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What's Working? Lessons from the Front Lines of Welfare Reform

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Introduction

With enactment of welfare reform in 1996, our nation made a major shift in its philosophy about assisting those in poverty. Some view the experiment with optimism, an opportunity to break from the failed welfare bureaucracy and dependency of the past. Others fear the collapse of the safety net, envisioning street scenes from Calcutta appearing in New York and Los Angeles. In fact, welfare reform experiments have been taking place in America's "laboratories of democracy" for well over a decade and the preliminary results are encouraging.

Among the many state and county welfare reform experiments with documented track records, three efforts in particular stand out as examples of what works and what doesn't: The GAIN program in Riverside, California; the W2 program in Wisconsin; and the Indianapolis Independence Initiative in Indiana.

The national policy debate about welfare reform focused on symbolic political issues: Should we require everyone to work? Should income maintenance be an entitlement, a fundamental right guaranteed by government? But as people line up on the different sides of this issue, the practical lessons learned by early state and local welfare experiments received little notice. This paper seeks to address the practical problems of welfare reform by ignoring the political issues of welfare policy and focusing instead on the following questions:

1. What different types of welfare-to-work programs have been attempted?

2. What mix of public-private-nonprofit organizations have been utilized in different settings?

3. What has been the record of success in moving people from welfare to work?

What we learned is that a sizable portion of the people now on welfare want to work. Many people are on welfare for relatively short periods of time and can return relatively easily to the workforce with some retraining and/or emergency assistance. Others will take longer to make the transition and will require transitional public assistance for training, placement assistance, transportation, health care and child care. Finally, some will require longer term assistance, time in community service work and more intensive, skill-building and basic education. While effective welfare-to-work programs provide long-term budget savings, the start-up costs and transitional assistance boost costs in the short run, compared to the current ineffective and static income maintenance models.

A wide variety of welfare-to-work programs are already tested and working. In Riverside, California, a government-run organization achieves excellent results. In Wisconsin, a state-run system, staffed in part by private contractors has been extremely effective. And in Indianapolis, Indiana, a largely privatized model has used competition and performance-based contracts to achieve impressive results. While the programs use very different techniques, several key lessons seem universal:

- Although a strong emphasis on work is essential, wage-based employment is much more effective than the "work as punishment" approach.

- Limiting the profit of private contractors delivering welfare-to-work services reduces competition and drives the most efficient and honest firms away.

- Pay for performance is the best way to guarantee that a for-profit firm will deliver the best results.

- Goals should be realistic—reduce dependency, increase the value of work and reduce welfare spending over the long run. Welfare reform will not eliminate poverty by itself or even eliminate public assistance entirely.

Requiring Work for Welfare

The first federal effort to replace welfare with work was WIN, the 1967 Work Incentive Program. WIN was an effort to encourage women with school-aged children to stay in the job market. As Judith Gueron has observed, when the welfare system was created in the 1930s, poor women were encouraged to stay home and watch their children. According to Gueron:

> "...the Aid to Dependent Children (ADC, later AFDC) program was explicitly created to help single mothers stay out of the labor force and take care of their children. The public thought this was fair because, at that time, fewer middle-class women were working and AFDC supported a popular group—primarily widows and the wives of disabled workers...With the extraordinary tripling of labor force participation by women over the last 40 years, however, the public no longer thinks it is fair to support poor single mothers when other women are working for little money and often not by choice."[1]

As the nature of the working and welfare population changed, the notion of mandatory work programs entered the political dialogue and agenda. The WIN program, seen as a poorly funded and weak program eventually led to the Family Support Act of 1988. This early attempt at welfare reform was designed to provide job search assistance, training, job placements and work to AFDC recipients. Welfare recipients were encouraged to participate in work programs by sanctions that reduced cash benefits to those refusing work. The core of the Family Support Act was the Job Opportunity and Basic Skills Training Program (JOBS) which provided federal matching funds for state employment programs for welfare recipients.

The JOBS program had conflicting goals. On the one hand, it emphasized human capital development and investing to increase the employability of long-term recipients. This suggests more expansive services. On the other hand, it established the concept of monthly participation standards and extended a participation mandate to a much-enlarged share of the AFDC caseload. This suggests serving more people. A response to this issue was to introduce more complex, multifaceted initiatives.

In the first term of the Clinton Administration, while the Congress and the President argued over the best way to reform AFDC, the U.S. Department of Health and Human Services allowed and encouraged widespread state experimentation. By the end of 1996, 43 states had waivers to run experimental programs that often combined new incentives and assistance for welfare recipients to move into jobs, along with requirements for greater personal responsibilities and sanctions for not participating in welfare-to-work initiatives. Experiments attempted to balance work incentives such as government-subsidized child care and health benefits with sanctions such as lower benefits, time limits, participation requirements and penalties for lack of child support. The key difference between the JOBS program and the waivers granted by the Clinton Administration is that JOBS used *economic* tools, such as benefit levels and incentives—to try and move people from welfare to work while the common feature of many waivers is an emphasis on changing the *behavior* of welfare recipients.

Welfare expert Lawrence Mead described these state-level policy experiments as essentially paternalistic. This might include measures such as denial of additional payments for children born while on welfare and welfare payments for teenage mothers conditional upon staying in school or living with parents. Mead also notes a rise in the use of social contracts, such as Individual Responsibility Agreements, as reform became more society-oriented. Welfare reformers in the late 1980s and '90s not only sought to reduce dependency, but to "send a message to society that parents are to be held responsible for supporting their families."[2]

As one examines programs that move people from welfare to work three important questions emerge:

> Is the work a wage-based job, or community service work performed in exchange for welfare benefits (workfare)?
>
> If a wage-based job, is it a government job, a government-subsidized private sector job, or a purely private sector job?
>
> Is the organization that helps the welfare recipient find a job a government agency, a non-profit group or a for-profit corporation?

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All work is not created equal as the great variety of welfare-to-work programs reveal. In some programs work is a punishment for accepting welfare. In others it is seen as a reward: a transforming experience that brings people from the fringes of society into its mainstream. Such variety is an expected part of different state and local political cultures, social structures and welfare experience and caseloads. As the case studies show, there is no universally "correct" program. But the practices and accomplishments of the programs already in existence are worth describing.

The Case Studies: Wisconsin, Indianapolis, and Riverside, California

Major newspapers and popular magazines devoted substantial space to welfare reform over the past year. Most of the coverage focused on the "unreasonable" expectation that substantial numbers of welfare recipients could find self-sustaining work, even if they received preparatory training. But at least three major work-based welfare reform programs belie that notion.

The three programs—W2, a statewide initiative in Wisconsin; GAIN in Riverside, California; and, the Indianapolis Independence Initiative—are dissimilar in structure, operate in different environments and are in various stages of development. Yet each has achieved notable success and attracted a variety of supporters.

GAIN is the oldest and most carefully studied welfare-to-work initiative while the Wisconsin and Indianapolis efforts have attracted significant academic, foundation and media attention in recent years. Also significant is data

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released by the U.S. Department of Health and Human Services at the close of 1996 showing that since January 1993, the largest percent decline in the total number of welfare recipients by state occurred in Wisconsin (41 percent) and Indiana (38 percent).[3]

Each successful reform program has significant differences, but they share common features including:

- An emphasis on work in the private sector.
- A shift from education and counseling to placement-focused training.
- The alignment of incentives to reward work.
- Replacing cash benefits with targeted benefits such as subsidized child care, health care, transportation and incidental work-related expenses.

Wisconsin

Wisconsin is seen by many observers as a cutting-edge state on welfare reform. It has been able to reduce its caseload and implement a variety of experimental welfare reform models. Governor Tommy Thompson has staked his career on welfare reform and it has paid off. These policies enjoy broad political support.

Welfare reform in Wisconsin began before Governor Thompson with a five-county pilot program called the Work Experience and Job Training program (WEJT). Enacted in 1986, the WEJT program represented a compromise between then-Assembly Minority Leader Tommy Thompson, a Republican, and then-Governor, Anthony Earl, a Democrat. The pilot program included an increased emphasis on work along with increased support services. It was designed to test the effectiveness of approaches to increasing self-sufficiency but WEJT was not in operation long enough to make any meaningful assessment of its impact on the welfare caseloads.

In the early phases of welfare reform in Wisconsin, the state began reducing welfare benefits, improving health and child care benefits for people entering the work force, and tying a family's welfare benefit level to school attendance by teenagers (Learnfare). While Learnfare had substantial administrative problems early on, it is now an integral part of Wisconsin's reformed welfare system. Its impact on caseload is difficult to determine. While the program discourages new cases, it does little to reduce the current number of recipients.[4]

The next major Wisconsin welfare reform initiative was the implementation of the JOBS program in 1989. JOBS was initially run in a liberal manner, enforcing participation in work programs but permitting education or training in lieu of active job searching. Over years this tightened up with limits on educational activities and quicker sanctions. Since Wisconsin had essentially been running a program very similar to JOBS (WEJT) since 1987, the state was up and running quickly and by 1993 had three times the national average of welfare-to-work participants. While it is difficult to isolate the impact of JOBS from the overall economy, AFDC caseloads dropped substantially since 1987, fell throughout 1989, and then fluctuated until 1994. Since then, the decline has been steady and substantial.[5]

We can only speculate what President Clinton now thinks about his 1992 campaign promise to "end welfare as we know it." While the promised legislation was not signed until 1996, the President did encourage the U.S. Department of Health and Human Services to look favorably on state requests for waivers from federal regulations, enabling them to experiment with welfare reform strategies. Not surprisingly, Wisconsin was the first state to request a waiver in July of 1993. The request included a two-year limit on welfare benefits. However, as Wiseman notes: "Governor Thompson chose to concentrate the innovation on a relatively small number of recipients and to avoid exposing the state to significant financial risk."[6]

The current program, Wisconsin Works, or "W2," was enacted in 1995. W2 is important because it may very well be a precursor to a national model of state-based welfare/workfare under the 1996 welfare reform legislation. The program links almost all cash assistance to some form of employment, reduces the automatic linkage between cash and other in-kind assistance, and calls for rapid implementation (statewide by October 1, 1997).

W2 establishes the Wisconsin Works Self-Sufficiency Ladder. This is a graduated, four-stage program that recognizes the diversity of the welfare population. At the lowest rung of the ladder are W2 Transitions. This provides cash benefits, food stamps, child care, health care, modest work requirements and job training. A two-year time limit is placed on individuals and families on the lowest rung. The next step up requires community service jobs of up to 40 hours a week. It may include job training and education of up to 10 hours per week. It includes a slightly higher cash benefit as well as food stamps, child care and health care. The next rung on the Self-Sufficiency Ladder is the trial job. This is subsidized work that provides nearly twice the disposable monthly income as the level below it (approximately $1,400 per month). Finally, the top rung of the ladder is unsubsidized employment. Under W2, income begins with work for all except those at the bottom rung in W2 Transitions. For people on the top three rungs of the Self-Sufficiency Ladder, immediate cash is available through loans only.

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When W2 is rolled out in October, 1997, the scale of the effort will be unprecedented. Wisconsin will need to find 26,800 Community Service Jobs, move 20,000 people into unsubsidized employment and 11,000 into transitional work in the first six months of the operation alone. In comparison, only 15,000 entered the job market through JOBS in all of 1993.[7]

What impact has nearly a decade of welfare reform had in Wisconsin? The most important data is that welfare rolls fell by 26 percent between 1987-95.[8] This has been seen by the media as a great success.

Of course, correlation is not causality.

There have been no experimental evaluations of Wisconsin's programs and there is dispute over the reason for declining welfare rolls. Michael Wiseman, an expert observer of the Wisconsin program, believes that benefit cuts reduced the attractiveness of welfare and resulted in caseload reductions. However, he observes that 75 percent of the decrease occurred before the end of Thompson's first term, when only two demonstration projects were in place. Wiseman praises Wisconsin's record on JOBS as "exceptional" and notes that 31 percent of welfare recipients participated in workfare programs in 1993, when the federal requirement was only 11 percent.

But progress has come at the price of having the second highest administrative costs in the region, when it had the lowest in 1988. The lack of data makes it impossible to say precisely what effect the JOBS program had. While Wiseman believes that "the outcome through 1994 had little if anything to do with the *direct* effect of the waiver demonstrations," he concludes that "although W2 was an exceptional commitment and enormous challenge, for which the state can reasonably take pride, the problem is that it is still not clear what parts of the welfare reform strategy pursued since 1987 have worked."[9]

Others have noted that the reduction in welfare roles coincides with the recovery and growth of Wisconsin's economy. This poses a serious puzzle for those searching Wisconsin's waiver initiatives for keys to successful welfare strategy in other states. One study found that Wisconsin's welfare reforms had no measurable impact on AFDC caseloads statewide and modest impact in only a few counties, yet found a direct and consistent relationship between unemployment rates and caseloads.[10]

Welfare expert Lawrence Mead interviewed state welfare officials in 1995 and found few who believed that the fall in welfare rolls was due to lower benefit levels but instead cited programmatic causes and the economy equally.[11] However, many saw the Governor's leadership communicating a strong message to welfare recipients that self-reliance was now expected. Thompson also inspired the bureaucracy to work harder to move people off of the welfare rolls. Despite the lack of rigorous analysis, raw caseload trends and anecdote suggest to Mead that the experiments have had a large deterrent effect. He concluded that the caseload drop had more to do with reform programs and the economy than a fall in benefit levels.[12] He also noted that job readiness has a strong positive effect on encouraging people to enter the job market.

Mead also attaches importance to administrative improvements such as generous spending on computerization—"the background reason why the Thompson administration is able to implement its welfare initiatives and run JOBS so well."[13] He found the most effective programs were those that emphasized grant diversion to support the transition to work, job search activities, empowerment and discouragement from education and training.

But critics caution that many bugs remain in the W2 program. David R. Reimer, Director of the City of Milwaukee's Department of Administration and one of Wisconsin's most creative social policy theorist-practitioners, fears that W2's highly structured, state-directed approach will create many of the same bureaucratic and regulatory problems as the current welfare system. He believes W2's artificial seven percent profit limit for private job placement providers will discourage competition and encourage costly deceptions and wasteful cost shifting.

Reimer maintains that the new system's health care safety net is far too complicated and difficult to access, the child care co-payment schedule escalates much too steeply during the transition to self-sufficiency and the heavy reliance on public service work that is not wage-based will push the entire system quickly backward until it is not much different than old style workfare. Most participants will have fewer incentives and little hope to move to self-sustaining jobs. In his view, the biggest danger in welfare reform nationally is that states will end up recreating AFDC as the path of least resistance.

Reimer thinks that Wisconsin, indeed all states, should create wage-based community service jobs. Participants and the state's economy would then receive the economic benefit of the federal Earned Income Tax Credit (EITC). Moreover, there is a substantial psychological difference in receiving a paycheck, instead of working off your welfare grant.

With past performance difficult to assess and future success impossible to predict, Wisconsin's next stage of welfare reform, W2, has several structural features that may turn out to be flaws including:

- A heavy reliance on public service employment.
- Strong measure of regulation and control by the state welfare bureaucracy.
- Regulation of profits made by firms providing welfare-to-work services. Profits are limited to seven percent of revenues.

These features lead to stronger state control of services and at the same time limit the use of private profit-seeking firms and local initiative in implementing welfare reform—a combination that could contain the seeds of W2's undoing.

Riverside, California

California's welfare-to-work program, the Greater Avenues for Independence Program (GAIN) was created by a statewide welfare reform initiative in 1985. It is overseen by California's Department of Social Services and administered by the state's 58 counties. While it predates federal legislation, it has operated under the federal JOBS Act since July, 1989 and, in many respects, it was the template for the federal program. The nation's largest welfare-to-work program, GAIN accounts for almost 13 percent of all federal spending on JOBS.

One important characteristic of the GAIN program is its categorization of clients into two groups. The first are people with the education background to enter the job market immediately. The second are people who need education and training before entering work. GAIN clients who do not obtain work and do not participate in training programs face reduced welfare grants. Another essential feature of GAIN is that counties are given great flexibility to design their own programs to fit local circumstances, so the methods and results vary widely among counties.

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The Manpower Demonstration Research Corporation (MDRC) concluded in its landmark evaluation study that the GAIN program increased income and reduced welfare rolls dramatically. Both single parents and the government came out ahead in two counties as a result of GAIN, with one county (Riverside) producing the most impressive results yet observed for a large-scale welfare-to-work program and the program produced increased earnings statewide. Average earnings were 22 percent higher for those in the program over three years. During that same period California's AFDC payments were reduced by six percent. There was also a small, but measurable effect (three percent) on AFDC case closures.[14]

While the impact was felt statewide, certain counties did better than others. In Riverside County, GAIN resulted in 49 percent more earnings, 15 percent less welfare payments and a nearly \$3 return to the government for each \$1 expenditure. Riverside also produced large earnings gains and welfare savings in all three follow-up years.

Three other counties, Alameda, Butte and San Diego, had more moderate earnings gains and welfare savings, and Los Angeles County and Tulare produced either income gains or welfare savings but not both.

While poverty was not eliminated, Riverside must be seen as a tremendous success story.

Though the program has clearly succeeded, it can not be seen as welfare's silver bullet. Almost half of all welfare recipients never worked during the entire three-year period[15] and families rarely rose out of poverty. In Riverside, 41 percent of Riverside GAIN participants were still receiving benefits three years after enrolling.[16]

Nevertheless, while poverty was not eliminated, Riverside must be seen as a tremendous success story. In an April, 1995 *Los Angeles Times* interview, Lawrence Townsend, the director of the program, explained why GAIN had worked better in Riverside, California than in other counties:

"We have a less paternalistic approach. Paternalism implies that we know better than the client, and they possibly might not be as good as we are. So then you prescribe things...you must go to education for three years, or you must take this training course. We believe that a lot of clients are job-ready. They can function in existing jobs...We are focused 100 percent on one goal in this county: unsubsidized private job placements. All other facets of the GAIN program, all the components are only a means to that end. We are focused on that. We set goals on it, and the staff is very successful in bringing in those goals."[17]

MDRC also sought to explain Riverside's success. While Riverside's stronger economy may explain some of its positive record, MDRC reported that the strong "employment-first" message sent by the County differentiated it from other counties.

"What most distinguished Riverside," says Daniel Friedlander and Gayle Hamilton, "from the other counties—and therefore—what might have contributed to Riverside's more favorable results—was its particular *combination* of practices and conditions."[18]

The Riverside GAIN office looks and works like an employment agency, not a welfare office. The emphasis is on rapid job placement and participants who are uncooperative are aggressively sanctioned. Riverside seeks to remove every obstacle to employment, including help with interview outfits, gas money, and day care and the office stresses the importance of individual responsibility and helping people by making them help themselves.

Statewide, the GAIN program represents an important, influential and successful first step in the evolution of public assistance from income maintenance to a work-based program. According to Julia Lopez, director of The Rockefeller Foundation's initiative to facilitate jobs-based programs to combat poverty:

> "GAIN was the first welfare program to establish a reciprocal obligation between

the recipient and the state. The recipient now had an obligation to try and find work and the state had the obligation to try to help them. To meet its obligation, the state of California and its counties had to create a whole new infrastructure to access job training and placement services."

Lopez believes that the extensive research of MDRC documenting how and why the Riverside GAIN program succeeded has led to a cross pollination of ideas statewide. An innovation feedback loop has developed, says Lopez, from practice to results to modification, with learning and innovation progressing over time. With objective information available about Riverside GAIN's success, Lopez says the other counties became competitive and used the MDRC research to continually improve on the original Riverside model.

For Lopez, the Riverside GAIN model represents a major step forward in trying to create a jobs-based solution to poverty. In her view, we need to continue the search for new innovations, aligning institutional incentives in the proper manner such that they help their clients find jobs first, but then continue to assist those new workers to stay on the job, improve their economic circumstances and ultimately become self-supporting. The Rockefeller and Mott Foundations are assisting in that effort by funding a major series of projects to experiment with jobs-based solutions to welfare. Currently these foundations are assisting projects in Milwaukee, Wisconsin and California, among other sites.

Of the three cases we studied only Riverside relied exclusively on government workers to provide job placement services to welfare clients. However, the Riverside GAIN offices are intentionally located apart from the county's AFDC program and set a vastly different, professional, employment-focused tone. The GAIN workers we met in Riverside are proud of their program and what they accomplish everyday. They reject the idea that private firms could outperform them and cite failures of privatized placement efforts in other places. They do admit that government paperwork is excessive, their computer support and information systems are inadequate and that performance-based pay "might" have a positive impact on the productivity of some of their colleagues. However, we do not know if results could have been improved if staff that met targets received a monetary incentive for doing this. Without competition it is impossible to tell whether we are maximizing results. Nevertheless, Riverside certainly proves that excellent, well-managed welfare-to-work programs can thrive in certain governmental settings.

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Indianapolis, Indiana

Welfare reform in Indianapolis consists of a series of initiatives begun by Mayor Stephen Goldsmith referred to collectively as the Indianapolis Independence Initiative. This included a series of pilot projects beginning with a 1993 contract with America Works Inc. to help AFDC recipients enter the workforce. America Works agreed to place 100 AFDC recipients into jobs (increasing to 142 placements in the second year). Its contract only allowed it to collect a fee if a welfare recipient was placed in a private sector job paying significantly more than the minimum wage and providing at least the minimal level of health care benefits needed and only after the recipients held the job for at least six months. A similar contract was also let with another firm, The Training Institute (TTI) and a third contract was negotiated with Community Centers of

Indianapolis (CCI), a local non-profit social services consortium. While the contract with CCI was not performance-based, it is the city's intention to move it in that direction. Among those who have studied the Indianapolis experience, Jack Meyer has observed:

> "Clearly the city is willing to experiment with different approaches to welfare reform... [Its] program and contracts...contain a variety of incentives and models that will help lay the groundwork for future analyses of what works best and which models are most effective-both in terms of helping residents find work and saving the taxpayers' money."[19]

Over the past three years in Indianapolis, America Works has moved 222 people from welfare to work, saving the city, state and federal government over $1.76 million.

The America Works experience of Indianapolis to date has been extremely positive. Since their first contract with the city and State of Indiana in 1993, America Works has operated under a pure, performance-based contract, receiving payment only when their placement held their new job for six months and was hired as a full-time, regular employee receiving more than minimum wage and health care coverage. Over the past three years in Indianapolis, America Works has moved 222 people from welfare to work, saving the city, state and federal governments over $1.76 million.

According to Mary Kapur, senior social policy advisor to Mayor Goldsmith, the main reason that America Works hasn't been even more effective is due to the county and state welfare bureaucracies' unwillingness or inability to adapt to the new approach and act decisively. "Since 1993," says Kapur, "America Works has struggled to get referrals from the welfare department. The department is not willing to apply sanctions for failure to appear at welfare-to-work programs."[20] Not only are referrals hard to get, but attrition rates after job placement are very high. Kapur believes this is in part due to the strong local economy leading new workers to believe it will be easy to find another entry level position and because they believe it will be equally easy to fall back on welfare.

While Indianapolis was experimenting with its small-scale, but effective welfare-to-work initiative, the State of Indiana sought and received federal waivers in 1994 to launch its own welfare reform program, the Indiana Manpower Placement and Comprehensive Training Program (IMPACT). IMPACT sets a two-year limit on welfare for people who fail to work. It eliminates extra payments for children born on welfare and requires children to attend school and be immunized and recipients must also sign a Personal Responsibility Contract. IMPACT also requires minor parents or pregnant teens to live with adults in an acceptable setting. Finally, IMPACT allows counties to experiment with local welfare reform.

Although many observers have praised IMPACT as among the nation's most far-reaching welfare reform efforts, proponents of the Indianapolis Independence Initiative (I-3) have criticized IMPACT for failing to address the fundamental weaknesses of the current welfare system. In their view, IMPACT does not make the essential paradigm shift to public assistance as a bridge to work but merely makes the current cash benefit program theoretically less accessible (although provided sanctions are rarely enforced).

Nevertheless, in May, 1996, the U.S. Department of Health and Human Services credited IMPACT with a 22 percent reduction in

Indiana's welfare rolls in 1995. IMPACT critics see other more significant factors for the decline including a booming local economy, low unemployment and the threat of benefit cut offs. But Indianapolis Mayor Stephen Goldsmith argues that the reduction follows a 37 percent increase in the State's caseload between 1988 and 1992.[21]

Unfortunately for Mayor Goldsmith, when Indianapolis (under then-Mayor Richard Lugar) adopted a form of city-county government called Unigov in 1970, one of the services that remained in county, rather than city hands, was welfare. This means that welfare administration in Marion County is not under Mayor Goldsmith's control. According to Meyer:

> "Although Mayor Goldsmith and city officials pioneered the welfare-to-work model in Indianapolis, when the state launched its own job placement effort in 1995, it quickly became a dominant force in the city's welfare reform effort. The state moved away from the city's emphasis on performance-based contracting, and signed 'front-loaded' provider agreements that paid a substantial portion of the total contract amount...prior to any...placements.[22]

A study of Indianapolis and Marion County's early welfare-to-work program indicated limited success in job placement. The county let contracts with a number of firms and in the 1995-1996 contract year with six-month retention rates between 15 and 25 percent.

High attrition rates, particularly between the referral and the starting date are a glaring and serious problem.[23] For example, only about half (538) of the 1,003 clients referred to one placement contractor ever entered their training program. Similar data are reported for other contractors as well.

In addition, a substantial portion of the job placements in Indianapolis did not meet IMPACT standards of a wage rate of $6.06 per hour. Despite Mayor Goldsmith's effort to implement performance-based payments for welfare-to-work contractors, many county contracts were reimbursed on a cost-basis. Most of the contracts let by the Marion County welfare bureaucracy paid contractors substantial amounts of the money during the implementation process before placement and long before any significant retention accrued.[24]

William B. Stephan, President of the Indianapolis Private Industry Council (IPIC, the county's leading job placement and training service broker), says performance-based contracting has worked well for Indianapolis as a welfare-to-work strategy, particularly in the case of America Works. But generosity could pose a substantial obstacle to welfare reform. According to Stephan, welfare often "pays" better than entry-level jobs when all the public benefit programs are considered. He and Kapur helped Mayor Goldsmith draft state legislation that would have permitted Indianapolis to realign the benefit structure, providing more resources for transitional child care, health care and transportation, and a community-based network of performance-based placement contractors. But in the politically charged 1996 state legislative session, with Goldsmith an active candidate for the Republican nomination for Governor and the Lieutenant Governor as his likely opponent, the bill failed to pass by one vote. The bill will be reintroduced in 1997. With former Lieutenant Governor Frank O'Bannon now Governor and Goldsmith still Mayor, the prospects for a passage of a reintroduced bill appear slim. Nevertheless, Bill Stephan argues, "We must make work pay so that it is the rational economic choice and we must lower the risk of trying to become self-sufficient, if welfare reform is to have any real impact."[25]

Goldsmith maintains that the existing welfare system is governed by federal compliance procedures and the fear of federal sanctions for procedural errors. It is staffed by professionals not trained in job placements so he is not surprised that welfare-to-work initiatives located in county welfare departments have not worked very well. His recommendation: "Blow them up."

Goldsmith and Stephan argue that we must reinvent the welfare department by encouraging traditional caseworkers to become job counselors and personal planners. They believe that much of this system could and should be contracted out to Goodwill Industries, America Works and/or entrepreneurial ventures launched by the current government workers.

Performance-based contracting has worked well for Indianapolis as a welfare-to-work strategy.

However, a great deal is being learned through the experiments now under way. For example, the cost of each long-term placement varied widely from $2,696 (Goodwill) to $14,600 (CCI) in 1995-96 and from $2,521 (TTI) to $5,953 (Goodwill) in 1996-97. In addition, placing and retaining welfare recipients in jobs remains a formidable challenge even in tight labor markets such as Indianapolis, where the unemployment rate is very low. However, experience shows that significant portions of the welfare population in Indianapolis can successfully enter or reenter the workforce.

Goldsmith's poverty fighting goes beyond welfare reform. He has launched an important supplement to his welfare-to-work programs called the Rebuilding Families campaign, a 26-point program to encourage responsible fatherhood and discourage teen pregnancy in Indianapolis. Krista Rush, the Mayor's policy advisor who heads the effort, stresses the importance of trying to prevent poverty as well as alleviating the need that is already present. Rush observes that young, single mothers are at the greatest risk of falling into long-term poverty.

This is a sensitive area where elected officials usually fear to tread, particularly because "there is no government solution."[26] Nevertheless, Goldsmith and Rush have pushed ahead, seeing a critical role for government as a source of community leadership, a convener of diverse groups, and in their view, the only entity capable of changing the current, often perverse sets of incentives and sanctions for personal behavior. Working with community-based organizations, health care providers, religious groups, the schools and government agencies, the city of Indianapolis has launched a series of initiatives dedicated, directly and sometimes indirectly to preventing poverty before it happens.

The Rebuilding Families Program includes: "Promises to Keep," a peer mentoring and media strategy to reduce teen pregnancy (modeled after Emory University's initiative to encourage postponement of sexual involvement); "Faith in Families," a church congregation-based mentoring program directed at reducing the high rate of second teenage child births (modeled after a series of successful efforts in Mississippi); and, "Job or Jail," a program designed to boost child support payments and encourage responsible behavior by fathers.

Lessons Learned

With the entire nation on the threshold of a massive experiment in welfare reform, it is critical that we look to these early welfare laboratories and learn from them. The primary lesson is that a sizable portion of the people on welfare want to work and, with substantial government effort, can be brought back into the mainstream economy. There is no monolithic welfare population. Many people are in welfare only a short period of time and are struggling to adjust to a rapidly changing economy. For these people, the transition to work is relatively simple.

For others, the transition will take longer and will require continued public spending for training, transportation, health care and child care. Nevertheless, there is ample evidence indicating that a substantial number of the people seen as "permanent" welfare recipients are willing and able to enter the world of work. But while effective welfare-to-work programs will provide long-term budget savings, the start-up costs and investment required will create higher costs initially, compared to existing income maintenance models.

On the program level, a variety of models are working. In Riverside County, a government-run organization achieves excellent results. In Wisconsin, a state-run system staffed in part by contractors is also effective. In the city of Indianapolis, the successful welfare-to-work initiative is largely staffed by private for-profit and non-profit contractors. There are a few particular practices that we have observed that provide specific lessons:

- A strong emphasis on the value of work and its importance is essential to a successful program. Riverside and Indianapolis both had strong leadership that provided clear articulation of the centrality and desirability of work.

- When work is seen as a punishment, it is a less effective as a policy tool. Work assignments in return for welfare benefits (workfare) may be a necessary evil for people who are not yet employable. However, wage-based employment seems to be a more effective way of promoting work as a meaningful, socially transforming, activity.

- Limiting the profits of private sector contractors delivering welfare-to-work services is a losing strategy. The reason government contracts with private firms is to gain the advantages and efficiencies of private sector competition. But Wisconsin's effort to regulate the profit of these contractors belies a fundamental misunderstanding of the private sector: Private firms seek to maximize profits, return on equity and market share. Better-managed firms return much higher profit levels than the seven percent cap set in Wisconsin's W2 program. Therefore, regulating profits guarantees that some firms will not enter the competition and that reduces the level of competition. In fact, profits caps will tend to drive the most efficient firms away, those that have figured out how to do their job and make substantial profits at the same time.

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- Pay-for performance is the best way to guarantee that a for-profit firm will deliver results. If firms are not willing to compete on that basis and insist on cost plus contracts, it may be that the service is not yet ready to be privatized. In the case of welfare-to-work firms, many are eager to com-

> pete on a pay-for performance basis. Welfare bureaucrats who agree to anything less are using a social worker mindset to guide their private sector contracting.

Finally, we do not believe that welfare reform is going to eliminate poverty or even welfare. While a great many people can work and need not be on welfare, not everyone will be capable of connecting with the work world. Furthermore, we must set realistic goals. The goal should be to reduce dependency, increase the value of work and reduce welfare spending over the long run. This is a tough issue area and results will never be easy. As Governor Thompson in Wisconsin and Governor Howard Dean in Vermont have noted, the process of reforming welfare is a long one and before costs go down they will increase for a short period of time. The experiments discussed here indicate that progress can be made, if we are realistic and willing to take the long view and learn from our successes and failures.

An important change in national attitudes and strategy is emerging. We are shifting from an income transfer, charitable approach to reducing poverty to a jobs-based strategy. And while significant numbers of adults currently on welfare may never advance to self-sustaining work, many others will succeed. Based on the progress already in Indianapolis, Wisconsin and Riverside, there are many reasons for optimism.

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