solutions 2014). The fact that insurers cannot deny coverage to those with preexisting conditions makes this strategy even more likely among healthy young people. It would be important for the secretary of HHS to grant Medicaid work waivers only if states collect the data on young people subject to the work requirement to determine whether they are likely to employ this strategy until they actually need medical care. States should also collect data on whether these recipients wind up in emergency rooms seeking treatment and whether they suffer untreated illness or injuries during periods when not covered by Medicaid.

A major argument justifying the Medicaid work requirement is that working-age males are the demographic group that has shown the greatest decline in labor force participation. Until the enactment of Obamacare, single, nonelderly, able-bodied males were not eligible for Medicaid. Now they are in 32 states, and Medicaid may present an opportunity to design programs to help these males get back in the labor force. SNAP and Medicaid, as well as the

Child Support Enforcement program (Mead 2011), are the best opportunities to reach out to men who have left the labor force and to use government authority to encourage, entice, or require them to work, perhaps after education or training.

### ***Demonstrations***

Demonstrations are tests of policy ideas that are built around a well-designed evaluation to determine whether the implementation of the policy idea produces the expected impacts. The advantages of demonstrations of this type are legion. Perhaps the most important is that, as experience shows, rigorous evaluation demonstrates that most new programs do not work very well (Manzi 2012; Baron 2015). Rather than asserting that a policy idea would be effective, it's better—and often cheaper—to try it out on a trial basis, conduct a rigorous evaluation, and then improve, expand, or drop the program depending on the results. This is the most important way of adhering to the tenets of evidence-based policy (Haskins 2017a).

Federal law has long recognized the advantages of this approach to policy learning. Some statutes that authorize federal programs contain a provision that allows the secretary of the agency responsible for implementing the program to grant waivers of law to states that want to experiment to improve the program. Section 1115 of the Social Security Act, previously discussed, is perhaps the broadest and most frequently used waiver provision in federal law. Specifically, the statute says that the secretary can authorize an experiment, pilot program, or demonstration project that in “the judgment of the secretary, is likely to assist in promoting the objectives” of many (but not all) provisions of the Social Security Act. The provisions for which the secretary can grant waivers include both TANF and Medicaid. Section 1115 has been used to grant numerous waivers for states to conduct demonstrations of ways to reform welfare programs (Gueron and Rolston 2013). In fact, 43 states had been granted waivers of welfare-related

provisions before the enactment of welfare reform in 1996. Many scholars and analysts believe these waivers played a major role in enactment of the sweeping 1996 legislation (Besharov and Call 2009; Germanis 2016; Rogers-Dillon 2004). But the waivers did not produce much evidence on the particular features of the work requirement that wound up in the statute, nor for the idea that the best way to promote work was to convert the old AFDC program into a block grant.

Even so, waivers provide three clear advantages for policy development. First, as suggested by the case of TANF, waivers can have an impact on subsequent legislation, especially if several states or localities conduct waivers that produce similar outcomes. In the case of TANF, many states conducted demonstrations that involved changes in work requirements and the use of time limits. One conclusion drawn by most researchers and analysts from a range of studies, most of high quality (large scale, random assignment to experimental and control groups, follow-up for three years or more, good information on both costs and benefits), was that states that conducted intensive and well-designed programs to help recipients find jobs, often referred to as “job search” or “work first” programs, were successful in placing recipients in jobs and in reducing spending on welfare (Riccio, Friedlander, and Freedman 1994). Further, some of these programs were shown to pass a benefit-cost test (Long 1988). Second, the fact that so many states spent time and money planning and conducting large-scale demonstration programs was strong evidence that the states wanted to change their welfare programs, which in turn convinced many people, including members of Congress, that states would support welfare reform focused on increasing work rates (Rogers-Dillon 2004, especially chapter 7). As it turned out, other than President Clinton’s decision to sign the final bill into law, states were arguably the most important influence outside Congress that supported passage of the 1996 legislation (Haskins 2006). Third, demonstration programs offer the states the opportunity to work out the procedures

and train the personnel they will need to implement their work programs at scale. When the TANF legislation passed in 1996, many states already had experience conducting similar programs, which facilitated implementation of the TANF program beginning in 1997, the year after the welfare reform law passed Congress.

### ***Low-Income Opportunity Advisory Board***

Given that the goal of this proposal is to generate knowledge and to encourage states to focus on establishing a universal work requirement in their means-tested programs, including a focus on programs that provide training to boost the skills of low-skill welfare recipients, there is a great need for a process, especially one directed by an organization that can select the best state demonstrations, ensure that the money is spent wisely, coordinate the demonstrations to maximize learning, and facilitate high-quality evaluations in all the demonstrations. The distinguished welfare expert Chuck Hobbs, who came to the nation's capital during President Reagan's first term, and his young assistant Peter Germanis, who is now a top welfare expert and a leading critic of the TANF program, established the Interagency Low-Income Opportunity Advisory Board in 1987 during the Reagan presidency (Office of the President 1987).

Hobbs chaired the board and answered directly to the president. OMB, HHS, the Department of Agriculture, HUD, and the Departments of Justice, Labor, and Interior held seats on the board. The functions of the board were to encourage states to submit demonstration proposals on innovative work-related proposals, give the states the opportunity to perfect their proposals by submitting them to and appearing before the board to explain and defend their proposals, and then presenting the state demonstrations they approved to the respective secretaries with jurisdiction over the programs involved in the demonstrations. Following this

procedure, secretaries retained jurisdiction over their own programs and could delay or terminate demonstrations they opposed.

A similar board should be appointed to run the new work demonstrations, with each department secretary designating their agency's representative and the president appointing the board chair. The board would meet when called by the chair and would make recommendations to the secretaries of the agencies affected by the respective demonstrations. Meetings would be devoted primarily to reviewing state proposals and trying to reach consensus about whether the proposal should be approved, usually after the state considers questions posed by board members. When consensus cannot be achieved, the board would vote and a majority vote would carry the proposal forward. The state would have the right to appear before the board to explain and defend their proposals. The board, acting on behalf of the president, would also control the money appropriated by Congress to support the demonstrations.

In all its dealing with states about the demonstration programs, the board should emphasize the importance of conducting rigorous experiments using random assignment designs whenever possible (in other words, almost always). The goal of the demonstrations is to show how states can develop practices that have the intended impacts and that would continue having these impacts when scaled up to new sites. The best way to achieve this end is by using experimental designs based on random assignment and scaling up the program to new sites if the initial results are encouraging. States should be encouraged to work with experienced program evaluators who are in federal or state government agencies or who are in private companies that are familiar with the evaluation of programs as they operate in the complex world in which many welfare recipients live.



The board should also have responsibility for helping develop a clearinghouse that would serve as a repository of information from past and future experiments designed to help youth and adults improve their skills and find jobs. The Consolidated Appropriations Act of 2017 contained a provision calling for just such a clearinghouse. The Low-Income Opportunity Advisory Board should work closely with the administrators at HHS responsible for designing and running the clearinghouse to determine what is already known about programs aiming to help disadvantaged youth and adults pursue self-sufficiency by training for, qualifying for, and obtaining jobs that can improve their financial status and allow them to take advantage of the work support system. In serving as a repository for information related to training and work programs, a clearinghouse can serve the obvious purpose of making it as easy as possible for states to learn from each other as their experiments are designed, put into practice, and completed. There is already a rich literature of experimental evidence on job search and work first programs, on apprenticeships, on certificate programs, and on associate degree programs offered at community colleges. The first task of the clearinghouse should be to have this information from past experiments summarized and the details of the experiments and their impacts included in systematic fashion where the public—and especially the states—can gain access to it. This information can be especially useful to the board and the states in determining what experiments are needed to expand what is already known.

### ***The Role of States***

States are the key to making the new system of demonstrations an effective way to move welfare programs in the direction of promoting self-sufficiency through work. Their major goal is to develop and test programs that will increase work effort and income by recipients of and applicants for welfare benefits in TANF, SNAP, housing programs, and, perhaps in some

states, Medicaid programs. All approved proposals must involve recipients or applicants in at least two of the four welfare programs. There is nothing to prevent states from bringing in additional programs, such as Child Support Enforcement, if it would advance their goals.

States are strongly encouraged to develop their programs in cooperation with the Innovation and Opportunity Network (ION) authorized by the Workforce Innovation and Opportunity Act of 2014. ION has everything needed to mount effective programs designed both to get people into the labor force and to efficiently capitalize on the training resources available at state One Stop Centers. One outcome of the demonstrations should be to help states coordinate all their training and employment programs to help youth and adults who voluntarily seek assistance with training and employment and to provide integrated services to welfare recipients regardless of the specific program or programs in which they are enrolled.

### ***Candidates for State Demonstrations***

This section provides a few examples of the kinds of demonstration projects states are encouraged to propose. One set of experiments that seems long overdue is experiments that explore issues with establishing the specific requirements of an effective welfare-to-work program. These include hour requirements, work rates, sanction policies, definitions of activities that qualify as work, limits on any of these activities, and many other conditions as well. In developing these studies, states would be granted waivers from current TANF requirements to conduct experiments with alternative work program characteristics.

A potential problem here is that in 2012 the Obama administration offered states the opportunity to request waivers under Section 1115 of the Social Security Act to conduct experiments on changes in the TANF work requirement. Republicans strongly opposed this waiver on the grounds that the statute prohibited changes in the work requirement (Berg 2012).

The only application for a waiver came from John Kasich, the Republican governor of Ohio, but the Obama administration, given the controversy surrounding the waiver proposal, never acted on the Ohio request. Recently, the Trump administration turned down the Ohio request and announced that the Obama offer for waivers of the work requirement was rescinded. This episode seems to raise a red flag for any proposal, like the one being offered here, to experiment with the TANF work requirement. On the other hand, perhaps now that HHS is headed by a Republican, Republicans would be more willing to allow experiments with the TANF work requirement.

The employment program that has the longest record of success is job search (Long 1988). The strategy of job search, often called “work first,” is to implement programs that help welfare recipients find jobs, sometimes after brief training. In the heyday of welfare reform demonstration programs in the 1990s, several states mounted job search programs showing that many mothers on welfare could find jobs and leave the welfare rolls. In California’s Greater Avenues for Independence (GAIN) program, which focused on job search supplemented in some cases by brief education or training activities, several counties produced gains in earnings that lasted at least three years (Riccio, Friedlander, and Freedman 1994). Further demonstration research with programs that focus on job search and brief training for some recipients could develop innovative approaches that would boost earnings, reduce poverty, and save money. Important issues in this line of studies would be to explore ways to identify recipients who need short-term education or training to increase their job readiness, to examine how to develop and operate effective training programs of this type (perhaps with the help of local community colleges), and to develop ways to help recipients do well in their jobs after placement.

States would also be encouraged to conduct programs that emphasize increasing the job skills of welfare recipients. A promising line of research on this issue is illustrated by a 2010 study conducted by Public/Private Ventures that examined the impacts on employment and earnings of three small-scale programs that aimed their training at skills required by specific employers in the local economy (Maguire et al. 2010). The success of the Public/Private Ventures program, which led to increases in earnings, encouraged the emergence of more similar programs that emphasized skill acquisition tailored to jobs available in the local economy, especially the WorkAdvance Demonstration program conducted by MDRC (Hendra et al. 2016). WorkAdvance not only focused on teaching skills that could lead to quality jobs in the local economy but also achieved very large employment gains (in one site, participants in the program were three times as likely to be employed following training than participants in the control group) and earnings. The processes involved in tailoring training programs for skills that are needed by employers in the local economy make a great deal of sense and have seemed to stimulate the emergence of programs around the nation that adopt this strategy as part of their training programs (Tessler 2013). The question now is whether states can scale up this strategy through their ION programs and help thousands of welfare recipients gain the skills needed to land high-paying jobs in their local economy. This situation is ripe for exploration and demonstration by states, including further exploration of the costs and benefits of these advanced programs.

Another example for a demonstration that would have direct relevance to using the work support system to provide the best help possible to low-income workers would be to study the effect of providing EITC and Child Tax Credit payments on a monthly or quarterly basis rather than once a year. This experiment could be conducted with SNAP recipients because so many of

them have some income from work. The test would be whether receiving monthly or quarterly payments of the tax credits would have impacts on work, family structure, spending patterns, and borrowing.

There has been continuous improvement in programs that help disadvantaged youth and adults enter the labor force. In the 1990s, during the welfare reform era, relatively simple programs like job search were shown to lead to increased employment and even welfare savings. But only rarely was it shown that state programs could increase skills and earnings. Now the field has developed model programs that are better at increasing skills and earnings than ever before. The key to such programs is working with local institutions, like community colleges, to develop programs that help workers acquire the skills they need to find high wage jobs in the local economy. Programs like this require coordination between program administrators, community and other training institution leaders, and local business executives. The demonstrations proposed here can provide the setting in which these programs can be developed and implemented with continuous feedback about successes and failures. What is needed now is for states to develop the capacity to show they can run these programs on a larger scale so thousands and eventually millions of disadvantaged youth and adults, both male and female, will be able to substantially increase their earnings.

## **Conclusion**

Given the decline or stagnation of labor force participation both by prime-age males and females, programs that help them enter or reenter the labor force are of growing importance. Many of the adults who have left the labor force are enrolled in welfare programs, including TANF, SNAP, housing, and Medicaid, four of the biggest programs in the nation's safety net. All these programs except Medicaid have a history of encouraging or requiring work or

preparation for work by some recipients. The programs that encourage work have enjoyed only modest success, far too little to make a dent in solving the growing American problem of non-work. This paper calls for establishing the principle that all non-working, able-bodied, nonelderly recipients of public benefits should face a work requirement. To put this principle into practice, I propose that states be encouraged to conduct large-scale demonstration programs focused on involving recipients of all four of these welfare programs and perhaps other public programs as well. Moreover, I propose that states have the flexibility and financial support to not only increase employment but to increase skills that lead to higher earnings as well. The broad purpose of the demonstrations is to develop efficient and effective ways of bringing welfare recipients into the labor force and toward self-sufficiency. Success in this approach would reduce one of the major problems facing the nation and would also almost certainly improve the mental health, physical health, and family formation and maintenance of the many Americans searching for a better future.

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