



# **How Welfare and Work Policies Affect Employment and Income: A Synthesis of Research**

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## **The Next Generation Project**

This report is part of the Next Generation, a project that examines the effects of welfare, antipoverty, and employment policies on children and families. Drawing on rich data from recent welfare reform evaluations, the project aims to inform the work of policymakers, practitioners, and researchers by identifying policy-relevant lessons that cut across evaluations.

### **Foundation partners**

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### **Research partners**

The project is a collaboration among researchers from MDRC, the University of Texas at Austin, Northwestern University, the University of California at Los Angeles, Kent State University, the University of Michigan, New York University, and the Social Research and Demonstration Corporation.

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**To Daniel Friedlander (1947-1999)**

Daniel's pioneering work on measuring the impact of social programs laid the foundation for this analysis.

## Preface

This monograph synthesizes the results from rigorous evaluations of 29 welfare reform initiatives. Although these initiatives were implemented before passage of the landmark federal welfare reform law of 1996, all of them used at least one of three strategies that form the core of most states' current welfare programs: requiring single parents to participate in work activities, providing financial supports to working families, and limiting the length of time that families can receive welfare.

The monograph was produced as part of the Next Generation project, a collaboration among MDRC, several other leading research institutions, and the project's foundation funding partners — the David and Lucile Packard Foundation, William T. Grant Foundation, and the John D. and Catherine T. MacArthur Foundation. The project is aimed at understanding the effects of welfare and employment policies on low-income children and families.

Because most welfare reforms are targeted at adults rather than children, this research synthesis lays the groundwork for the Next Generation project by summarizing how various program strategies affect parents' employment, welfare receipt, and income. Effects on children — summarized briefly here and discussed in detail in a companion monograph — result from a “chain reaction” that begins with effects on parents.

Two key findings emerge from this synthesis. The first concerns the type of employment services that are used in programs designed to get welfare recipients into employment. Over the years, the conventional wisdom has swung between an emphasis on rapid job placement and an emphasis on building skills through education and training. The monograph suggests that the best approach may lie somewhere in the middle: The two most effective programs that were studied used a mix of job search activities and short-term education and training while maintaining a strong focus on the goal of employment. Although this approach was not successful in all the programs in which it was used, it appears to hold the most promise.

Second, the present analysis reveals that, although the large majority of programs examined in this document led to increases in employment and reductions in welfare receipt, the only programs that substantially increased income were those that provided financial supports to people who obtained jobs. Such programs cost more to operate but had a range of positive effects on children and families.

Many states now provide financial supports to working families in the form of “earnings disregards,” rules that allow welfare recipients to keep all or part of their welfare grants when they go to work. However, most states have also established time limits on welfare receipt, which means that the disregards can raise income only for a limited period. It is unclear how a temporary income boost would affect children and families.

By shedding light on the trade-offs between competing goals — such as increasing employment, decreasing welfare receipt, controlling government costs, and improving the well-being of families and children — this cross-cutting research synthesis is intended to inform policymakers as they attempt to design and improve policies for low-income families.

Judith M. Gueron  
President

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The analyses presented in the monograph are built on a firm foundation of rigorous research, namely, dozens of evaluations of welfare reform initiatives conducted by MDRC and other organizations. Critical roles were played by the state and local administrators who participated in those studies and the U.S. Department of Health and Human Services (HHS), the key funder of most of them .

A number of reviewers offered insightful comments on earlier versions of the monograph. At MDRC, Judith Gueron, Gordon Berlin, Robert Granger, David Butler, Gayle Hamilton, James Riccio, Virginia Knox, Stephen Freedman, and Pamela Morris reviewed several drafts. Audrey Mirsky-Ashby at HHS and Sharon McGroder at Child Trends also offered helpful comments.

Debbie Greenberger did an excellent job of writing programs for the impact analyses, preparing the tables and figures, assembling the data for Appendix C, and fact-checking the document. Richard Hendra, Alexa Shore, and Anna Gassman-Pines also provided valuable assistance. Valerie M. Chase edited the monograph.

The Authors

## Executive Summary

During the past two decades — particularly since the mid 1990s — Congress and the states have dramatically reshaped the nation’s system of cash welfare assistance for low-income families. Many studies and journalistic accounts have examined these changes, but only a handful have been expressly designed to assess what difference the new policies make.

This monograph addresses this critical question by synthesizing the results from studies of 29 welfare reform initiatives conducted by the Manpower Demonstration Research Corporation (MDRC). Each study focused on one or more of three key program features: mandatory employment services, earnings supplements, and time limits on welfare receipt. Although the programs under study were launched prior to passage of the landmark federal welfare reform law of 1996, these three features are central to most states’ current welfare reform programs. This document focuses on the effects of these features on adults’ employment and income; a companion document examines their effects on children’s well-being.<sup>1</sup>

All the studies used a rigorous random assignment research design in which people (most of them single mothers receiving welfare) were assigned at random to a *program group*, which was subject to the welfare reforms, or to a *control group*, which was not. The groups were tracked over several years and compared with respect to a number of outcomes, including employment, welfare receipt, and income. Because people were assigned to the groups at random, it can be assumed that, within each study, the groups did not differ systematically at the outset and went on to experience the same general economic and social conditions. Thus, any differences that emerged between the groups during the studies can be attributed to the programs being tested (the “increases” and “decreases” reported here refer to these differences).

Together these studies provide a wealth of information on the effects of different welfare reform strategies and a strong foundation for future programmatic decisions and legislative deliberations. This synthesis is particularly timely because Congress will soon begin to debate reauthorization of the Temporary Assistance for Needy Families (TANF) block grant, the federal welfare program created in the landmark federal welfare law of 1996.

### **Key Lessons**

- **A number of programs that provided only mandatory employment services were effective, but the most successful of these programs used a mix of services — including some education and training — and strongly emphasized the need to find work.**

Almost all states now require adult welfare recipients to work or prepare for work, but there is much debate about the best way to do this. Over the past two decades, the

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<sup>1</sup>*How Welfare and Work Policies Affect Children: A Synthesis of Research* (MDRC). 2001. Pamela Morris, Aletha Huston, Greg Duncan, Danielle Crosby, Johannes Bos.

pendulum has swung between an emphasis on rapid job placement and a focus on education or training.

Side-by-side tests of programs at opposite ends of the spectrum — those requiring most recipients to look for work (“job search first”) and those requiring most to enter education or training (“education first”) — in three counties revealed that they ultimately produced similar overall gains in employment and earnings. However, the job-search-first programs produced larger immediate gains and, in the medium term, led to larger gains for more disadvantaged groups, such as people without a high school credential. The job-search-first programs were also less expensive to operate.

The most effective programs fell in the middle of the spectrum. In these programs, some recipients started by looking for work, while others started with education or training. This finding suggests that a more individualized approach may be most promising, but — given that not all the programs that used the mixed approach were highly successful — the types of services provided and the basis on which people are assigned to services appear to be also critical.

Although programs across the spectrum increased employment for a variety of groups, most people who went to work obtained low-wage or part-time jobs; some left welfare without finding work; and most of the programs had rules that reduced people’s welfare benefits by a dollar for each dollar they earned. As a result, programs that included only mandatory employment services usually left families no better off financially than they would have been without the programs, even after accounting for the federal Earned Income Credit (EIC, the federal tax credit that supplements the earnings of low-income families). There is also little evidence that the programs benefited or harmed children.

The only programs that both increased work and made families financially better off were those that provided earnings supplements to low-wage workers.

In contrast to the programs that used only mandatory employment services, two programs that supplemented the earnings of working recipients boosted both employment and income relative to control group levels. One of these programs allowed welfare recipients who went to work to keep more of their benefits than under the old welfare system (an approach now used in many states), while the other supplemented earnings outside the welfare system. Both approaches cost more than traditional welfare, but they also produced a range of positive effects for children — for example, higher levels of school achievement.

- **Relatively little is known about the effects of welfare time limits, but the available data suggest that time limits need not cause widespread hardship, at least not in the short term.**

Two of the programs under study provided earnings supplements by allowing working recipients to keep more of their benefits but also imposed time limits on welfare receipt. Although these programs initially increased employment and income, the income gains disappeared after families began to reach the time limit. In fact, the programs reduced income for a small group of families, although the only such program whose

evaluation has been completed did not appear to increase material hardship. However, there are not yet enough data to warrant firm conclusions about the effects of time limits. Moreover, how families fare may depend on how time limits are implemented (for example, whether and under what conditions exemptions or extensions are granted).

These results suggest that policymakers face a critical choice. Recall that the programs that provided only mandatory employment services increased work and reduced welfare use but usually did not lead to notable improvements in families' economic circumstances or make children better off than they would have been without the programs — even after accounting for the EIC. Achieving these goals may require further supplementation of families' earnings. Most states already do this by allowing working recipients to keep part of their benefits, but the income-enhancing effects of such policies are undermined by welfare time limits. Federal and state policymakers who aim to improve outcomes for families and children may need to develop new ways of providing ongoing financial support to low-wage workers — an approach that may raise costs — while continuing to test strategies for raising wages through education and training.