

**Benefit Conditionality in the US Welfare System and its Applicability to
the Workforce Investment Program
The View of a Program Administrator**

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This purpose of this paper is to describe the experience of the US in the adoption of conditionality in the nation's welfare program, and to analyze its applicability to the main employment programs under the Workforce Investment Act. We use as a practical example the WIA and welfare-to-work programs as they were administered by the author of this paper during the period 1998 – 2001 during his tenure as commissioner of Human Resources under Mayor Giuliani.

Conditionality is defined for our purposes as the imposition of requirements on the recipients of government benefits as a condition of receiving these benefits.

Two programs are the subject of this paper - - They are the work programs associated with the Workforce Investment Act (WIA, \$2.3 billion for adult and dislocated workers) and the Temporary Assistance for Needy Families program (TANF, \$2.4 billion spent by states on work programs for welfare cash assistance recipients).

The Idea of Conditionality in the US Welfare Program

The federal welfare program, Aid to Dependent Children (later AFDC) was created in 1935 during the national depression as part of the Social Security Act. This federal law provided states with financial assistance in the extension of programs to help the destitute that had been in existence for some time.

During this period cash benefits as set by the states were very low and there were no conditions set for the receipt of this assistance other than destitution, as defined by each state. Beginning in 1961 states were required to deny cash assistance to families if the unemployed parent refused to accept work without a good reason or "good cause". And in 1971 all parents except mothers with children under age 6 were required to register for work or training. Nevertheless, there was very little change in practice and cash benefits continued to be disbursed to recipients without significant conditions.

In the period after the great expansion of the size and role of the federal government adopted by Congress as part of President Lyndon Johnson's Great Society, the numbers of Americans receiving welfare grew rapidly, from about a million families in 1964 to three million only ten years later. This increase in family dependency was disturbing to Americans, especially given our culture of individualism and self-reliance carried forward from our historical heritage.

American public opinion polls going back to the 1930's show that voters want the government to assist the poor, but they also want reciprocal efforts by those receiving aid to help themselves.¹ This underlying belief among average Americans that social assistance should be delivered alongside reciprocal obligations for self-help, unfolded more slowly among policymakers. However during the 1980's changes to the intellectual currents resulted in the wide discussion on the subject of conditionality, or the reciprocal obligations social beneficiaries should have to society.

A very influential work by author Charles Murray, *Losing Ground*, was published in 1984, igniting a lively public discussion over the culture of dependency. Two years later President Reagan announced in his State of the Union address the formation of a task force to study the nation's welfare programs and to propose reforms that would address welfare dependency. The calls for ending dependency were not exclusively made from the right. A task force on poverty and welfare convened by the Democratic Governor of New York, which included five future high level members of the Clinton Administration, concluded in 1986 that society should require work in exchange for public support but guarantee that support will be available by providing jobs if necessary. President Clinton picked up on the theme of work and reciprocal obligations during the election of 1992 and promised to "end welfare as we know it".

The first major political expression of the consensus from the public and policymakers on the importance of reciprocal obligation, was the passage of legislation creating the Job Opportunities and Basic Skills program (JOBS) in 1988. This short-lived program (1989 – 1997), was intended to help families achieve economic independence through the provision of education, training and job search, delivered conditionally. The enabling legislation stated:

The state [welfare] agency "must ensure that all applicants for and recipients of Aid to Families with Dependent Children [welfare] are encouraged, assisted, and required to fulfill their responsibilities to support their children by preparing for, accepting, and retaining such employment as they are capable of performing"

The vehicle for enforcing the requirement that welfare recipients to fulfill their responsibilities as set forth in the law, was the possibility of a partial reduction in the cash benefits paid to families where the adult assigned to activities was not attending. In such circumstances reductions in benefits, called "sanctions", could be imposed. The measurement standard for enforcing conditionality under the JOBS program was

¹ Lawrence Mead; Politics of Conservative Welfare Reform in The New World of Welfare, Blank and Haskins, 2001.

“satisfactory participation”. As defined by the department of Health and Human Services, this meant that individuals who could work (i.e. did not have health or other specified reasons for not working) must do so if required by the agency. The level of required participation effort was measured in hours, with up to 20 hours per week as the standard.

What was the reason “satisfactory participation” was settled on by the authors of the JOBS legislation to determine individual compliance with the rules of conditionality, as opposed to other more direct measures such as job acquisition or improvement in skills? The alternatives were discussed during the deliberations but the central outcome of employment leading to self-sufficiency, the goal of the program, is unenforceable. There are many reasons outside an individual’s control that he or she may not succeed at finding work. Moreover it was not clear at the time what available interventions by state welfare agencies would best be expected to result in employment - - was it remedial education, skills training, unpaid work experience, or some other combination? Therefore the authors of the JOBS legislation settled on “participation” in activities as a proxy for more defined requirements; it is a measure of effort which is within the capabilities of everyone.²

Despite the high hopes that attended the JOBS program, it was unexpectedly accompanied by a substantial increase in the number of American families dependent on welfare, precisely the reverse of what was intended through the enabling legislation, and the program was superseded by TANF. Looking back, the program’s most lasting contributions may have been to advance the thinking on the practical application of conditionality. This is so because JOBS required and measured participation (as mentioned above), did not exempt all mothers with young children from these participation requirements (broadening coverage), and resulted in states constructing program delivery systems which allowed later legislation to carry out the more ambitious work-centered reforms based on conditionality, namely TANF.

Heightened public interest in welfare reform brought about by President Clinton’s election in 1992, and from high-profile Governor-led state-initiated experiments to modify the welfare program to achieve better results, resulted in the enactment of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) in 1996. This program has been justifiably characterized as a revolution in policymaking, - - it has resulted in a national welfare caseload reduction of over 60% from its peak, accompanied by substantially increased labor force participation among those formerly least likely to find work, and a sharp drop in the national poverty rate, especially among African American children.

Under the new law “participation” remains the measurement metric to determine whether individuals have met conditionality requirements under the program. Under the new law

² See *When the Witch Doctors Agree: The Family Support Act and Social Science Research*; Erica B. Baum; *Journal of Policy Analysis and Management*, Vol. 10, No. 4 (Autumn, 1991), pp. 603-615

there are significant increases in the number of individuals within each state who are subject to the welfare-to-work participation requirement (in other words fewer exemptions for taking care of young children or other reasons); there are increases in the expected weekly hours of participation (generally from 20 to 30 hours per week); and there is a narrower focus on the kinds of activities which qualify under the participation requirement (generally fewer education and training activities). Thus the new legislation embodies participation as the primary measurement standard (and distinct from the outcome-based performance standards incorporated in WIA).

Among the states implementing the new PRWORA program, Wisconsin attempted to explicitly describe the combination of social and programmatic reasons for adopting the prevailing notion of conditionality:

1. *For those who can work, only work should pay.*

There are both economic and practical reasons for tying income to work. First, experience shows that entitlements to income without work have unwanted effects on dependency. In addition, it is essential that parents understand they will always be responsible for supporting themselves and their families through work: this influences behavior and motivation in ongoing constructive ways. Finally, experience shows that individuals without extensive work history are usually in a stronger employment position after one or two years of actual work (at any wage) than after a comparable period of work preparation through education and training.

2. *Begin with the assumption that everyone is capable of some kind of work.*

The best way to help an individual out of work get back into the labor force is to provide an actual work opportunity which matches their capabilities. This is contrary to many government subsidized “helping” programs which seek to identify barriers and limitations to work, and in so doing categorize and place individuals out of the reach of the workplace where they might very well have succeeded if given the opportunity. Only by testing the suitability of work through actual attempts to work can any true limitations which prevent full participation in the labor force be identified and resolved.

3. *Strengthening the ability of parents to provide for their children is a better approach than having the government intervene directly on their behalf.*

In well-meaning attempts to look after the interests of children, government has, over time, participated in many of the roles that were previously the exclusive responsibility of parents. There are many calls for government to take on still further responsibility for assuring the well-being of children. However, government cannot raise children, only parents can. Government can do the most by helping to put parents in a position to meet their responsibilities, not by taking away these responsibilities for itself.

4. *Measure the fairness of the new system by comparison with working families*

It is sometimes argued that a work-based welfare system will be unfair unless it can be shown that those formerly dependent on various benefit programs will continue to receive a comparable package while working. Others argue that it is unrealistic to expect work for wages unless such wages will guarantee a high enough standard of living to make work seem worthwhile.

But self-sufficiency through work should be seen as an end in itself, quite apart from the package of benefits gained or lost as a result. More important is the relationship that those who are receiving welfare benefits have with comparable individuals who are working to support themselves and have not asked for assistance.

Conditionality under WIA

The main program for adult and dislocated workers under WIA is intended to provide services which will increase employment, retention in jobs, and earnings to eligible job-seekers. However, when it comes to conditionality, with the minor exception of requirements that recipients of unemployment benefits look for work, the program is voluntary, or non-conditional.

	WIA	TANF
Purpose of program	Universal access to job matching and related services; Training within budget limitations	Cash assistance to families with children; Promotion of employment, work and marriage; Promotion of two-parent families and reduction in out-of-wedlock births
General population	Low to middle income	Low income adults with children and

served	mostly unemployed workers	marginal work histories
Participant conditionality	No	Yes
Federal performance measurements	Employment entry; Earnings growth; Job retention.	Recipient participation in welfare-to-work programs
Federal cost sharing	Annual federal allocations with no state cost sharing.	Annual federal block grant supplemented by state funds
Federal fiscal penalties and bonuses	Penalties for failure to meet statewide performance goals; Incentive bonuses for high performance.	Block grant to state is fixed - - reduced costs save state money which can be reallocated for related uses. State must supplement to make up costs exceeding federal block grant allocation There are federal penalties for failure to meet participation standards, and bonuses available for certain high performance.
Program delivery system	One-Stop Centers with private contractors	Eligibility tasks – State or local welfare offices; Work program tasks - - State, local or private contractors

One question for policymakers is how to use the leverage of conditionality to increase WIA's effectiveness in a way which might be comparable its presumed effect under TANF.

In the US, there have been some experiments in which there is a connection between satisfactory participation in WIA employment programs, and we briefly mention two below:

Work requirements for returning prisoners - - There are many recent employment-focused programs in which returning prisoners are offered re-employment services, some provided by WIA agencies, but so far there have not been sufficiently rigorous studies to draw conclusions about their effectiveness. One program using random assignment in New York City showed that returning offenders were significantly less likely to be convicted of a crime if offered

employment services including a transitional job,³ but several other large-scale studies do not yet have results.

Work requirements for those receiving unemployment insurance. Federal law requires that those eligible for unemployment benefits be actively searching for work and accept suitable work if offered. There have been a few experiments in which subsidized jobs are offered to unemployed workers as a back-up option where unsubsidized employment has not been found, with the objective of shortening unemployment spells and to assure recipients are truly looking for work. During the 1990's Oregon implemented a program authorized by voter referendum, named "Jobs Plus". The program offered participating employers (over 6000 total) a wage subsidy of \$6.60 per hour for up to six months, to allow unemployed a back-up choice. It was administered aggressively in such a way that the unemployed were more or less obligated to accept work. Two measures taken during the period showed the number of unemployment claims made and the average duration of benefits decreased as compared to the national average (but it cannot be concluded from this evidence alone that Jobs Plus was responsible since other factors could have been present).⁴

Administering conditionality in a large and complex environment

In our discussion above we have briefly described the major philosophical and policy reasons for the growth of conditionality as a central feature of today's welfare system. Here we will discuss conditionality as it relates to the *administration* of the welfare system. Then we will describe how New York City merged TANF and WIA under one delivery system and lessons learned.

During the second Giuliani administration between 1998 and 2001 the city was variously responsible for over 300,000 welfare cases, providing cash benefits out of 26 offices throughout the city which were staffed by 17,000 city employees. At its peak, the city required 40,000 individuals to engage in temporary unpaid "work experience" assignments as a condition of their receiving full benefits, while still others were required to participate in education and training assignments. Vocational and substance abuse treatment programs could be required for those with more severe limitations.

During this period New York had both the largest number, and the largest proportion, of welfare adults engaged in unpaid work activity, named the Work Experience Program, or WEP. Under WEP, welfare recipients could be assigned to work supervised by regular city employees and carry out tasks for which the city budget could not otherwise accommodate. For example, the city Parks department had 4000 regular employees, but

³ *Transitional Jobs for Ex-Prisoners: Implementation, Two-Year Impacts, and Costs of the Center for Employment Opportunities (CEO) Prisoner Reentry Program*; Cindy Redcross, Dan Bloom, Gilda Azurdia, Janine Zweig, and Nancy Pindus; August 2009

⁴ *Final Report on the Jobs Plus Program*; William Conerly and John Courtney; March 1, 2001

this was supplemented by 1000 to 2000 WEP workers at various times (these workers are now paid regular wages from TANF for their short-term work assignments).

The WEP program has three distinct goals - - The first is to provide those with limited work history practical experience in the culture and expectations of a work environment. The work is not intended to lead to employment with the same city agency for which the participant is assigned, but rather to launch an individual who has been unsuccessful finding a private job until then, with additional experience and job references which can help.

Second, the assignment is intended to help the city fulfill the requirements of federal law, which provides that states place at least 50% of all those who are able to work, into certain activities, including those such as WEP, which will lead to private employment.

Third, WEP is intended to occupy a recipient in a useful activity in which a reciprocal obligation is completed between the individual receiving help from society in the form of cash assistance, and the taxpayer citizen providing this support.

Thus as it relates to the New York City's rationale for WEP conditionality, they fall into three categories: The first as above is to improve program effectiveness (movement of recipients to private employment); the second is to comply with federal laws requiring participation as a measure of conditionality; and the third is the philosophical or civic basis for conditionality, which is quite distinct from the other two.

The notion of conditionality also implies universality. In other words, to the extent laws add conditionality to programs and benefits, a government agency administering such programs should seek to apply conditionality to the entire group covered, not just a subset which is easy to find or to work with.

In New York City we embarked on a serious effort to enforce participation, or conditionality, among the largest group of adult welfare recipients we could. We termed this strategy "full engagement in required activities". Below is a compilation of the major components of a full engagement strategy. This general list is intended to show that the functioning of an effective system of conditionality requires substantial administrative attention and resources.⁵

- **Communicating with potential applicants and current recipients** - - The welfare agency should let potential applicants know that conditionality is a part of receiving benefits - - many will decide to find jobs on their own instead.
- **Enrollment** - - It is important to maximize the number of individuals enrolled in work activities; there are many drop-outs along the way so keeping the numbers high requires opening the front door widely.

⁵ For a larger discussion see Douglas Besharov and Peter Germanis, *Achieving "Full Engagement"* and Kay Sherwood, *Managing the Welfare System with JobStar*; in *Managing Welfare Reform in New York City*; ed E.S. Savas, 2005.

- **Timing of assignment** - - Experience shows the earlier an individual starts participating in work activities, the more likely it will result in the modification of behavior and will lead to employment.
- **Suitable activity** - - New York uses work experience as its main program component, supplemented by education, training and job search, for the reasons described before.
- **Level of required participation** - - New York requires a substantial time commitment of three days of work, plus two days of training and job search for most participants.
- **Tracking attendance** - - It is common for participants to drop out of their assigned activities and keeping close track allows the agency to react and pull them back in.
- **Sanctioning and re-enrollment** - - Benefit reductions for non-participation are an important source of constructive behavior modification and leads those who have dropped out back into the program
- **Transition to private employment** - - Program participation is a substitute for private employment, so it is important that the search for work be ongoing at all times.
- **Continuous improvement** - - The agency must assure that it is receiving ongoing feedback regarding its operational system, which requires regular meetings among operations managers and employment vendors armed with comprehensive objective data.

The Merging the WIA and TANF delivery systems in New York

The general outcome desired from both work program systems is *increased employment among participants*. A related subsidiary goal within WIA is increased wages, while the subsidiary goal within TANF is reduced dependency (closed welfare cases).

The use of participant conditionality in the federal TANF program is intended to help the agency achieve its desired outcomes of employment and reduced dependency. WIA has no such vehicle for helping to achieve its objectives of employment and increased wages because it is largely voluntary. However, both programs had certain important features in common in New York City. In addition to sharing a general common goal of increasing employment, both programs shared many of the same contracted vendors who delivered employment services. Through the device of making payments to employment vendors *conditional upon their success at placing participants in jobs*, we introduced a form of conditionality to the institution (the agency and its vendors). In this way we hoped to unify the system around the common goals of employment

WIA and TANF employment delivery system prior to the merger

In 1998 prior to the merger, the city Department of Employment was responsible for WIA and the Human Resources Administration the TANF work program. Each agency

had contracts with multiple employment vendors, large and small. HRA held about 100 contracts and the Department of Employment held about 50 contracts. There was substantial overlap, with many vendors holding both TANF and WIA contracts simultaneously. Some vendors were small, or specialized in certain populations, but required contract attention just the same as the large ones.

There was a more fundamental problem however. Vendors were paid on a cost reimbursement basis. This means that so long as the vendor makes expenditures on activities eligible for funding, it will be paid, whether or not it achieves the outcomes desired. Moreover most of the more than 100 vendors were in practice funded year after year, rather than using a process of additions and terminations as a result of prior performance. Finally, with so many employment vendors holding contracts, it was not possible to effectively form relationships with vendor executives, or to manage the system through leadership and communication.

The employment delivery system after the merger

In order to better align the agency's interest with that of our employment vendors, we placed all of the more than 120 combined WIA and TANF contracts up for re-bid. Contracts were written with only twelve vendors, who became "prime" contractors and who offered sub-contracts to many of the smaller vendors to perform many of the same services as they were before, but with their accountability to the prime contractor. Having fewer, larger prime vendors allowed HRA to better manage the system.

Payments to prime contractors were made strictly on the basis of performance outcomes - placement, retention in jobs, and welfare case closures due to earnings. This was accompanied by the cessation of monitoring the expenditures of vendors because it was no longer necessary, and they were able to shift resources as needed.

In order to counter the tendency of vendors who are paid a unit price for outcomes to "cream", or serve the easiest cases, we developed sequential stream. When first referred by the welfare agency to the employment vendor, successful placement resulted in a modest payment of about \$2000. After eight weeks if the vendor were unsuccessful, responsibility for placing the the participant was transferred to a second vendor who received a substantially larger fee (up to \$5000) on the grounds the participant may need greater investment in order to be placed.

Regularly scheduled meetings with vendors (VendorStat) using the common placement and data systems for both programs assured the agency that operational and coordination issues were identified and resolved.

The results of the WIA and TANF delivery system merger

How well did the merger work?

The combining of the two delivery systems into one performance-based contract yielded enormous improvements to effectiveness and cost savings, seen almost immediately. The first full year following the merger showed that recorded placements had doubled, while the combined cost of running the two programs together declined by one-third.⁶ Not all of the improved performance was due to greater program effectiveness - - some of the increased recorded placements were due to more accurate recordkeeping (because vendors needed this information to collect payments from the agency but this improvement in accountability itself is also desirable). The decline in the overall expenditures on the program was due to the need to “earn out” the maximum vendor contract amount, and while some vendors earned more than their previous contract amounts, weaker ones found they needed to reduce costs or drop out of the program (one prime and several sub-contractors ceased participating in the program because they could not earn sufficient income from providing services).

One criticism of the merged delivery system is that performance payments push the vendors to make quick placements, and that the vendors may not consider better for the participant in the long run. However, our contracts included payments for job retention, which should provide a degree of counterweight to early placement if vendors wish to add more training. In addition, we provided WIA funded training vouchers not tied to the contract payments so as to permit vendors more resources to pay for extra training.⁷

A side benefit of our combined delivery system allowed us to embark on initiatives which could not be accomplished by the welfare agency alone. For example, we used the attendance tracking system for welfare to help keep track of men returning from prison and obligated to look for work, even though these men were only eligible for employment services through the WIA system.

Conclusions and Lessons for the European Commission

- The introduction of conditionality in the US welfare system, namely work obligations in exchange for cash welfare benefits, was not primarily initiated by policymakers looking for ways to improve program effectiveness, but rather emanated from the public first, through its dissatisfaction of the program in which benefits were provided unconditionally. European governments wishing to adopt conditionality as a feature of some of their programs for the underemployed should look for ways to connect in addition of conditioned requirements to accepted norms and values of the electorate.
- For an employment program to adopt conditionality, it usually operates in conjunction with a benefit such as cash assistance or unemployment benefits.

⁶ NYC Human Resources Administration budget data, 2001.

⁷ See Burt Barnow and John Trutko *Placing Welfare Applicants and Recipients in Jobs through Performance-Based Contracting*; in *Managing Welfare Reform in New York City*; ed E.S. Savas, 2005

Alternatively, it can operate less broadly in conjunction with a non-monetary requirement, e.g. that returning offenders participate as part of their obligation upon to return to society, enforced by the criminal justice system.

- Conditionality of welfare payments on the receipt of public benefits has certainly contributed to the success of the 1996 welfare reforms, and perhaps is its major feature. However the specific contribution of this aspect of the program alone cannot be determined with accuracy.
- To adopt conditionality into a program is not only a matter of policy - - it requires a tremendous commitment in administrative attention and resources, and requires political determination to succeed.
- The broad concept of conditionality - - or the connection of payments to actions, can operate within institutions such as employment agencies and their vendors, not only via individual participants. In this sense it can help bridge the gap to align goals with better outcomes.