WELFARE-TO-WORK PROGRAM BENEFITS AND COSTS

A Synthesis of Research

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February 2009

mdrc
BUILDING KNOWLEDGE TO IMPROVE SOCIAL POLICY

Executive Summary

Starting with the English Poor Laws, policymakers have debated whether providing aid to the poor — "cash benefits," in the modern age — helps or harms people's long-term self-sufficiency. The United States has attempted to resolve this dependence/independence conundrum in two ways: (1) by establishing a quid pro quo around its basic cash welfare programs — the government will provide benefits if recipients agree in return to participate in job search, workfare, or education or training programs designed to prepare them for work; and (2) by building a safety net around work, as is done through earnings supplements, such as the Earned Income Tax Credit (EITC).

Over the past two decades, in an effort to address this conundrum, federal and state policymakers have dramatically reshaped the nation's system of cash welfare assistance for low-income families. Through national legislation and state-initiated reform and experimentation, policymakers have sought to transform the Aid to Families with Dependent Children (AFDC) program, now the Temporary Assistance for Needy Families (TANF) program. During this period, there has been considerable variation from state to state in approaches to welfare reform, which are often collectively referred to as "welfare-to-work programs." Nevertheless, almost all welfare-to-work programs have encouraged welfare recipients to work more and, as a result, to reduce their families' long-term reliance on welfare benefits. These goals were given renewed emphasis in the provisions of the Deficit Reduction Act (DRA) of 2005, which reauthorized the TANF program in early 2006. At the same time, the EITC was greatly expanded during the 1990s, and many state welfare programs have recently incorporated financial incentives that supplement the incomes of employed TANF recipients.

For a policymaker or program administrator trying to decide the most cost-effective way to resolve the dilemma of ensuring families' adequate income while encouraging work and reducing dependency, one possible option is to maximize one goal while ignoring the other. That is, he or she can either stress reducing dependency (and thus government cost) or, alternatively, emphasize increasing the total income of welfare recipients. Maximizing one particular goal (for example, reducing government expenditures) often comes at the expense of making progress on other goals (for example, making program participants better off financially). Most public officials, however, would like to achieve both overall goals, that is, to reduce dependency while at the same time increasing participant income.

Furthermore, welfare-to-work programs can seek to attain either or both of these goals in different ways — by stressing participants' obligations to participate in work-related activities or work itself in exchange for their welfare benefits, by emphasizing investment in the human capital development of program participants through education and training, by supplementing individuals' earnings when they go to work, and by setting time limits on individuals' eligibility for welfare.

To help states assess these trade-offs in an informed way, this report draws on an extraordinary body of evidence from benefit-cost studies of welfare-to-work programs that are based on random assignment evaluation designs. The report addresses such questions as: Which welfare reform program approaches yield a positive return on investments made, from the perspective of program participants and from the perspective of government budgets? Which approaches make program participants better off financially? In which approaches do benefits exceed costs from the government's point of view? The last two of these questions coincide with the dilemma discussed above: the trade-off between reducing dependency on government benefits and ensuring adequate incomes for the poor. Because the benefit-cost studies examined program effects from the distinct perspectives of government budgets and participants' incomes separately, they address this trade-off directly.

The report synthesizes findings from benefit-cost studies conducted by MDRC of 28 welfare-to-work programs, which were run in 11 states and two Canadian provinces and involved over 100,000 research sample members. Most of these programs were operated at fairly large scale in the welfare offices involved in their evaluation. Although the programs were launched prior to passage of the landmark legislation in 1996 that established TANF, their findings remain highly relevant today because they provide estimates of the benefits and costs of different employment strategies for single-parent welfare recipients.

It is particularly noteworthy that all 28 programs were evaluated using a random assignment research design, which allows the effects of the programs to be disentangled from the effects of other factors, such as the economy. In this type of research design, often referred to as the "gold standard" of research designs, individuals who meet programs' eligibility requirements are randomly assigned by a lottery-like process to either a program group or a control group. Those in the program group are eligible for the program under study; those in the control group are not. Individuals in both groups are followed over time, and information is collected on their employment, earnings, welfare receipt, and other outcomes of interest. The random assignment process ensures that when individuals entered each study, there were no systematic differences in their characteristics, measured or unmeasured (for example, motivation), between the research groups. Thus, any differences between the groups that emerge after random assignment — in average earnings or welfare payments, as examples — can be attributed to the programs under study.

The differences in post-random assignment outcomes between the research groups — known as *impacts* — represent programs' net benefits or net costs, depending on the perspective being assessed. A decrease in the program group's average welfare payments relative to the control group's, for example, represents a net benefit to government budgets, since the government pays out less, but it represents a net cost to program participants because they receive less from the government. Similarly, an increase in taxes paid is a net gain to government budgets but a net loss to program participants. In contrast, an increase in program participants' take-home earnings represents a benefit to them but has no effect — positive or negative — on government budgets (unless tax revenue increases). Finally, operating the programs is a cost shouldered by government but has no effect on the economic position of program participants. To determine who gains and who loses from different types of employment strategies for single-parent welfare recipients, benefits and costs are summed separately from the participant and the government perspectives in this synthesis. Inasmuch as these benefits and costs are based on a random assignment research design, they are especially reliable and thus valuable for policy purposes.

Findings in Brief

Each of the 28 programs can be viewed as a test of one of six types of welfare reform approaches described in Box ES.1: mandatory work experience programs, mandatory job-search-first programs, mandatory education-first programs, mandatory mixed-initial-activity programs, earnings supplement programs, and time-limit-mix programs. Some programs (mandatory work experience and mandatory job-search-first programs) tend to place greater emphasis on reducing the government's budget than on increasing the incomes of welfare recipients, while others (mandatory education-first and earnings supplement programs) tend to have the opposite focus. Still other programs (mixed-initial-activity and time-limit-mix programs) place more or less equal emphasis on both goals.

The analyses presented in this synthesis suggest that many welfare-to-work programs are successful in either making program participants better off financially or controlling government costs but that there are often trade-offs between these goals. The key findings are briefly previewed here and are discussed in greater detail below in this Executive Summary.

- Earnings supplement programs — ones that provide individuals with financial incentives or earnings supplements intended to encourage work — are an efficient mechanism for transferring income to low-income families because participants gain more than a dollar for every dollar the government spends.

- Mandatory mixed-initial-activity programs that require individuals to participate initially either in an education or training activity or in a job search activity, depending on their apparent needs, and that enroll both short-term

Box ES.1

Descriptions of Program Types

Mandatory work experience programs: Often following a period of job search, individuals in these programs are assigned to unpaid jobs, which are usually located at government agencies or nonprofit institutions.

Mandatory job-search-first programs: Individuals are assigned to job search activities upon program entry. Other types of assigned activities can follow for individuals who do not find jobs. All five of the programs analyzed in this category encouraged quick entry into work and strongly enforced a continuous participation mandate.

Mandatory education-first programs: Individuals are assigned to education activities prior to job search. The most common of these activities were GED preparation classes or Adult Basic Education (ABE). In some programs, individuals could also participate in English as a Second Language (ESL), vocational training, or employment training classes. Typically, job search assignments follow the completion of courses of study.

Mandatory mixed-initial-activity programs: Individuals are assigned to participate initially in *either* an education or training activity *or* in a job search activity, depending on an assessment of their needs. Other assigned activities follow these initial activities if individuals remain unemployed.

Earnings supplement programs: Individuals are provided with financial incentives intended to encourage work. These incentives supplemented their incomes while at work.

Time-limit-mix programs: These programs require individuals to participate in employment-orientated activities, provide them with financial incentives, and limit the amount of time they remain eligible for welfare benefits.

and long-term welfare recipients are worthy of consideration by states developing welfare-to-work programs. They can be cost-beneficial for both the government and those required to participate in them.

- Mandatory job-search-first programs — ones that require individuals to look for jobs immediately and then assign other activities if work is not found — are worthy of consideration when governments want to reduce their expenditures. These programs tend to be less expensive than mandatory mixed-initial-activity programs and, thus, to have a more salutary effect on government budgets. However, they are unlikely to increase the incomes of those required to participate in them.

- Mandatory work experience programs — ones that assign individuals to unpaid jobs — are worthy of consideration as a component of a comprehensive welfare-to-work program. Implemented for those who, after a period of time, cannot find unsubsidized jobs through job search, these programs are not costly to the government and do little harm to participants. Moreover, society as a whole can reap some benefit from the output produced at work experience jobs.

- The sorts of mandatory education-first programs that have been tested experimentally — ones that require individuals to participate in General Educational Development (GED) completion and Adult Basic Education prior to job search — do not appear to be cost-beneficial. They do little to either increase the incomes of participants or save the government money.

- Only three time-limit-mix programs — ones that require individuals to participate in employment-oriented activities, provide financial incentives for work, and limit the amount of time that individuals remain eligible for welfare benefits — are included in this synthesis, and they differ considerably from one another. As a result, it is difficult to draw firm conclusions about them. While all three appear to have been beneficial for participants, two resulted in substantial net losses from the government budget perspective.

These findings provide reliable evidence on the financial consequences of different types of programs. As discussed below, however, they also underscore the importance of taking the policy goals of programs into account when assessing various welfare-to-work approaches.

Methodology: Conducting Benefit-Cost Analyses of Welfare-to-Work Programs

All the studies included in this synthesis used a similar benefit-cost methodology, which involved estimating costs and benefits over a five-year period. This five-year period began at the point at which individuals eligible for the programs were randomly assigned to either a program group (whose members could take part in the program) or a control group (whose members were not eligible for the program). The general approach was to focus on effects that are naturally expressed in dollars, such as changes in earnings and public assistance payments produced by the programs (calculated as the differences in outcomes between randomly assigned program and control group members). Because these dollar benefits were received over time, they were adjusted, or "discounted," to take account of the fact that dollars received earlier in time are valued more highly than dollars received later. (Discussion at the end of this section highlights some possible nonmonetary effects that were not measured.) The cost to the government of operating these programs was also estimated. Discounted dollar values of benefits less costs are used to estimate the net values of the programs. The report refers to positive net values as "net gains" and to negative net values as "net losses." A key goal of benefit-cost analysis is to determine whether a program results in a net gain or a net loss.

Benefit-cost analyses of welfare-to-work programs typically examine benefits and costs from three perspectives: participants, the government budget, and the whole of society.

- The *participant perspective* identifies benefits and costs for program group members, indicating how their income changed (taking into account earnings, public assistance payments, and tax payments) as a result of the program.

- The *government budget perspective* identifies benefits and costs incurred by a combination of federal, state, and local government budgets. Effects on the government budget are calculated by comparing changes in tax revenue, public assistance payments, and the administrative costs of public assistance programs with the costs of operating the welfare-to-work programs, which result from providing program services and earnings supplements.

- The *social perspective* identifies benefits and costs for the whole of society. In this synthesis, the social perspective is computed as the sum of the net values from the participant and the government budget perspectives. (In the case of work experience programs, the value of output produced from unpaid work experience jobs is also counted as a social benefit.) There are some financial transactions that are a "wash" from society's viewpoint: For example, if a welfare-to-work program causes public assistance payments to decline for participants, this situation would be regarded as a savings to the government but as a cost to program participants (albeit one that may be offset by earnings increases). Because this type of redistribution of resources between government and program participants does not change the total resources available to society as a whole, it has no effect from the social perspective. Earnings gains and program operating costs have the greatest effect on the social perspective because they are not a "wash" from society's viewpoint.

In principle, the social perspective is the most appropriate of the three perspectives described above. After all, it is the most comprehensive, as it encompasses the two more narrow perspectives. This might seem to suggest that the participant and the government budget perspectives can be ignored.

In practice, however, there are two reasons for not doing this. First, the social perspective does not take into account the possibility that policymakers may be more concerned with program effects on participant income than with program effects on the government budget, or vice versa. If so, policymakers will presumably want information on the perspective on which they wish to focus — either the participant perspective or the government budget perspective. Second, it seems likely that a poor person on welfare will value (say) an additional $100 of income more than a higher-income person who is not on welfare. If so, this suggests that the benefits and costs of a program to poor persons cannot be simply added to the benefits and costs of the program to a government that is financially supported by middle- and higher-income persons. This suggests looking at program effects on the incomes of welfare recipients and government budgets separately, rather than folding them into a single composite measure by treating dollar values equally regardless of to whom they accrue.

This synthesis also reports estimates of the return on investment (ROI) per net dollar invested by the government. ROIs were calculated for each program from all three perspectives. ROIs are popular with analysts and program operators because they facilitate comparisons of the cost-effectiveness of programs per net dollar invested. ROIs, which are often called "benefit-cost ratios," are computed by dividing program benefits by program operating costs.

- The *participant ROI* ratio measures the change in participant income per net dollar invested in the program by the government, not by the participants themselves. If participant income increases as a result of a program, then the participant ROI will be positive. If the participants gained more than a dollar in income for each dollar invested by the government (implying that the income transfer process is quite efficient), the participant ROI will be not only positive but greater than one.

- A *government budget ROI* ratio in excess of one implies that the government's return on its investment, from a budgetary perspective, was in excess of its cost.

- A *social ROI* ratio of greater than one implies that society has received more than a dollar in increased resources for each public dollar invested in the program. Because the social perspective in this synthesis is usually defined as the sum of the participant and the government budget perspectives, the social ROI is usually the sum of the participant and the government budget ROIs. (An exception occurs in the case of work experience programs, however, because the value of output produced from unpaid work experience jobs is counted as a social benefit but not as a benefit to either participants or the government.)

A shortcoming of the benefit-cost analyses reviewed in this synthesis is that they include only costs and benefits that can be readily estimated in monetary terms. For example, dollar values were not placed on program-induced changes in education, health status, or families' or children's well-being that are not reflected in program effects on earnings. The value of time lost to participants if they work more is also not estimated in monetary terms. In addition, if participants in welfare-to-work programs search harder for jobs or work more than they otherwise would, workers who compete with them in the labor market may be worse off. This so-called displacement effect is difficult to estimate and is not measured in any of the studies considered in this synthesis. Benefit-cost analysts of welfare reform initiatives typically do not place dollar values on benefits and costs that are not readily estimated in monetary terms because doing so, in some instances, would require highly tenuous assumptions (for example, assigning a dollar value to reducing poverty, requiring work-related activity as a condition of welfare receipt, or increasing children's well-being).

Some of the factors just discussed may tend to increase the estimated net gains from welfare-to-work programs, while others may tend to decrease the gains. The magnitudes of the individual factors and their net direction when combined, however, would obviously vary for different programs. In a recent article, Greenberg and Cebulla conclude that the most important of the nonmeasured benefits and costs mentioned above are likely to be the value of time lost to program participants who increase their hours of work or participation in program activities and the displacement effects resulting from job losses by people competing in job markets with welfare-to-work participants.[1] Thus, they suggest that the estimated benefits of welfare-to-work programs tend to be overstated relative to the costs of these programs. However, the benefit-cost studies included in this synthesis assume that program benefits continue to exist for only five years;[2] the overstatement of the net value of welfare-to-work programs would be mitigated to the extent that program benefits actually persevere for longer than five years, although there is some evidence that such benefits are unlikely to persist longer than five years in typical welfare-to-work programs.[3]

[1]David Greenberg and Andreas Cebulla, "The Cost-Effectiveness of Welfare-to-Work Programs: A Meta-Analysis" (*Public Budgeting and Finance* 28, 2: 112-145 [Summer 2008]).

[2]Many of the benefit-cost studies included in the synthesis observed program effects for five years but no longer. Other studies observed program effects for only two or three years and, hence, had to project program effects for the remaining years of the five-year time horizon.

[3]See David Greenberg, Karl Ashworth, Andreas Cebulla, and Robert Walker, "Do Welfare-to-Work Programmes Work for Long?" (*Fiscal Studies* 25, 1: 27-53 [2004]).

Box ES.2

Programs Included in the Synthesis, by Type

Mandatory Work Experience

- Cook County WIN (Work Incentive) Demonstration (Chicago)
- San Diego
- West Virginia Community Work Experience Program (CWEP)

Mandatory Job-Search-First

- Atlanta LFA NEWWS (Labor Force Attachment, National Evaluation of Welfare-to-Work Strategies)
- Grand Rapids LFA NEWWS
- Los Angeles Jobs-First GAIN (Greater Avenues for Independence)
- Riverside LFA NEWWS
- SWIM (Saturation Work Initiative Model; San Diego)

Mandatory Education-First

- Atlanta HCD (Human Capital Development) NEWWS
- Columbus Integrated NEWWS
- Columbus Traditional NEWWS
- Detroit NEWWS
- Grand Rapids HCD NEWWS
- Riverside HCD NEWWS

Mandatory Mixed-Initial-Activity

- Alameda GAIN
- Butte GAIN
- Los Angeles GAIN
- Portland NEWWS
- Project Independence (Florida)
- Riverside GAIN
- San Diego GAIN
- Tulare GAIN

Earnings Supplements

- MFIP (Minnesota Family Investment Program) Incentives Only
- SSP (Canada's Self-Sufficiency Project)
- WRP Financial Incentives Only

Time-Limit Mix

- FTP (Florida's Family Transition Program)
- Jobs First (Connecticut)
- WRP (Vermont's Welfare Restructuring Project)

Key Findings for Each Program Type

Each of the 28 welfare-to-work programs included in this synthesis can be viewed as a test of one of six particular welfare reform approaches. These different welfare reform strategies were initiated at various points in time over the past 25 years in different labor markets and localities, and they placed different degrees of emphasis on sometimes-competing goals: increasing welfare recipients' responsibilities in the welfare social contract, reducing government budgets, and increasing the incomes of low-income individuals. As shown in Box ES.2, each program has been allocated to one of the six mutually exclusive groups mentioned above.[4]

While all six program types were designed with the long-term goal of increasing the work effort and self-sufficiency of welfare recipients, each program type had a different theory for how to accomplish this long-term goal and thus emphasized different intermediate goals. As a result, expectations for the benefit-cost findings vary by program type. In other words, a judgment of a program's "success" depends on what the policymakers were attempting to accomplish with the program, and this, in turn, influences whether the participant or the government budget benefit-cost perspective should be weighted more heavily in assessing the program.

Table ES.1 presents a summary of how each program type performed in the benefit-cost analyses from the perspectives of program participants and government budgets, with the results highlighted for the perspective that is most emphasized within each program type. Notable from the table is that even when a program type is successful in achieving its emphasized goal, it does not always look favorable when assessed from another perspective.

Table ES.2 presents the detailed findings and shows the mean, median, minimum, and maximum net value and ROI for each program type and perspective. As indicated above, the studies from which these values are drawn estimated costs and benefits over a five-year period that began with random assignment, appropriately discounting to account for the greater value of dollars received or expended earlier in this period than those received or expended later. The mean and median values in Table ES.2 suppress the variation in benefit-cost performance among the programs within each program type, but the minimum and maximum values in the table convey the extent of the variation.

Key findings for each program type, which are organized by emphasized goal, are highlighted below. These findings are drawn mainly from Tables ES.1 and ES.2. In addition, the

[4]Descriptions of all the programs appear in Appendix A, and publications describing the evaluations of each program are listed in References and Bibliography.

Welfare-to-Work Program Benefits and Costs

Table ES.1

Benefit-Cost Performance of Each Program Type

Program Type	Most Emphasized Benefit-Cost Goal	Did Participant Income Increase?	Did Government Budgetary Position Improve?	Further Considerations
Mandatory work experience	Reduce welfare costs	Mixed	<u>MIXED</u>	Small net values from participant and government perspectives; from social perspective, consistent net gains due to work experience output
Mandatory job-search-first	Reduce welfare costs	No	<u>YES</u>	Small net gains or substantial net losses to participants
Mandatory education-first	Increase participant income	<u>NO</u>	No	Least successful program type
Mandatory mixed-initial-activity	Balance reducing welfare costs and increasing participant income	<u>YES</u>	<u>YES</u>	Goal achieved by all but two programs targeting long-term welfare recipients
Earnings supplement	Increase participant income	<u>YES</u>	No	Largest participant net gains; an efficient mechanism for transferring income, even though resulting in net losses for government budget
Time-limit-mix (welfare time limits, required activities, and financial incentives for work)	Balance reducing welfare costs and increasing participant income	<u>YES</u>	<u>MIXED</u>	For the government budget, losses more often than gains

NOTE: The underlined, full-capitalized perspective is the benefit-cost perspective that is most useful for determining whether the program type achieved its most emphasized benefit-cost goal.

following discussion examines individual programs that performed exceptionally well or poorly from the participant or the government budget perspective. For this purpose, "exceptional" was somewhat arbitrarily defined as programs that, after discounting, resulted in either net gains or net losses of over $3,000 per program group member over the five-year study period from either the participant perspective or the government budget perspective or from both perspectives. Under this definition, 12 of the 28 programs included in the synthesis qualified as exceptional.

Programs Most Focused on Reducing Welfare Costs

Mandatory job-search-first and mandatory work experience programs are particularly focused on reducing welfare dependency and, hence, the cost of welfare. Thus, the government budget perspective is especially relevant in judging such programs.

- **Mandatory job-search-first programs** reduce government expenditures, thereby achieving their key objective, but do little to increase the incomes of those required to participate in them. From the government budget perspective, mandatory job-search-first programs usually resulted in substantial net gains and in ROIs greater than one. Indeed, two of these programs (Grand Rapids LFA NEWWS and Los Angeles Jobs-First GAIN) resulted in exceptionally large net gains for the government of over $3,000 per client over five years.

- **Mandatory-job-search-first programs** usually had net gains from the social perspective, mostly as a result of the substantial net gains to the government that they produced.

- **Mandatory work experience programs** are not especially successful in reducing government budgetary costs, but they produce small net gains or break even from the participant perspective. From the government budget perspective, two out of three of these programs resulted in small net losses, and one produced a modest net gain.

- Notably, **mandatory work experience programs** also provided an important benefit to society in the value of output produced at work experience jobs. As a consequence, they all had positive net benefits from the social perspective.

Welfare-to-Work Program Benefits and Costs

Table ES.2

Five-Year Summary Statistics of Net Value and ROI per Program Group Member, by Program Type (in 2006 dollars)

Program Type	Mean	Median	Minimum	Maximum
Mandatory work experience				
Participant perspective	$285	$310	-$163	$707
	(4.77)	(2.22)	-(0.32)	(12.40)
Government budget perspective	$103	-$328	-$365	$1,002
	(1.04)	(0.35)	-(5.40)	(8.17)
Social perspective	$1,162	$1,261	$503	$1,720
	(8.88)	(9.82)	(3.50)	(13.32)
Mandatory job-search-first				
Participant perspective	-$570	$196	-$2,729	$837
	-(0.16)	(0.04)	-(1.13)	(0.49)
Government budget perspective	$1,954	$2,266	-$932	$3,521
	(1.97)	(2.34)	(0.81)	(2.77)
Social perspective	$1,215	$654	-$946	$3,552
	(1.74)	(1.27)	(0.80)	(3.06)
Mandatory education-first				
Participant perspective	-$1,360	-$1,554	-$3,571	$569
	-(0.27)	-(0.32)	-(0.65)	(0.13)
Government budget perspective	-$745	-$387	-$3,943	$735
	(0.86)	(0.88)	(0.41)	(1.13)
Social perspective	-$2,234	-$2,510	-$3,545	-$205
	(0.57)	(0.50)	(0.38)	(0.92)
Mandatory mixed-initial-activity				
Participant perspective	$808	$1,422	-$2,178	$2,651
	(0.27)	(0.35)	-(0.32)	(1.19)
Government budget perspective	-$67	$89	-$4,803	$6,337
	(1.27)	(1.06)	(0.17)	(2.84)
Social perspective	$515	$774	-$7,042	$6,221
	(1.47)	(1.10)	(0.13)	(3.79)

(continued)

Table ES.2 (continued)

Program Type	Mean	Median	Minimum	Maximum
Earnings supplement[a]				
Participant perspective	5,396	$5,602	$239	$10,141
	(4.22)	(4.22)	(3.72)	(4.71)
Government budget perspective	-$3,532	-$1,472	-$10,958	-$228
	-(0.16)	-(0.16)	-(0.91)	(0.58)
Social perspective	$1,865	$1,132	-$815	$6,009
	(4.06)	(4.06)	(2.82)	(5.30)
Time-limit-mix				
Participant perspective	$3,525	$1,983	$1,754	$6,839
	(1.27)	(1.27)	(0.19)	(2.51)
Government budget perspective	-$4,279	-$5,111	-$8,128	$402
	(0.19)	(0.20)	-(0.88)	(1.26)
Social perspective	-$961	$1,512	-$6,374	$1,978
	(1.40)	(1.55)	(0.37)	(2.26)

SOURCES: Published reports from the program evaluations. See the complete report for References and Bibliography.

NOTES: Appendix B in the complete report presents individual results for each type of program and perspective. The ROI appears in parentheses.

Earnings supplement ROI numbers refer only to two of four programs. Two programs resulted in a savings from operating costs, so the ROI calculation did not make sense and thus is not presented.

[a]Applicant results for Canada's Self-Sufficiency Project (SSP) are a six-year estimate.

Programs Most Focused on Increasing Participant Income

A major goal of earnings supplement and mandatory education-first programs is to make participants better off. Thus, the participant perspective is particularly pertinent in assessing these programs.

- **Earnings supplement programs** meet their key goal of producing substantial net gains for participants; these net gains are often larger than the program costs to the government, suggesting that such programs are an effective means of transferring income to the working poor. Because the benefit-cost studies included in this synthesis assume that program benefits continued to exist for only five years, earnings supplement programs would be even more effective than implied if — as a result of job experience gained while participants received earnings supplements — the programs' effects on earnings persisted beyond this period. Unfortunately, however, these effects diminished over time, reaching zero before or just after the end of the five-year period.[5]

- Two **earnings supplement programs** (MFIP Incentives Only and SSP) qualified as "exceptional" in a positive sense from the participant perspective. Both featured earnings supplements that resulted in exceptionally large net gains for participants; however, MFIP resulted in exceptionally large net losses from the government perspective (that is, gains and losses of over $3,000 per client over five years), while the net losses to the government's budget were not exceptionally large for SSP. This difference is probably attributable to the SSP program's limiting the receipt of earnings supplements to individuals who worked at least 30 hours a week.

- Among the **earnings supplement programs,** only one resulted in a net loss from the social perspective, and this loss was modest. As the social perspective is the sum of the participant and government perspectives, these rather positive results are driven by the large net gains to participants. They suggest that earnings supplement programs are an efficient mechanism for transferring income to low-income families, inasmuch as they cost less than a dollar for each dollar of increase in the incomes of the poor. Most transfer programs, in contrast, cost the government more than a dollar for each dollar increase in the incomes of recipients.

- **Mandatory education-first programs** fail to meet their key objective of increasing the incomes of those required to participate in them, and they also do not reduce government expenditures.

- Under the definition of an "exceptional" net loss that is used in this synthesis (that is, a loss of over $3,000 per client over five years), one **mandatory education-first program** (Riverside HCD NEWWS) resulted in an exceptionally large net loss for participants, and another (Atlanta HCD NEWWS) produced an exceptionally large net loss from the government perspective.

Programs Focused on Balancing Participant and Government Gains

Some programs, such as mixed-initial-activity programs and time-limit-mix programs, attempt to balance reducing government costs with increasing the financial well-being of partic-

[5]For a detailed analysis, see Charles Michalopoulos, *Does Making Work Pay* Still *Pay? An Update on the Effects of Four Earnings Supplement Programs on Employment, Earnings, and Income* (New York: MDRC, 2005).

ipants. One way to judge these programs is to rely on both the participant and the government perspective.

- **Mandatory mixed-initial-activity programs** are often cost-beneficial for both the government and the participants, thereby meeting their key objectives.

- Six of the **mandatory mixed-initial-activity programs** in this category enrolled both short-term and long-term welfare recipients, and, in general, these six programs achieved their goal: With a few exceptions, they were cost-beneficial for both the government *and* the participants. The remaining two programs (Alameda GAIN and Los Angeles GAIN), which limited participation to long-term welfare recipients and were exceptionally expensive to operate, did not produce positive results. Indeed, these two programs produced exceptionally large net losses of over $3,000 from the government perspective. Los Angeles GAIN also resulted in net losses of over $2,000 from the participant perspective.

- Two **mandatory mixed-initial-activity programs** (Portland NEWWS and Riverside GAIN) produced exceptionally large net gains of over $3,000 per client from the government budget perspective. In addition, Riverside GAIN produced a net gain for participants of $2,651 per client, thereby also almost qualifying as exceptional from the participant perspective. These two programs put considerable emphasis on job search. In addition, Riverside GAIN put considerable pressure on most participants to take jobs as quickly as possible (although programs that do not qualify as exceptional followed this practice as well).

- However, the program that produced the largest net gains for the government budget, Portland NEWWS, encouraged participants to wait for "good" jobs.

- **Time-limit-mix programs** produced mixed results in meeting their goal of balancing reducing long-term government expenditures with making participants better off. While all three of these programs resulted in net gains for participants, two produced net losses from the government budget perspective. Both programs with net losses from the government budget perspective had exceptionally large net losses (over $3,000 per client over five years). One of these programs, Florida's FTP, had very large operating costs, and the other program, Connecticut's Jobs First, featured generous earnings supplements. Connecticut's Jobs First also had exceptionally large gains from the participant perspective.

- Two of the three **time-limit-mix programs** resulted in net gains from the social perspective.

Conclusions About Program Type

The benefit-cost findings for the six program types suggest the following conclusions:

- **Reducing welfare costs.** Both job-search-first programs and mandatory unpaid work experience programs emphasize reducing government costs. Job-search-first programs, which sought to reach this goal by getting people jobs quickly, were generally successful in doing so. They tended to be beneficial for the government budgets but resulted either in small benefits or in losses for participants. Mandatory unpaid work experience programs that required people to work in community jobs in return for their welfare benefits, often following a period of job search, were less successful in reducing government costs. Some mandatory unpaid work experience programs increased the incomes of participants, although the net gains were small, and they also provided goods and services for the general public.

- **Increasing participant income.** Both earnings supplement and mandatory education-first programs emphasize increasing participant income. Earnings supplement programs appear to be highly successful in meeting this goal, but education-first programs are not. Earnings supplement programs benefit participants by boosting their returns from working, but they tend to increase government costs. Participant gains, however, often exceed government losses. Education-first programs, which emphasize GED completion and Adult Basic Education, sometimes have negative effects on both participant income and the government budget. (None of the studied education-first programs, however, made intensive investments in training or college.)

- **Balancing participant and government gains.** Mandatory mixed-initial-activity and time-limit-mix programs intend both to increase participant incomes and to reduce government budgets. Mixed-initial-activity programs were often successful in doing this; programs that enrolled all welfare recipients, as opposed to only long-term welfare recipients, were beneficial from both the participant and the government budget perspective. Results for the time-limit-mix programs are inconclusive. Time-limit-mix programs were beneficial for participants but tended to result in losses, sometimes substantial ones, for the government.

Conclusion

The above discussion is not intended to suggest that each type of welfare-to-work program should be assessed from only a dominant perspective. All three perspectives are germane, but the goals most emphasized by policymakers naturally affect which perspective is given the most weight.

If one's chief goal is to increase participants' income, then earnings supplement programs appear to best achieve this goal. If one's chief goal is to reduce government expenditures, then mandatory job-search-first programs can be considered. If one's chief goal is to balance reducing welfare expenditures with increasing participants' income, then mandatory mixed-initial-activity programs appear to be promising. Notably, two of the program types — mandatory work experience programs and time-limit-mix programs — produced mixed results in terms of their emphasized goals. Finally, programs in the mandatory education-first category, which emphasized GED completion and Adult Basic Education, did not achieve the goal of greatest emphasis for them: that of increasing the income of participants. They were also not successful in saving the government money.

However, it is important to bear in mind that only costs and benefits that are naturally expressed in dollars were measured. Policymakers — and society in general — also seek to accomplish goals that are not easily expressed in dollars and cents. This underscores the fact that benefit-cost analyses can monetize only some costs and benefits; goals and values must be taken into account in overall assessments of program types.

The benefit-cost findings that are examined in detail in this synthesis can aid policymakers and program developers in assessing the often complex trade-offs associated with balancing the desire to ensure the poor of adequate incomes with the goal of encouraging self-sufficiency. As states' leaders seek strategies to move more welfare recipients into work, it is hoped that this report will provide them with some of the evidence they need to improve their policies for low-income families.