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Reforming Welfare:

PAMPHLET COLLECTION

American lessons



by Simon Crine

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Reforming Welfare: American lessons

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Introduction

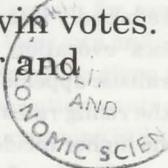
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Only in America could a left of centre candidate for the Presidency, albeit one from a small, poor and conservative southern state, promise to "end welfare as we know it" and expect to win votes. It would destroy a British Labour leader and probably a Conservative one too.



But that is exactly what Bill Clinton did, to deadly electoral effect, when running against George Bush in 1992. With one soundbite, he attacked the undeserving poor, appealed to the Reagan Democrats who had deserted their party in successive elections, and confirmed his reputation as a moderate 'New Democrat'. But the pledge has come back to haunt him in power.

However there are some similarities between the welfare debates in Britain and the US. If you believe what you read in the papers, both welfare systems are in crisis. Not only are they despised by those whom they serve and resented by those who pay for them, but now they are gnawing away at the moral fibre of the nation. Frightened by low growth and high unemployment, Britain is becoming almost as obsessed by welfare dependency, family breakdown and the urban underclass as the United States.

The moralistic tone of the American debate is inescapable. New Democrats and conservative Republicans are agreed that 'welfare', by which they mean means-tested benefits for single-parent families (Aid to Families with Dependent Children or AFDC), rewards idleness and dependency and traps the poor in poverty. Moreover, they say, welfare undermines traditional American values – like work, the family and individual responsibility – and that what is needed is a revival of stigma against those who deny or ignore those values. In practice, it has proved a short step from lofty disapproval of welfare's values to the harsh cuts in welfare benefits which have marked the last 13 years in America.

At the heart

American politicians talk about welfare because it goes to the heart of what kind of society America is. Everyone agrees that the elderly, the blind and the disabled and the newly unemployed deserve support in their time of need but there is no such consensus about poor single mothers. Fifty years ago, when

Roosevelt created the forerunner of AFDC, most Americans thought mothers should be at home looking after their children; today, they think they should be out working. The irony is that AFDC is about as cheap a welfare scheme for single parent families as could be devised, accounting for a mere 1% of the Federal budget and a mere 3.4% of the budget of the average state.

The British angle

Britain, of course, is having its own debate about the welfare state, albeit more broadly interpreted. Encouraged by the launch of John Major's 'Back to Basics' evocation of old England, Michael Howard and Peter Lilley made moralistic appeals to the 1993 Conservative Party Conference. Both remarked on the rising rates of family break-down and illegitimacy. Both drew attention to the higher incidence of poverty – and other social problems – amongst single parent families. In recent months, they have been joined by Kenneth Clarke and Michael Portillo echoing traditional Tory concerns about the undeserving poor, welfare dependency and family breakdown. Mr Major himself has kept out of it.

Fortunately, and in no small part thanks to a succession of minor scandals, nobody seems to have taken their interventions too seriously. Anti-welfare rhetoric, wrapped up in moral panic, doesn't play as well on this side of the Atlantic. First, British voters do not like their governments to lecture them on the way they ought to live and are inclined to suspect a degree of hypocrisy in politicians who preach morality. Secondly, there is not the same individualistic reaction to the very idea of social welfare that lies just beneath the surface of American life. Battered but still popular notions of collective responsibility – or social solidarity – underpin popular support for the British welfare state. A British Prime Minister, as Mrs Thatcher learnt, might well laud work, family and individual responsibility but he or she would be advised to add 'society' too.

Or perhaps the biggest difference is just that British voters have become more used to high unemployment (an average of 10% of the workforce in recent times as against 6 or 7% in the US) and live in greater fear of losing their jobs. You are less likely to distance yourself from the poor if you think you may be the next to go. And in Britain it is but a short step from the relative respectability of Unemployment Benefit, paid for by your National Insurance contributions when you were in work, to Income Support paid for out of general taxation. And the distance will be shorter still when the two are merged into the grace-and-favour benefit of the Jobseeker's Allowance.

The driving force of the debate in Britain is not morality but money. The British social security budget – which covers every form of cash transfer from pensions and child benefit to means-tested public assistance – now accounts for 28% of all government expenditure, more than education, health or defence. Whilst an economic upturn would reduce the costs of mass unemployment, demographic changes will still exert pressure on the budget. Britain, like most

western countries, has an ageing population, which will place an increasing burden on people of working age. It was the rising costs of the British welfare state and the apparent unwillingness of the taxpayer to fund them which prompted John Smith, the former Labour Leader, to set up the Commission on Social Justice.

By contrast, American politicians do not really want to talk about the cost of their social welfare system though the financial and demographic geography is just as harsh, if not harsher than Britain's. Social Security (the universal pension system) and Medicare (the universal health care system for senior citizens) account for nearly one half of the Federal budget on their own and, say critics like Ross Perot and the Concord Coalition, can only increase given the steep rise in the proportion of the American elderly. But these entitlements are just too popular with the great American middle class – not for nothing is Social Security called the third rail of American politics.

Conservatives in both countries have always seen poverty and inequality as a reflection of individual characteristics, aided and abetted by ineluctable economic forces. The left has tended to be much more interested in how government policy can reduce overall poverty and inequality than in separating out the deserving poor from the undeserving poor. For 30 years after the War, the socialist or social democratic view prevailed: the welfare state, riding on the back of full employment and steadily rising living standards, reduced poverty and inequality. The return of high unemployment, low economic growth and increasing taxpayer resistance to public spending in any form undermined the welfare state. Today, the individualist view prevails: a means-tested safety net for anyone who is in trouble rather than social security for everyone.

But the big questions for American liberals and British socialists remain the same as they were 50 years ago. Which are the best ways to alleviate personally disabling and socially destabilising poverty and inequality? Are means-tested benefits, directed simply at the poor, or universal benefits, designed for everyone, more effective? Should benefits be paid for out of general taxation or by a dedicated tax on those in work? Is the aim simply to get more people into jobs or to enable people to combine work and caring for dependents? And how can the voters be persuaded to pay for a fairer society when they feel so insecure about themselves?

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American poverty: the facts

Poverty in America has made a comeback in recent years. In 1992, one in seven Americans (36 million people) were living below the official poverty line – the highest figure since 1962.

The child poverty rate was even higher: more than one in five children (14 million) were below the poverty line. Just over half the poor are single parent families and eligible for welfare and 15 million mothers and children (only 10% of AFDC families are headed by the father) actually claim AFDC.

The non-working poor without children are virtually on their own. They are not eligible for AFDC because they don't have children, nor for means-tested Supplemental Security Income (SSI) unless they are aged, blind or disabled. General Assistance, a vestigial system of poor relief in the shape of grants, gifts or loans, is available in a steadily diminishing band of states. After that it's the churches, charities or doing what most Americans do: moving on. Over a quarter of the poor get no cash assistance of any kind. Food Stamps (the biggest means-tested programme of all, covering 26 million working and non-working poor people) and Medicaid (means-tested healthcare) offer minimal solace.

Mounting concern about welfare dependency, family breakdown and the rise of the underclass and the steep climb in the number of welfare cases in the last recession have forced welfare onto the top of agenda. The number of AFDC cases is up by a third and Food Stamps by 45% since July 1989. In many states, the increase in the AFDC caseload has been even steeper: Florida's caseload more than doubled, Texas's rose by a half and California, enduring the worst recession in its history, saw the number of cases rise by 47%.

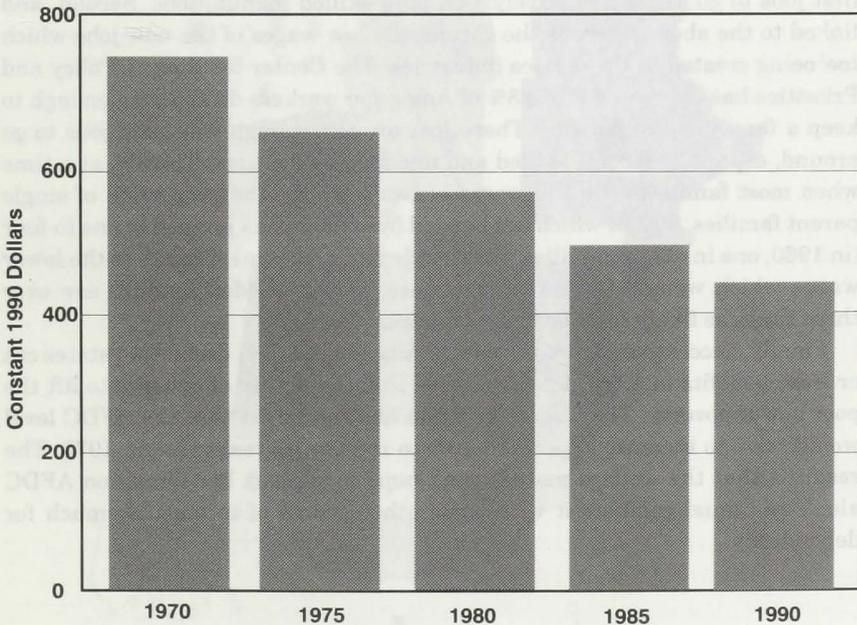
From its inception nearly 60 years ago, the AFDC programme has been a matter of joint responsibility, with the Federal government setting the national framework and the states adapting it to their own circumstances. The 55:45% funding split roughly reflects the sharing of responsibilities. The result is a patchwork quilt of 50 different welfare systems (plus the District of Columbia) each with its own definition of family needs and its own wildly varying level of benefits. No variation in the cost of living can fully explain the differences: rather, they reflect local political judgements and varying social attitudes.

The average AFDC benefit for a poor family was only \$388 per month in 1992 (£260 per month), which is well under half the official poverty line of \$820 per

A transatlantic guide to welfare jargon

American	British
Aid to Families with Dependent Children (AFDC)	Income Support
Earned Income Tax Credit (EITC) - refundable	Family Credit
Food Stamps	
Social Security Tax	National Insurance
Supplemental Security Income (SSI)	Invalidity Benefit
Unemployment Insurance	Unemployment Benefit/ Jobseeker's Allowance
	Child Benefit

month for a family of two and \$1027 for three. In any case, the federal poverty line, fixed at three times the minimum food requirement for the average person, has long been criticised for being too low to live on. Nor does AFDC come well out of a less ambitious comparison with its means-tested sibling for disabled people: SSI for the single person is \$434 and for a couple is \$652. The only thing



AFDC Benefits for a Family of Four, 1970-1990

Source: Committee on Ways and Means, US House of Representatives.

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to be said in mitigation is that, in spite of the official rhetoric, nobody really expects the poor family to live on AFDC and Food Stamps alone. Income from off-the-book jobs, gifts from other family members and in-kind support such as free childcare go a long way towards doubling the total.

In the popular mythology of American welfare, the typical welfare family has an idle, feckless black mother who breeds as fast as she can to increase her AFDC cheque – when she's not turning down lucrative job offers. But the facts are not so convenient: a third of recipients are, indeed, African-American but a third are white and the remainder Hispanic and other minorities. The average AFDC family has two children but two out of five families have just one child, pretty much in line with the figures for the population as a whole. As for staying on welfare indefinitely, the average spell on AFDC is 6 months, with half the recipients leaving within a year and three quarters in two years. Marriage comes before a decent paying job as the favoured way out.

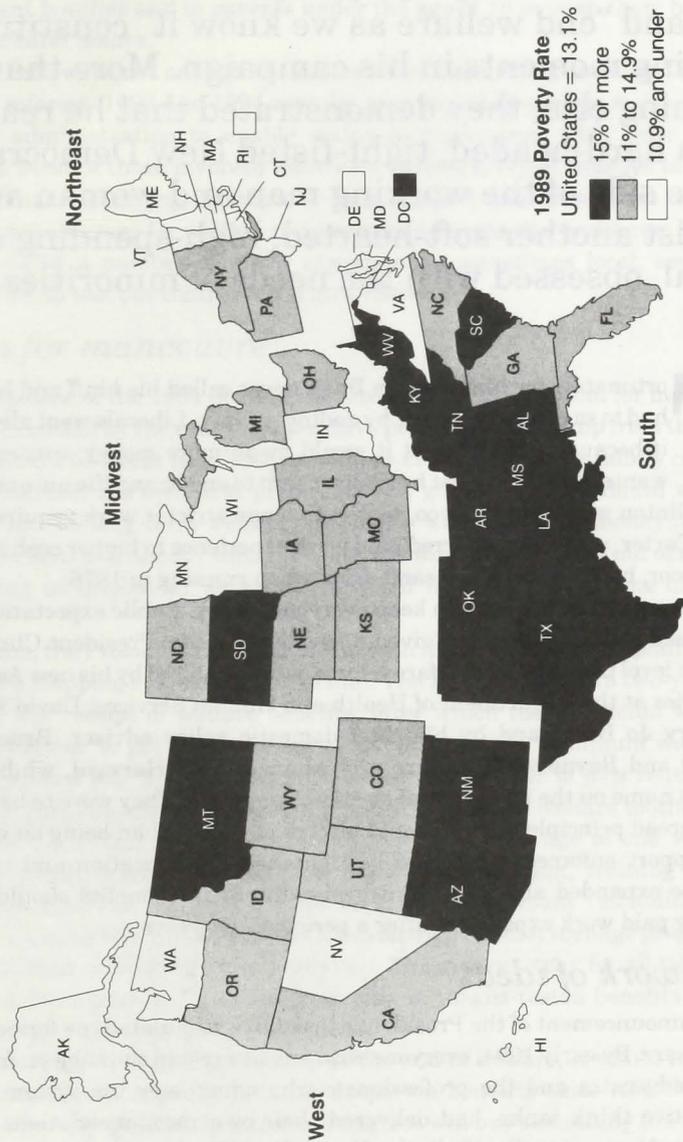
The causes of poverty

It is easy to list the causes of poverty but not so easy to weigh their relative importance. First, there is unemployment, the surest way to poverty. Whilst national unemployment has levelled off at around 6% (considerably lower than most of Europe), many manufacturing firms are continuing to downsize and the first jobs to go are the relatively well-paid skilled manual jobs. Second, and linked to the above, there is the chronically low wages of the new jobs which are being created in the service industries. The Center for Budget Policy and Priorities has estimated that 28% of American workers do not earn enough to keep a family out of poverty. There just are not enough well paid jobs to go around, especially for low skilled and uneducated workers. Thirdly, at a time when most families need the wages of two workers, the proportion of single parent families, 90% of which are headed by women, has jumped to one in four (in 1960, one in eleven families were headed by a woman). Thanks to the lower wages which women traditionally endure, female-headed families are over three times as likely to be poor as two-parent families.

Finally, successive rounds of welfare cuts over the last decade (44 states cut or froze benefits in 1992 alone) have reduced the ability of benefits to lift the poor out of poverty. The Urban Institute has estimated that the AFDC level would have to increase by around 40% to recover its real value in 1975. The result is that the welfare mother can't hope to support her family on AFDC alone and must combine it with some other source of income. So much for dependency.

Poverty in the United States, 1989

Source: US Department of Commerce, Bureau of the Census



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The Clinton plan

Bill Clinton's campaign pledges to "make work pay" and "end welfare as we know it" constituted defining moments in his campaign. More than anything else, they demonstrated that he really was a hard-headed, tight-fisted New Democrat, on the side of the working man and woman and not just another soft-hearted, high-spending old liberal, obsessed with the needs of minorities.

Fortunately for him, George Bush never called his bluff and he never had to say what he meant by ending welfare. Liberals went along with it because they thought it would mean more money; conservatives wanted to believe that he really meant to end it; and the uncommitted, whom Clinton was trying to woo, took it to mean stricter work requirements. Jimmy Carter, who also preferred paid work experience to higher cash benefits for the poor, had pulled off the same trick when running in 1976.

In power it wasn't so easy to keep everyone happy. Public expectations had been raised and old prejudices given a new lease of life: President Clinton set up a high level task force on welfare reform, jointly chaired by his new Assistant Secretaries at the Department of Health and Human Services, David Ellwood and Mary Jo Bane, and by his chief domestic policy adviser, Bruce Reed (Ellwood and Bayne were welfare professionals from Harvard, whilst Reed made his name on the presidential election campaign). They were to be guided by four broad principles: work should always pay more than being on welfare, child support enforcement should be tightened up, education and training should be expanded and, most controversially, AFDC benefits should be replaced by paid work experience after a period of two years.

Patchwork of ideas

The announcement of the President's task force stimulated the formation of many others. By early 1994, everyone with any interest in the subject, from the poverty advocates and the professionals who administer the system to the conservative think tanks, had delivered their own recommendations to the President. Most pointedly of all, the House Republicans took President Clinton's half-promises, beefed them up with a series of punitive proposals and

tabled their own welfare reform bill. They turned his vague promise of a two-year limit on welfare without work into an unambiguous commitment to workfare – the requirement that welfare recipients should work for their benefits after their time was up. They also proposed to cut off additional benefits to babies born on welfare (the ‘family cap’) and to cut off all benefits to immigrant families and to parents under the age of 18 to push them back into their parental homes.

As if that were not enough the states were stampeding towards their own welfare reforms. 1993 and 1994 saw the granting of numerous waivers by the Clinton administration to enable states to experiment with their welfare systems. Most of these involved relatively uncontroversial changes to welfare rules to make work pay, to improve child support and to increase child and health care coverage for welfare recipients re-entering the workforce. But they also included a number of major experiments, sometimes local, sometimes state-wide, to test out controversial new reforms.

Room for manoeuvre

By the time of the 1994 State of the Union address, his room for manoeuvre had been limited by the ever more punitive proposals coming up from the states – Wisconsin’s two-year time limit on welfare and New Jersey’s family cap – and from Congress. His own first preference – a guaranteed minimum wage job scheme for the long-term welfare recipient – would cost big money (between \$20-25 billion) and nobody thought Congress would find those kind of sums for something as unpopular as welfare, even if it were in the name of ending welfare.

In June, the President finally came up with his own \$9.2 billion plan to make welfare “a stepping stone not a way of life”. The key feature was a two-year time limit on the receipt of welfare benefits, after which the recipients would be expected either to get a private sector job or to take a minimum wage community service job. To cut costs and reduce the number of jobs required, he proposed that the scheme should only apply to younger welfare mothers born since 1971 and that mothers with children under the age of one would be exempt. Other features included an expanded education, training and job search programme, enhanced child support enforcement (including much tougher penalties for ‘deadbeat dads’), a campaign against teenage pregnancies and legislation to facilitate the family cap. The money to pay for all this would come not from general taxes but from cuts in means-tested benefits to legal non-citizens – mainly elderly immigrants.

Whilst the plan might not add up to the end of welfare, it would introduce the strictest work requirements for people on benefits since AFDC was invented. The only question is whether Congress will buy something that already looks relatively moderate compared with some of the other proposals that are coming forward.

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Making work pay

11% of American workers – 5 million people – work full time but do not earn enough to keep them above the official poverty line. They are the working poor and they are also the people who most resent welfare payments to the non-working poor. Long before he became President, Clinton recognised that there could be no meaningful welfare reform that did not also do something for the working poor. Work had to pay more than the dole.

His greatest success on the poverty front so far has been to translate his election slogan "make work pay" into the biggest single increase in the Earned Income Tax Credit (EITC) since it was introduced in 1975. 10 million people will benefit. The cash refundable EITC will put an average of \$2,000 in the pocket of the low paid family with one child and \$3,700 into that of the family with two children in 1994. Together with Food Stamps, it will be enough to bring a family headed by a worker on the minimum wage up to the official poverty line. To put the dollars into percentages: the credit rate for working families earning less than \$12,000 (from which point, the EITC begins a gradual phase-out up to \$24,000) nearly doubles to a maximum of 26% for families with one child and 30% for families with two children (the figures will go on rising to 34% and 40% respectively in 1996). Further, in recognition that low pay is not just a problem for low paid workers with children, the EITC is to be extended to childless low paid workers between the ages of 24 and 65 albeit with a maximum credit of just \$300.

The General Accounting Office's analysis of the expanded EITC estimates that it will reduce the impact of Federal income tax and Social Security tax from 14% to 1.2% on the poorest workers in the EITC phase-in range, from 13% to 3.5% on those earning between the main EITC bands (\$7,500 - \$12,000) and from 14% to 7.8% on those in the phase-out range. The EITC went through a gruelling budget process in 1993 virtually unnoticed and consequently unscathed, but it will be the best thing Clinton does for the poor.

The one disadvantage of the EITC, and one which the administration is

working on, is that it is only payable in a lump sum after the tax return has been filed in April. In other words, it does not do much for family cashflow since most low paid families need a regular income each week rather than an Easter bonanza. But the advantages far outweigh the disadvantages. First, it rewards work: you can't get it if you are not working. Secondly, it is good for all kinds of families because it is based on the size of the household rather than their status as a single parent or two parent unit (unlike AFDC). Thirdly, it is as targeted on the relevant group as any transfer can be: it benefits everyone below the threshold and no-one above and does so without creating stigma because everyone has to file a tax return. Even before the Clinton revolution, take-up was 80 to 90%; no means-tested cash benefit comes remotely close to that kind of success rate.

Unfortunately, only six states have their own equivalents of the Federal EITC to offset the impact of state income taxes on the working poor (Minnesota, Wisconsin and Vermont have fully refundable credits, whilst Iowa, Maryland and Rhode Island have non-refundable credits). 24 of the 42 states which have an income tax still tax people earning less than the poverty line. There is nothing the President or Congress can do to oblige these states to introduce their own EITCs but few things would increase the work incentive or aid the working poor more than for the states to follow suit.

Why not the minimum wage?

The other way of making work pay would have been to increase the Federal minimum wage and many expected the first Democrat President in a dozen years to order a substantial hike in the rate (currently, \$4.25 per hour £2.85). After all, when Jimmy Carter was President, he increased the minimum wage to the point where it was sufficient to lift a family of four headed by a full-time worker over the poverty line. So why didn't Bill Clinton?

The minimum wage lost out politically because any substantial increase – and it would have had to be large to make up for the 24% real cut in the real value of the minimum wage since the mid-1970s – would have courted the accusation that it was risking jobs. That was a price a new President, elected on a minority of the vote to do something about unemployment and low growth, could not pay. Thus, with surprisingly few objections from organised labour, the minimum wage is being left to stagnate and with it the example it sets to the states, who have the right to fix a higher rate if they so desire (only DC and five others actually do set higher rates).

The minimum wage also lost out to the EITC on public policy grounds because the latter looked like a better way of targeting poor households: whereas the EITC only goes to households with low incomes, an increase in the minimum wage would also benefit many families with average or even above average incomes, which happen to have a low-paid member. Whilst defenders of the Federal minimum wage, as a means of underpinning the labour market

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and preventing competition by wage-cutting, remain numerous, within the administration there are few advocates of using it as a way of tackling income inequalities. The minimum wage isn't dead but it isn't kicking either.

The cost of childcare for those in work is scarcely defrayed by the Dependent Care Tax Credit (DCTC), which is worth an average of \$600 per annum to each household. Unfortunately, the DCTC is of little use to the poor, working family because it is non-refundable, so that you can only benefit if you are paying enough tax in the first place. That leaves the working poor with the rare possibility of publicly subsidised childcare, most of which is reserved for people coming off welfare and back into work.

Such a Catch 22 could have been resolved by making the DCTC refundable and increasing its value, but the administration preferred to concentrate on expanding the EITC for the working poor rather than expanding the DCTC for the average middle class family. Given the increasing demand for good quality childcare, it is hard to believe that the DCTC will not be revisited at some future date. The alternative would be some form of universal public childcare system, funded by the government, and it is hard to imagine most Americans preferring that to a tax break.

As part of his plan to increase work incentives, particularly for single parents, Clinton proposes to tighten up child support by requiring hospitals to establish paternity, denying drivers licences to fathers who fail to pay, and making the first moves towards a federal system of child support collection, distribution and enforcement. "If you're not providing for your children, we'll garnish your wages, suspend your license, track you across state lines and if necessary make some of you work off what you owe" as he put it.

Although by no means all single-parent families are poor, the incidence of poverty is much higher than in two-parent families. Life is doubly hard if the ex-partner is not contributing to the cost of having children and, in America, 40% of single parent families have no child support order (CSO) at all and, of those who do, fully a half do not receive the sum awarded by the court, often because the partner has crossed the state line into a different jurisdiction. Only one in five of young unmarried mothers receive child support payments from the absent father.

However the President is probably exaggerating the benefits of tightening up CSOs. It is hard to believe that there is another \$34 billion just waiting to be re-directed from high-spending ex-husbands to hard-pressed mothers (in addition to the \$13 billion which is already collected). Many fathers will have taken on new family responsibilities perhaps through re-marriage and taking from them may hurt the second family more than it benefits the first. In any case, as the chequered history of the Britain's Child Support Agency demonstrates, post-divorce arrangements which apportioned property and wealth, as well as income, are unpicked at their peril.

Nor is it easy to believe that the financial problems of working and non-work-

ing poor families could be solved by better child support arrangements. The fact is that poor families usually have poor absent parents. Chasing a low paid or unemployed father – Clinton's "deadbeat dad" – across state lines may satisfy a sense of natural justice but it will not make the difference between poverty and the average lifestyle for the poor family.

Childcare and health

There are two other major hurdles for the poor to jump if they are to make work pay in America: childcare and health care. The Clinton welfare plan provides for a modest increase in spending on means-tested daycare for both those on welfare and the low-paid. Once again, the Clinton approach recognises that you cannot hope to build public support for better provision for the non-working poor and not do the same for the working poor. But it falls well short of treating childcare as a universal necessity – like school age education and increasingly further & higher education.

His ambition for health is much greater: universal health coverage, if – and it is a big if – Congress can be persuaded to pass his health security bill. Lack of health coverage probably ranks higher than either low wages or lack of childcare in explaining the decision which some single parents make to stay on benefit rather than take a job. At least on welfare, you and your children get Medicaid. As President Clinton said in his Union message "one million people are on welfare today because it's the only way they can get health care coverage for their families". Taking health care out of the equation for working and non-working poor alike would be a major welfare reform.

There may only be a short distance between the low paid worker, struggling to keep his or her family out of poverty, and the unemployed parent on welfare; but there is a gulf between the two as far as the American public and politicians are concerned. On the one side stands the deserving, working poor, on the other the undeserving, welfare poor. President Clinton recognised that you can't do anything for people on benefits unless you also do something for the one in ten working Americans who do not earn enough to keep their heads above the poverty line. Work must pay.

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From welfare to work

Leaving aside all the high-flown rhetoric about moving from welfare dependency to self-sufficiency, the main aim of the Clinton welfare reform package is to move people off the dole queue and back into some kind of paid work.

First, that means encouraging welfare recipients to top up their benefits by taking part-time work. At present, AFDC recipients who wish to top up their AFDC benefits by undertaking some paid work face a formidable poverty trap: any additional earnings will result in close to a dollar-for-dollar withdrawal of their AFDC grant (and remember that the average AFDC grant for a family tends to be around 40% of the federal poverty line). In future, he is proposing to allow welfare recipients to "fill the gap" between their benefit and their state's standard of need by taking part-time work – currently, 35 states set AFDC benefits lower than their standard of need.

Yet despite this disincentive to work (and bearing witness to the strength of the American work ethic), recent research has demonstrated that two out of five welfare mothers worked for "a substantial number of hours over a two year period". Some of the women cycled on and off welfare, depending on how good the pay was (and the current state of their child and health care arrangements), whilst others combined part-time work and benefits (illegal if they earned more than \$30). Further research showed that whilst 51% of poor single parents worked at some point during the year, only one in eight worked full time. The Institute for Women's Policy Research common-sense conclusion was that, as most single mothers seem to prefer part-time work to full-time work (so that they can combine work and caring for their children) and as few jobs pay enough to get out of poverty, the policy issue should not be how to force mothers off welfare and into work but how the "packaging of paid part-time work and AFDC" can be facilitated.

Filling the gap makes sense because it reconnects welfare and work but there should be no illusions about what it can do. It will lead to more people combining part-time work and welfare openly and honestly and to higher net incomes for those who do; but it will not abolish poverty. Most of the jobs are just not well enough paid for that and, if they were, most AFDC recipients would be leaving welfare altogether. Nor will it do much to iron out the grosser inequalities

between the states. Only the adoption of a federal minimum benefit for AFDC, which states could supplement if they wished, would do that (following the precedents set by both SSI and the minimum wage). But that is not even on the table.

The second aspect of the welfare to work programme is providing recipients with the tools required to find and retain a job. People on welfare generally have lower education and skill levels than those in work and the gap is biggest amongst unemployed teenagers, who are also the most likely to become long term welfare recipients. President Clinton's aim is to build on the 1988 Family Support Act (FSA), which addressed itself directly to the human capital needs of the non-working poor and provided them with the necessary childcare and Medicaid back-up. The Job Opportunities and Basic Skills (JOBS) programme was set up to provide 20 hours or more of basic education and training to those deemed eligible. As was to be expected in a programme planned by the Federal government but administered by the states, the JOBS programme looks very different from state to state and often has a different name. In a few states, such as Oregon, it offers high quality education and training to equip welfare recipients for better paid, skilled jobs but, in many more, it amounts to little more than learning the basics for a job interview: how to prepare a CV, arrive on time, dress appropriately and talk properly. Useful but not the difference between a skilled and an unskilled job.

The problem with the FSA, as Senator Daniel Patrick Moynihan, architect of the 1988 Act, never tires of saying, is that it was never fully implemented. The states only draw down two-thirds of the matching federal funds available for the JOBS programme and barely 15% of eligible recipients actually participate. Of those who do, 11% are on work experience programmes, 30% on training schemes and 40% back in education.

The President's welfare plan would expand the number of places available on the JOBS programme with a view to providing a placement for everyone who was eligible and would codify much of what is good in the 1988 Act. Every JOBS scheme would have to produce a contract between the welfare recipient and the state government, laying down everything from required punctuality, reliability and appearance to the precise contents of the education and training programme. Case management, childcare and Medicaid would be available as required.

There is much to applaud in any improvements to the JOBS programme – especially those which target the teenager on welfare – but expectations that they would lead to a permanent reduction in the welfare rolls would be misplaced. Early assessments of the JOBS programme, most notably those by the Manpower Development Research Corporation of California's GAIN programme and Mathematica of New Jersey's REACH programme, have produced mixed results. Whilst there was modest but real success in getting JOBS participants into employment, most of the jobs were low-skilled and paid only

marginally more than those obtained by non-JOBS participants. Moreover, and soberingly, for every person who quit the welfare rolls, there was a replacement drawn from the ranks of the unemployed. The JOBS programme's main benefit may well turn out to be the intangible but nonetheless important one of helping reverse the downward spiral of self-confidence, which is the usual accompaniment of any prolonged period of joblessness.

Ending "welfare as we know it"

The final strand of the President's welfare to work proposals – his plan to "end welfare as we know it" by offering a job guarantee after two years on benefit – is the one which has caused him most grief. The financial problem is that any kind of a half-sensible proposal would cost big money – and welfare reform was sold as a way of saving money not spending it, whilst the political problem is that his conservative opponents have seized on the rhetoric to suggest yet more cuts to the safety net.

The President's task force originally estimated that it would cost around \$5,000 per annum in childcare, transport and administration just to put a welfare recipient into a minimum wage community service type job or a subsidised private sector job. And there are around 1.2 million welfare recipients who have been on for two years or more at any point in time. Faced with these daunting figures, the task force was obliged to scale down its ambitions to offering places simply to the newest and youngest entrants – around 600,000 people a year. Only mothers of children less than one year old would be exempt and failure to comply would be met by cutting off benefits.

Workfare?

In the past, strict work requirements have proved counterproductive. Just like good job search, training and education programmes, good work schemes are expensive to provide and there seems little to be said for wasting scarce resources on the unwilling and incapable when there are so many who are want paid work and would relish a second chance. That said, it should be clear that President Clinton's mandatory work programme is not workfare: after two years on welfare, recipients would move on to a paid job, whether a subsidised private sector job or a government sponsored community service job but would not work for their welfare benefits (the essential feature of workfare).

Contrary to some expectations, Clinton's welfare plan does nothing to encourage workfare, which in any case has always been more of a slogan than a reality in the States. The case against workfare is not so much that it forces the workless to do something against their will – although coercion is not usually a great motivator – nor that it appears to do little to build hope, confidence and self-respect amongst the conscripts. Rather, it is expensive to run and the money could be better used elsewhere.

Extreme

The President's approach looks moderate compared with what some states are coming up with. Wisconsin's "Work Not Welfare" proposal will cut off all welfare benefits after two years in two selected counties, starting in 1995. In a bizarre game of political chicken, the Republican Governor, Tommy Thompson, and the Democrat legislature also decided to abolish AFDC across the state in 1998, without having begun to discuss what if anything should take its place. Despite the publicity, the Work Not Welfare waiver will not tell us very much about reforming welfare because it is a small experiment in a relatively prosperous area. It expressly excludes Wisconsin's largest city, Milwaukee, which is home to over half of the state's welfare population and has nearly double the unemployment rate of the rest of the state (6%). No amount of private sector co-operation and government-led job search could put all those people into work after two years.

The whole notion of a time limit is based on a misunderstanding of the motivation of the welfare poor. Most are not work-shy. Few single parents prefer life on welfare to a job which pays enough to bring up a family with the appropriate child and health care. That is why half of all new entrants to welfare exit within 12 months and why nearly three-quarters do so within two years. Admittedly half of these will be back on welfare within five years but that simply demonstrates that few of the jobs offer a good enough package of pay, healthcare and childcare to make them a rational choice for the poor family.

The two-year limit also looks arbitrary: only 15% of recipients stay on welfare for five years or more and fit the popular image of the welfare-dependent. And it could be argued that many of them are so remote from the work mainstream – through depression or addiction – as to be off the welfare-to-work continuum. Far from pushing them into generally expensive make-work schemes, it might be wiser and cheaper for the Federal government to take responsibility for them as they do for those who are blind or disabled and to widen the eligibility criteria for Supplemental Security Income.

If it gets through, President Clinton's job guarantee scheme will have to be judged on its results. If it is successful (and to have any real chance of success and status it would have to be run not by the welfare departments but by the labor departments), it could give long-standing welfare recipients President Clinton's second chance: a job with a pay cheque, dignity and hope. At its worst, it will go the unlamented way of the last such job creation scheme, President Carter's CETA, which was abolished by President Reagan in 1981 after eight years of leaf-raking and minor scandals.

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Moral engineering

It seemed that no sooner had President Clinton adopted the idea of a two-year limit than his conservative opponents moved the goalposts. They used to say that the main problem with welfare was the way it undermined work incentives and bankrolled dependency. Now they say that the real problem is that welfare undermines family values.

William Bennett, Education Secretary under George Bush and a would-be Republican candidate for President, wrote recently that "the worst problem with welfare today is not that too many unmarried women are not working; the worst problem is that too many unmarried women are having babies" (*Washington Post*, 30/3/94). Noting the rising curve of illegitimate births over the last 25 years – more than one in five white babies and three in five black babies are born out of wedlock – Charles Murray, author of *Losing Ground*, the conservatives' bible of family breakdown, says quite simply that "illegitimacy is the single most important social problem of our time". Dan Quayle, the former Vice-President, blames illegitimacy for welfare dependency, drug addiction and crime.

Murray, whose influence on the American debate cannot be over-stated, has proposed the most drastic (if logical) solution – the complete abolition of welfare so as to discourage single parenthood and teenage pregnancies. He would give current AFDC recipients 9 months to make other arrangements and at the end of the period there would be no more payments. If single parents should prove unable to support themselves and their families, their children should be taken into "luxury" orphanages, paid for by private philanthropy. The government would be doing the right thing and saving large sums of public money.

Nor is it a party matter. The President's key advisers glide from understandable concerns about the rising rate of teenage pregnancy (teenage mothers are much more likely to stay on welfare indefinitely) and the greater incidence of poverty amongst single parent families (single parent families are five times as likely to be poor as two parent families) to echoing the conservatives on the dangers of illegitimacy, separation and divorce (Galston and Kamarck in Marshall and Schram). Thus the US debate centres not on the well-being of the

children but on the moral shortcomings of their undeserving parents.

President Clinton's nod in this direction is his plan to oblige teenage mothers to go back to their parents on pain of losing their welfare benefits (neither he nor any of his critics seems to be suggesting that the teenage fathers should be forced back into the home, logical though it would be). There is little to be said for this: the last thing many teenage mothers – and their babies – need is to be reunited with the parents who pushed them out of the home or whose abuse caused their departure in the first place. If the aim is to break the cycle of teenage pregnancy, single parenthood and poverty in the inner cities, teenage mums need new family models not old ones.

But the President's moral engineering is mild compared with what is coming up from the states. The best known is New Jersey's "family cap", which would automatically withhold benefits from children born whilst the mother is on welfare. The effect of this would be more mean-spirited than life-or-death: it would mean \$64 per month less for the mother who has a second child on welfare in New Jersey. In the words of Wayne Bryant, the black Democrat who shepherded the proposal through the legislature: "Why should people on welfare be guaranteed a raise when they have additional children...If a person wants to enlarge their family while on welfare, they should go to work to support the additional children like any working family".

But the plain fact is that the family cap will make children pay the penalty for their parent's failure to follow the rules. The legality of this decision has been challenged in the courts and judgement is awaited, watched anxiously by a growing number of states who want to follow suit. Arkansas and Georgia already have approval from the Federal government for their own family caps; California, Maryland, Virginia and Wisconsin are waiting.

Breeding

Underlying both the family cap and the conservative call for the total abolition of welfare for single parent families, is the idea that benefits encourages single parents to have more children. Yet, try though they have, no-one has been able to demonstrate any kind of a causal relationship between the level of public assistance and family size. Whilst the decade from the mid-60s saw rising rates of both AFDC payments and illegitimacy, the period since then has seen a widening gap between the two with AFDC falling in real terms and illegitimacy continuing to rise. In any case, the states with the lowest level of welfare benefits tend to be the ones with the largest families: Mississippi pays the lowest benefits of all but has the highest proportion of families with four or more children. Moreover, if there is a trend, it is towards smaller families. Twenty five years ago, a third of welfare families had four or more children, today the figure is under 10%.

Even if you accept the view that illegitimacy and single parenthood are problems, rather than symptoms of changing family patterns across much of

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the western world, there are no easy solutions. First, the institution of marriage, contrary to conservative mythology, does not guarantee stability for ever after, any more than non-married partnerships. Whilst one in three births in Britain are out of wedlock, 40% of them are registered by two parents, living at the same address and three quarters are registered by two parents (the non-married two parent family is much less common in the United States than in Britain). The issue should not be whether the parents are married or not but what can be done to increase the percentage of births where two parents declare their responsibility.

Secondly, most children, if asked, would prefer one stable parent to two unhappy ones. Government should not pit two parent families against single parent families but assess what can be done by the community to support children in whatever family context they find themselves – a child rather than a parent centred policy.

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The success of American Social Security

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America's jumble of means-tested benefits, including AFDC and SSI, owe far more to the continuing popularity of individualistic explanations of poverty than they do to structural explanations, which would imply the need for a more comprehensive assault on inequality. They also attest to the reluctance of most Americans to shell out serious money for the poor, without being sure whether they are deserving or not. That said, it has not been all one way: the creation of universal benefits for the elderly, such as Social Security (the state graduated old age pension) in 1936 and Medicare in 1965, and the ongoing debate about President Clinton's plans for universal health care, demonstrate that the American people can be persuaded to adopt policies which have the effect of increasing everyone's sense of social security and of simultaneously alleviating poverty.

Yet, paradoxically, Social Security is coming under attack today both on grounds of equity and of cost. Looking at the recent growth in occupational and personal pensions amongst the population as a whole, some liberals see no good reason to go on paying pensions to the better-off and would like to target them on the poor (echoes of Britain). Equally, some gloomy economists, looking at official and unofficial projections for the solvency of the Social Security Fund, believe that the system is becoming unsupportable (though the Fund currently runs such a vast surplus that it is lending to the Federal government to help pay for the budget deficit!).

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Thanks to Ross Perot, who made an election issue out of why a rich man like him should collect Social Security in his old age, there is a chattering class misconception that Social Security primarily benefits the upper middle class. That is not so. Two thirds goes to households with an income below \$30,000 (the American median wage is \$31,000 per annum) whilst only 2% of Social Security goes to people earning over \$100,000.

Mr Perot might wish that Social Security were more redistributive, although one doubts that is his real intent, but he could achieve that objective by converting Social Security Tax from a flat rate to a progressive tax, by getting rid of the contributions cap and, at the other end, by reducing the thresholds for taxing the better-off in retirement (currently retirees pay tax on 85% of their Social Security benefits above \$34,000 per annum for an individual and \$44,000 for a couple). It is not necessary to abolish the principle of universality on which Social Security is based – everyone paying something in and everyone getting something out – to make the system more redistributive than it currently is.

The other great misconception is over the cost of Social Security which congressional deficit hawks say is out of control. Not true, either. Whilst the cost of Social Security climbed fast in the decade up to 1975, it has flattened out since then: the average annual increase has been 1.6% since 1975, which contrasts favourably with the average 7.3% increase in the cost of Medicare and Medicaid in recent years and with the growth in the Federal budget deficit. As President Clinton keeps saying: the real problem is health care.

In any case, Congress has shown itself surprisingly willing to grasp the nettle of ensuring long term solvency. The 1983 Social Security amendments froze cost-of-living adjustments for six months, made benefits taxable for above average earners for the first time and pushed back the retirement age to 67 in 2027. Indeed, there is the prospect of further retrenchment now that the House Ways and Means Committee has joined the would-be trimmers. The possibilities include a further reduction in taxability thresholds for Social Security beneficiaries, the bringing forward of the higher retirement age to 2016, increases in employer and employee Social Security Tax rates (currently 6.2%, they would rise to 7.35% and later to 8.15%) and, more contentiously, a reduction in the actual benefits paid out to retirees on higher incomes.

American Social Security is a universalist success story. It was designed to give everyone the assurance of a reasonable pension in old age and, as a by-product, it has slashed poverty amongst the elderly. 12% of senior citizens are poor today, which is half the figure of 25 years ago (the figure would rise to nearer 45% according to the AARP if it were not for the existence of Social Security). AFDC, on the other hand, was explicitly designed to alleviate poverty amongst single parent families with children but it has had a minimal impact: AFDC lifts fewer than 1 in 20 out of poverty.

American lessons?

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Promising to reform welfare has become something of an American presidential tradition since President Nixon first proposed to sweep away AFDC and to replace it with a negative income tax. But nothing ever seems to change though the political rhetoric becomes steadily more punitive. The poor continue to say that welfare is ungenerous, intrusive and stigmatising, whilst the taxpayers complain that it undermines the incentive to work and rewards indolence. Liberals say the system does nothing about poverty and conservatives complain that it is breaking up the family.

But for all the criticism, the welfare system is a safety net for America's poorest families. Get rid of it and it would only have to be reinvented in some other form, since most Americans do not want to see poor children on the streets. The most important charge against President Clinton's handling of welfare reform is not that he is being nasty to the poor but that by promising far more than he could ever deliver he has played into the hands of the conservatives, who have always opposed a safety net for the poor. Unfortunately, Congress is likely to be more influenced by the conservatives than by the President in its current mood.

The most important lessons for Britain from the American debate about welfare and entitlements are about the principles and practice on which sound reform should be based:

- Good welfare reform costs money. Both traditional left solutions such as higher benefits and more childcare (and wider health coverage in the US) and new left education and training programmes to prepare people for work mean higher public spending. The cheaper alternatives are all essentially punitive – from workfare to the family cap.
- Thus President Clinton has had to scale down his ambitions from a \$25 billion scheme to "end welfare as we know it" to a modest \$9.3 billion scheme

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for expanding existing education and training opportunities and creating a minimum wage job guarantee for long-term welfare recipients under the age of 25. Even that sum of money looks hard to find at the moment, hence the rob-Peter-to-pay-Paul proposal to remove means-tested benefits from recent immigrants and legal non-citizens. President Clinton is in grave danger of neither ending welfare nor reforming it.

- Work must pay. Welfare reform has always suffered from falling between good policy and good politics. Good policy means alleviating poverty and giving people a second chance, both of which are likely to cost more money, but good politics means that those who are workless cannot be seen to be better-off than those who are in work.
- President Clinton's increase in the EITC suggests that the best way to help the low paid is through the tax system. There has never been any stigma in drawing the full range of tax deductions, allowances and credits. Indeed, the wealthy have made an art form of it. In considering the needs of poor working families (and as part of a greater integration of tax and benefit systems), Britain should examine the advantages of the Earned Income Tax Credit, which goes to over 90% of eligible working families in the US – a figure with which no means-tested cash benefit, including Family Credit, can compete. In the meantime, raising the tax threshold to help the half a million people brought in to the tax net in recent budgets would be a good start.
- Work and welfare should strengthen the family. Many of those who are most dependent on benefits in both countries could not expect to earn enough to keep themselves and their families above the poverty line even if they could find a full-time job. In any case, their ambition is to reconcile family responsibilities – the care of young children, elderly or disabled dependents – with part-time work – not necessarily to work full-time.
- President Clinton's proposed increase in the earned income disregard for single parents is designed to make it easier to combine work and welfare. John Hills has estimated that poor working families on Family Credit pay a marginal tax rate of 70% on any increase in earnings and that poor non-working families on Incomes Support lose 100% of their earnings after the first £5 is disregarded. Increasing the disregards and merging Family Credit and Income Support would reward the honesty of those on benefits who declare paid work and look after their families.
- Neither full-time work nor a combination of part-time work and social security benefits can pay without affordable and available childcare. The socially inclusive solution to the problem of making work pay for working parents in Britain – without creating a permanent two-tier system based on income – is universal access to childcare in its many forms. It can't be

done for free but the good news is that there are votes in childcare as President Clinton discovered to his benefit in 1991.

- There is no substitute for a real job – and the US is better at creating them than Europe. In the end, the transition from welfare to work depends more on the supply of jobs than it does on the motivation of the non-working poor. Contrary to conservative wisdom, most people would rather work and have more money than not work. It follows that education and training for welfare recipients can do some good but it cannot do miracles. The American example suggests that concentrating resources on younger people, who are in most danger of spending a life on benefits, is most productive.
- There is no point in wasting public money on obliging the unwilling to undertake education and training when other young people are queuing up for such opportunities. Nor is there much to be said for workfare, given the high costs of setting up and running such schemes and the absence of any clear improvement in the self-image of the young unemployed person. It would be cheaper for the taxpayer and better for the welfare recipient to use the money to improve the quality of education and training or to increase the cash benefits. Workfare only creates real jobs for those who run it.
- Universal benefits, such as pensions, have immense advantages over means-tested benefits. Not only are they more popular (because everyone has paid in and everyone takes out) but they are better at targeting the poor, to which both American Social Security and the British state pension attest. Means-testing necessarily separates the poor off from the rest of society, reduces the area of common experience and, thanks to stigma, usually leads to a low take-up of benefits by the poor themselves. The key issue in the British debate about pensions is not whether the system is public or private, graduated or flat rate - the basic and earnings related state pension are likely to co-exist indefinitely - but how a minimum pension, which takes account of rising living standards, can be guaranteed to every citizen.
- The most popular social security benefits in both countries are those based on dedicated social security taxes. Means-tested benefits, financed out of general taxation have never had many supporters. National Insurance is the day-to-day embodiment of the British welfare state: you pay into it not because you need it today but because you want it to be there for tomorrow. Whether National Insurance should continue to be contribution-based (albeit re-drawn to include part-timers and the self-employed) or should simply become a dedicated social security tax for social security is less important than maintaining it as a separate levy. The left would undo National Insurance at its peril.
- The viability of the British and American welfare states is a matter for voters not accountants. The American debate is a reminder that govern-

ments should not be panicked into ungenerous and unnecessary cuts in their welfare states by doomsday forecasts of economic and demographic trends. American politicians resist the siren voices who say that their Social Security system cannot be afforded and will go broke sometime in the next forty or fifty years. So should the Social Justice Commission.

The right has long argued that the welfare state undermines work incentives and encourages benefit dependency; recently they have added the charge that it is responsible for rising rates of illegitimacy and single parenthood. But there is precious little evidence on their side. Unemployment and low pay have far more to do with the numbers in poverty than the generosity of the benefit system and the changing family structure seems relatively impervious to government action.

But criticism of the welfare state has not been a right-wing preserve. The old, Fundamentalist left accused the welfare state of doing little to address the inevitable inequalities of a capitalist society. Some went further and argued that increasing government activism and public spending had more to do with social control than social justice – a typically patronising and superficial view of the real world, as well as being one into which the facts scarcely intruded.

By the late 70s, the welfare state seemed to have more critics than advocates and the way was open for Mrs Thatcher to overturn the traditional Beveridge model and shift Britain towards a more individualistic, American model. In a time of relative economic prosperity, few realised that such change would entail an increase in social insecurity as more and more people found themselves depending on means-tested safety nets designed for the very poor.

But, contrary to the fatalism of modern Conservatives, it doesn't have to be like this. We have to decide how much poverty and inequality we will tolerate, whether we would rather base our social security system on inclusive, universal principles or means-tested safety nets, if we want people to work at any price or to support their families. In sum, whether we want a fairer society or not.

Further reading

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American/English Glossary

Aid to Families with Dependent Children (AFDC) - Federal/state means-tested benefit for single parent families. The states define needs and set the benefits, which vary widely.

Earned Income Tax Credit (EITC) - a refundable tax credit, usually retrospective, for low paid workers with children.

Entitlements - popular term for non means-tested benefits such as Social Security and Medicare (but in law also includes means-tested benefits such as Medicaid, Food Stamps, SSI and the EITC, which must be provided to any citizen who meets the criteria). Nearest equivalent - universal benefits

Food Stamps - means-tested food vouchers for the poor.

"Family cap" - cutting off AFDC benefits to additional children born whilst the parent is on AFDC.

"Liberal" - left of centre. "Progressive" - nicer way of saying "liberal"

Medicaid - federal/state means-tested health care for the poor. The states define coverage and benefits and systems vary widely.

Medicare - federal health care for senior citizens and permanently disabled (over 65s).

New Democrat - centrist Democrat

Social Security - non means-tested old age pensions related to former earnings - federal.

Social Security Tax - payroll tax on employees (around 6% of earnings), matched by employers and also by self-employed.

"Social Welfare" - welfare state.

Supplemental Security Income (SSI) - Federal means-tested benefit for the blind, disabled and elderly poor.

Unemployment Insurance - equivalent to Unemployment Benefit/"Jobseekers Allowance". Payable for 6 months and related to former earnings and occupation.

"Welfare/welfare poor" - essentially pejorative, popular shorthand for the AFDC programme and beneficiaries.

"Workfare" - obliging beneficiaries to work for their benefits.

* See also Table 1, Welfare Jargon, p5.

Recent Fabian Publications

Infertility, feminism and the new technologies. *Sally Keeble.* Pamphlet No 566. £3.50 July 1994. Argues that the traditional feminist stance against the reproductive technologies is misguided and that such treatments should be more widely available on the NHS.

Towards a social economy – trading for a social purpose. *Peter Welch and Malcolm Coles.* Pamphlet No 564 £3.50 May 1994 Outlines the European concept of the 'economie sociale' and argues that it is a useful tool for the Left in escaping from the public/private debate.

Fair Is Efficient – a socialist agenda for fairness. *Gordon Brown MP.* Pamphlet No 563 £3.50 April 1994 Analyses inequality in Britain and concludes that socialism and equality are the pre-requisites of economic efficiency.

What Price a Safe Society? *Proceedings of the 1994 New Year Conference.* Pamphlet No 562 £5.00 April 1994. Collected essays on crime and punishment.

Beyond the Town Hall: reinventing local government. *Margaret Hodge and Wendy Thomson.* Pamphlet No 561. £3.50 February 1994. Argues that local government should once act as a conduit for change and a focus for local pride.

More Southern Discomfort: a year on – taxing and spending. *Giles Radice and Stephen Pollard.* Pamphlet No 560. £3.50. September 1993. Looks at attitudes to the Labour Party in the South of England and proposes ways of attracting floating voters back to the party.

All for one: the future of the unions. *Philip Bassett and Alan Cave.* Pamphlet No. 559. £3.50 August 1993. Argues that unions must emphasise the individual rather than the collective if they are to survive.

Private Pensions for All: squaring the circle. *Frank Field and Matthew Owen.* Discussion Paper No 16. £10. July 1993. Proposes universal, compulsory private pensions.

Available from the Fabian Society, 11 Dartmouth Street, London, SW1H 9BN. Please make cheques payable to the Fabian Society.

Reforming Welfare: American Lessons

Britain and the United States are both in the middle of fierce debates about the future of the welfare state. But whereas the debate in Britain centres on the affordability of the welfare state, the debate in America focuses on the morality of "welfare". Critics of varying political complexions have long charged welfare with undermining work incentives and encouraging welfare dependency; now, a new wave blame it for the breakdown of the American family.

Simon Crine, who spent a year in Washington following President Clinton's attempt to reform welfare, argues that whilst we should resist the excessive moralism of the American debate there are some valuable lessons which hold good for both countries:

- Good welfare reform costs money
- Work must pay
- Work and the benefit system should strengthen the family
- Work and welfare can't pay without affordable childcare
- Nothing beats a real job – and certainly not workfare
- Universal benefits target the poor more effectively than means tested benefits.

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