Welfare and Work

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LECTURE I. GUESS WHO LIKES WORKFARE

I am sure that some of you are bemused by the almost oxymoronic character of the occasion. No doubt you recall Edmund Burke's gloomy thought that "the age of chivalry is gone, that of sophisters, economists and calculators has succeeded; and the glory of Europe is extinguished forever." You feel, wearily, that you know what he meant; it's that bad. A lecture, no, two lectures on "human values" by an economist: one might as well invite a turkey buzzard to lecture on table manners. How would the poor beast know where to start?

I have to admit that many of my professional brothers and sisters do exhibit what Thorstein Veblen would have called a trained incapacity to deal with human values in an unembarrassed way. But a concern for human values cannot do without economics. J. M. Keynes remarked that economists are not the guardians of civilization, but they are the guardians of the possibility of civilization. His Cambridge contemporary, Dennis Robertson, once gave a lecture entitled "What Do Economists Economize?" His answer was love. He had in mind that altruism is scarce; there is never enough to go around. The function of economics is to devise social institutions that make it possible to economize on altruism and still live tolerably. Competitive markets, *when they function well,* are such an institution, with the remarkable capacity to transform individual actions motivated by simple greed into "efficient" and thus in some ways socially desirable outcomes. Then the limited supply of altruism can be saved up for those occasions when markets do not work well, or for those others when markets do their job but still leave us with outcomes that 51 percent of us —61 percent in the U.S. Senate —would like to improve, even at some personal cost to ourselves.

Robertson did not say, perhaps because he was not a middle-class American, that even if there is some leftover altruism available, its use may be unhealthy. In a society that places a high value on self-reliance, being the regular beneficiary of altruism may be dangerous to one's moral health. It can lead to unresisted dependency. That is no doubt one of the reasons why it is said to be better to give than to receive. (There is some moral danger in the other side of altruism too. *Noblesse oblige* is not always an attractive attitude in a seriously plebeian society.)

The general topic of these lectures —*welfare and work* —falls naturally into this category of questions. Unadulterated market outcomes leave some fraction of citizens, often including numbers of children, deeply impoverished; the question is what to do about that collectively, if indeed anything should be done. For some purl poses it is important to know whether extreme poverty arises from a failure of the market mechanism or whether the system is working well but with unpromising raw materials. In one case the best long-run course might be to fix the market mechanism; in the other, the choice is between altruism and nothing. A lot of economics is about that large question, but I will enter on it only when it is directly relevant to the particular issues I want to discuss.

My aim in these two lectures is to locate the work-welfare alternative at the intersection of two social norms or virtues or "human values": self-reliance and altruism. My main point today is going to be that the total or partial replacement of unearned welfare benefits by earned wages is the right solution to the problem of accommodating those virtues in the kind of economy that we have. Welfare recipients will feel better because they are exhibiting self-reliance. Taxpayers will feel better not merely because less is demanded of their limited altruism but also because they can see that their altruism is not being exploited. The statement about taxpayers hardly needs arguing, so I will take it for granted. But I shall spend a lot of time today making the statement about welfare recipients plausible by describing the words and the behavior of welfare recipients themselves.

Tomorrow I want to argue that carrying out the transformation of welfare into work will be much harder and more costly (in the budgetary sense) than anyone who sees its virtues has yet admitted. The standard discussion rests on the tacit belief that all the problems lie on the supply side of the labor market; kennel dogs need merely act like bird dogs, and birds will come. But that is a Panglossian error. The number of jobs is not a constant, but neither is it likely to respond one-for-one to the number of offers to work. To the extent that it responds at all, it will be as a result of forcing already low wages even lower; and that is precisely why the social norm of altruism leads to the creation of welfare benefits in the first place. A contradiction or paradox seems to arise. There is a possible reconciliation, but it is not what current legislation envisions. So today my subject is welfare; tomorrow it will be work.

The United States has, like other rich countries, a complicated patchwork of devices for transferring tax revenues to poor people. The part of the system that is most often discussed pays cash benefits —welfare checks —mostly to single mothers and their children. There are other parts of the system — food stamps, Medicaid, housing allowances, and so on —but I will speak in a loose way only of welfare benefits, because I am interested only in one or two issues of principle, and not in the details. Everyone is aware that reform of the welfare system has been and may again be a hot, partisan political issue. The recently passed legislation was bitterly fought over, and neither logic nor fact-based analysis featured strongly in the debate. No one can say with confidence what will happen in practice. The outcome matters intensely to the people involved. When you get very close to the limits of subsistence, little differences bulk large. Nevertheless, these lectures are not intended as a comment on current legislation. The small number of arguments I want to pursue should be equally significant whether you were born a little liberal or else a little conservative, or so I hope.

The particular form now taken by efforts to reform the welfare system is to eliminate as far as possible the passive receipt of transfer payments and replace it by a requirement to work, either as a condition for receiving benefits or as a total substitute for receiving benefits. (There is also a movement to put limits to the length of time for which anyone can receive benefits, in contrast to the current rules that make eligibility —entitlement —simply a matter of meeting certain conditions. These proposals are actually more complicated in practice than they are made to sound in political rhetoric. In any case, they are not what I want to discuss; when I speak casually of "welfare reform" I will mean the intention to transform welfare into work.)

If it could be taken for granted that welfare reform in that sense would be accomplished in ways that are neither punitive nor degrading, then it seems to me that the routine substitution of work for welfare would be clearly desirable, indeed a necessary step toward what Avishai Margalit has recently characterized as "a decent society." The reason is straightforward, and it has to do with human values. "In our culture" a large share of one's self-respect derives from one's ability to make a living. It is never an insult, not even a sly one, to describe someone as "a good provider" or "a hard worker" or even as a reliable "meal ticket."

One could go further and appeal to less casual sorts of evidence. It is a standard finding from survey research that much of an American's felt identity derives from his or her job. Occupational level is perhaps the most important single index of status, as perceived by oneself and by others. The occupational category "welfare recipient" is definitely not high on the list of designations that make a person feel good about herself. This is an important enough point that I will take time to document it directly.

I will start a little distance from home and then come closer. The Canadian government is currently conducting an experiment it calls the Self-sufficiency Project, in two provinces, relatively prosperous British Columbia and relatively poor New Brunswick. The treatment being tested is not a compulsory substitution of work for welfare; it is an attempt to make work more viable for single parents. Those who choose to enroll in the program have one year in which to find a job or a couple of jobs that add up to thirty or more hours of employment per week. When they do, and for as long as they do for the next three years, they receive a supplementary payment that roughly doubles their earnings. The lower the wage, the larger the supplement. It is on a very generous scale as these benefits go.

The short-run intention is to make market employment into a more desirable option for welfare recipients with very low earning power, for some of whom unsupplemented work might mean an absolute reduction of income below what is provided by welfare. The long-run hope, of course, is that when the three-year time-limit is up, many of the beneficiaries will have increased both their earning power and their attachment to work enough to keep them in the job market and off the welfare rolls. The Self-sufficiency Project is a carefully planned, statistically sound experiment. Eventually we will have a pretty good idea of its effectiveness and its cost. But that will not be for several years, and it is not what I want to report now.

What I do want to report is some conclusions from interviews with Canadian welfare recipients conducted by the research team that is following the project (Wendy Bancroft and Sheila Currie Vernon, *The Struggle for Self-sufficiency: Participants in the Self-Sufficiency Project Talk about Work, Welfare, and Their Futures* [Vancouver: Social Research and Demonstration Corporation, December 1995]). The unavoidable impression is that most of the women find their current position shameful, degrading, embarrassing. They are aware of being looked down on. They report trying to hide from other people in the bank the fact that the check they are cashing is a welfare check. The verbatim reports contain passages like this: "People call you 'welfare scum.' They look at you —all you ladies here in this room know —they look at you as if 'Hey, you're dirt,' right? And it's a very horrible feeling." Or this one: "You go out to any social event and people ask you what you do for a living. . . so you say under your breath. . . [mumble]. A lot of people think of you as being either lazy, or you don't care, or you're not educated enough." There is no doubt that most welfare recipients feel like losers.

On the subject of work, the researchers report as follows: "First and foremost, work was seen as the route to feeling better about oneself and having more control over events in one's life." The women say things like: "You get up in the morning and you know what you're going to do . . . you're confident." "You feel useful." "You don't have your hand out." "Even though it's peanuts . . . at least it's mine." "You get more respect from others." Then why do they remain on welfare? (It is called Income Assistance in Canada.) Some, of course, are disabled, some are going to school, and some have made a conscious decision to stay home with preschool children. But they speak frequently of growing lazy, of having "a feeling of dependency that grows and grows." One of them said: "In the first few months of being on Income Assistance, you still have that incentive: 'I don't want to be doing this; I'd rather go out and get a job.' But when the job doesn't come, self-esteem gets lower. Then you realize, 'Oh, even if I do get a job, it's easier doing this.' And it does, it grows with time. You realize that you're pretty stuck."

There are no surprises here, unless you are one of those who think that all or most welfare recipients are happy-go-lucky exploiters of the system, or one of those others who think that the notion of dependency is the pure invention of unsympathetic right-wingers. The unshocking temporary conclusion I want to take from this recital is that a well-constructed substitution of work for welfare, provided it is applied humanely to those who are disabled or personally troubled, and provided it pays careful attention to the needs of children and the self-respect of adults, would be felt to be a step in the right direction by almost everyone, including those who would find their welfare benefits replaced by a requirement to work.

I chose to begin with the Canadian example partly to create a little distance, but more to elicit the reflex reaction: Ah yes, but those are Canadians (meaning "white people down on their luck") and therefore not relevant to our problem. Indeed, the Canadian sample has few if any blacks; the ethnic mixture contains about 10 percent "First Nations" and 5 percent Asian ancestry, more of both in British Columbia than in New Brunswick. Now comes the real point: there is exactly similar evidence from the United States. Beginning as long ago as 1983, states have been experimenting with work requirements for welfare recipients. In 1986, the Manpower Demonstration Research Corporation in New York interviewed a casual sample of participants in seven different states. Each of the states was operating a program of its own design, not all alike, but with a family resemblance to each other and to what would emerge from any current welfare reform. Unlike the Canadian experiment, these involved a mandatory work requirement, with sanctions for noncompliance. The states were New York, Arkansas, Virginia, California, Illinois, Maryland, and West Virginia, some high-benefit states, some skimpy. The interview sample was almost entirely female, predominantly black and Hispanic (except for West Virginia and, to a lesser degree, Arkansas).

There is a lot to be said about the job-readiness of the participants and other such characteristics. Here I want to report some attitudes, which seem to have been carefully elicited (Gregory Hoerz and Karla Hanson, *A Survey of Participants and Worksite Supervisors in the New York City Work Experience Program* [New York: MDRC, September 1986]. Across the seven states, 70 percent of those interviewed said that they were satisfied (either "strongly" or "somewhat" satisfied) about receiving benefits that are tied to a job, as compared with just receiving benefits. With some variation from state to state, again roughly 70–75 percent said that they felt better about getting welfare checks now that they were working for them.

More than 90 percent reported that they liked their jobs (most of which were subclerical or janitorial), and the same fraction looked forward to coming to work (to *those* jobs). Interestingly, fewer than a third thought that they had learned anything on this job. As a last touch, when asked whether they thought that they or the employing agencies were getting the better of the deal, three-quarters thought the employer was paying less than full value, 15 percent thought they were getting more than they were worth, and the remaining tenth thought it was a wash. So welfare recipients required to work feel more or less like the rest of us. The colonel's lady and Rosie O'Grady . . .

Another set of cross-state interviews was collected in connection with the Job Opportunities and Basic Skills or JOBS program established under the Family Support Act of 1988. (The field of welfare reform is Acronym City; I am waiting for the first attempt to solve the unemployment and health-care problems simultaneously by a new System for Turning Unemployed People into Doctors.) The difference is that this time single mothers were asked to make explicit comparisons of work and welfare and the choice between them (LaDonna Pavetti, *Learning from the Voices of Mothers: Single Mothers' Perceptions of the Trade-offs between Welfare and Work* [New York: MDRC, January 1993]). The source of the general preference for working was confirmed. "I am determined to get off welfare. They treat you as less than human. Nothing is personal. I am tired of having to be accountable to welfare for everything that I do." Or: "To be self-supporting, independent, the personal satisfaction, working will be better."

When asked about the disadvantages of working for a living, the women focused on financial incentives and child care. "I was worse off when I was working than I am now. My rent went up and I didn't get any food stamps. My food stamps stopped in the first week of working and they were going to take my Medicaid away. Plus I had to pay for part of the costs of child care. My rent went up from $34 a month to $109. My highest check was for $110 a week, so one whole check would have to go for rent. On top of that I had to pay for gas, light and phone. When they told me I was going to lose my Medicaid, I quit working." Another said: "There's no job out there that would support us enough. And I wouldn't be able to spend time with my son. I'm glad for welfare because I can stay home and watch him do everything for the first time. I'd miss that if I had to work all day. And it's ridiculous that once you start working you don't get any benefits. I have a friend who works full time, six days a week, and never sees her kids. I'd love to get off welfare, but I'm not going to miss my son growing up just to get off it."

I want to include two more statements from these interviews, not for soap-operatic reasons but because they emphasize factors that must figure in any general model of the possibilities of welfare reform. To explain her decision to enter a training program, one woman said: "I walk everywhere trying to find a job and I can't find nothing. I've been all over. I can't find anything. I go down to the welfare office to look at their computer for jobs. I go all the time, but there aren't any jobs listed. I'm going to start a job training program. I'd like to work as a receptionist. They tell me after six weeks, they'll find a job for me. But we'll see." Indeed we will; the world is not full of jobs waiting for an uneducated ex-welfare mother to turn up. Finally I will quote from a woman who had worked for fifteen years after having been on welfare for ten years. The source doesn't say why she had to return to the welfare rolls, but the suggestion is that she had lost her job. "Going back on welfare was a nightmare for me. It didn't bother me when I first went on because I had no choice. It bothers me now because I had become independent. It's much harder to turn around and go back. Once you're totally independent of welfare you say 'I'm never going to do welfare again.' "

So far I have concentrated on revealed attitudes because I want to weave them into a more abstract description of the sort of equilibrium represented by a work-welfare system. Before I come to that, however, there is a factual question to be discussed. The voices I have been quoting come from women who are already involved in workfare, so they are not among those who are or might be excluded from work by disability of one kind or another. How do the welfare rolls divide between those who can work, by some reasonable standard, and those who cannot?

Here I take my evidence from a careful study of GAIN (Greater Avenues for INdependence—I warned you), which is California's version of a JOBS program. GAIN was enacted in 1985. It operates in all fifty-eight counties of the state and is generally described as the largest, and one of the most ambitious, welfare-to-work initiatives going. The evaluation by MDRC studies six counties in detail and will eventually include a five-year post-program follow-up comparing employment, earnings, and welfare receipt for those exposed to the program with the corresponding outcomes for those in a randomly chosen control group.

As part of this larger study, MDRC looked at GAIN experimentals in three counties who had spent two years or more on AFDC during the three years after entry into the program. This group already excludes single parents who were initially exempted from the program's participation requirement because of chronic illness, severe disability, or the presence of very young children. It is thus weighted in favor of those eligible to work. See James Riccio and Stephen Freedman, with Kristen S. Harknett, *Can They All Work? A Study of the Employment Potential of Welfare Recipients in a Welfare-to-Work Program* [New York: MDRC, September 1995].)

Indeed, more than half of them (57 percent) did work at unsubsidized jobs, and another 30 percent participated in job-search and training activities under GAIN although they did not find jobs. Nevertheless, serious health and other problems were common in this group. The research team estimated that, on any given day, roughly one-fifth of this over-two-years group still on AFDC could not reasonably have been expected to work on that day, as a result of personal problems. If attention is restricted to the subset of the over-two-years group that never worked in the follow-up period, perhaps 27 to 38 percent of them could not reasonably have been expected to be at work on any given day. More than half of this group could have worked at some time, however. The research team concludes that although most welfare recipients — always excluding the clearly disabled and the mothers of very young children —could probably work at some time, many of them could not work steadily. Thus accommodating common, legitimate interruptions to work without harming families and children is a challenge to welfare reform.

It is worth separate mention that the group has at best low skills, so that most of them could qualify only for low-wage jobs, often unstable and without the standard fringe benefits. Other research (Harry Holzer, *What Employers Want: Job Prospects for Less-Educated Workers* [New York: Russell Sage Foundation, 1996]) starting at the employer's end of the market confirms that the jobs that tend to be available in central cities generally require capacities and credentials not possessed by much of the welfare population. The point to remember is that any considered attempt to substitute work for welfare will have to deal with a substantial minority of current welfare recipients who are capable only of sporadic work, and with a larger group whose earning power, even when fairly steadily employed, is very low by the standards of our society.

So far we have heard only from the receiving side of the welfare transaction. For symmetry one should explore the motives of solvent citizens (and their representatives) who vote to tax themselves to provide transfers to the working and nonworking poor. Luckily most of us are in that position, so we can conveniently ask ourselves. I do not pretend to any depth on this score; for my purposes, the impulse comes under the general heading of altruism, even if it includes an attenuated element of enlightened self-interest.

It goes without saying that these issues go back a long way. Charity, after all, is greater than faith and hope. It happens that just when I was drafting this lecture I was reading Professor Peter Brown's splendid *Power and Persuasion in Late Antiquity*. He describes how, in the fourth century, "the care of the poor became a dramatic component of the Christian representation of the bishop's authority in the community." The early Christian bishops assumed the role, not only of "lover of the poor," but of protector and intercessor for the poor with the looming authority of the emperor. (In contrast, a friend who studies these things reports that ancient Jewish law, although it insists on individual acts of charity, makes no provision for collective responsibility for the poor. Christianity marked a real change in this respect.)

I mention this not to pretend erudition, but as an occasion to show that some of the concerns of the modern welfare state were already present in the late Roman empire. Peter Brown tells of Firmus, a fifth-century bishop of Caesarea. One of Firmus's predecessors was the great Basil, whose many efforts on behalf of the poor included the building of a famous hospital and poorhouse. The poorhouse is mentioned in only one of Firmus's letters, in which "he declared his determination that it should not serve as a refuge for work-shy peasants fleeing from the estates of their owners." So welfare bums were a topic of conversation at the Club in Caesarea fifteen hundred years ago.

Closer to our time, the Victorians had a set of ideas about work and poverty, in some ways like our own and in some ways different. Perhaps Professor Gertrude Himmelfarb will say something about that in her comments. I find that I do not have the gall to stand in front of her and summarize notions that I have picked up mainly from reading her works, especially since I would risk having got them wrong. My comments ought to come after hers, not before.

To conclude this lecture, and to set up the next one, I want to tell a slightly more theoretical story about welfare. The main building blocks are, first, an internalized social norm that values self-reliance, especially the earning of one's own living; second, a real, but limited, supply of altruism, itself the product of a social norm; and third, the existence, in any state of the economy, of a broad range of earning power, including a long lower tail of people whose earning power is at best inadequate to support a minimally respectable standard of life. (In putting it this way I must be assuming either that anyone who wants a job can have one or that each person's potential for unemployment is somehow factored into the notion of earning power. Neither of these devices is better than an unsatisfactory dodge to postpone the issue. Job availability and unemployment will be the central topic of the next lecture.)

Now suppose that there is a prototypical welfare system that simply pays a specified—and presumably low—income to anyone who establishes eligibility by not having a job. In the presence of a social norm of self-reliance, people will sort themselves out between those who work and pay taxes and those who do not work and receive benefits. The number of welfare recipients will depend on the size of the benefit, the frequency distribution of earning power, and the strength of the drive to earn one's own living. At this level of generality I will ignore such practically important matters as family circumstances, availability of child care, and the like. A natural-born economic theorist would include such things in a generalized "preference for leisure" and would avoid moralizing about it (not because morality is irrelevant, but because identifying a wish to stay home with small children as a form of laziness may not make for subtlety). The safer way is to ignore these questions, at least temporarily.

We know that most people, given the option of receiving the same $X a month, either as wages — net of the costs associated with working — or as handout, would prefer to work for their money. In this abstract model, the welfare rolls are made up of those whose earning power is considerably less than the standard benefit, enough less to outweigh the norm of self-reliance. There is a balancing between economic incentive and the work-ethic. You may notice that I have been tacitly assuming the norm of self-reliance to be internalized in everyone to roughly the same extent. It is no doubt more likely that some people feel it more intensely than others. In that case a person is described by two characteristics: earning power and degree of self-reliance (not to be confused with *capacity* for self-reliance). A theoretical story can still be told, but it is more complicated because one needs to know the frequency distribution of pairs of characteristics. Since no one actually knows anything about that, the complication does not seem worthwhile. (If the characteristics are statistically *independent,* not much would depend on the complication anyway.)

It is important to keep in mind that an increase in the standard benefit would cause the welfare rolls to grow for two reasons. The first is just that more people would find the gap between their potential earnings and the welfare benefit too large to sacrifice. The second is more subtle: one has to suppose that the social norm favoring work over welfare is weaker the larger the fraction of the population on welfare. Any social norm is strengthened by frequent observance and weakened by frequent violation. This dynamic may have more application to middle-class entitlements than to the welfare rolls, but that is another story. Within the model, any induced weakening of the norm of self-reliance will tip some marginal cases into the welfare pool.

Something has to be said about the motives of the majority who work and pay taxes and, most significantly, vote to maintain the welfare system, and to tax themselves to do so. They are, of course, the people whose earnings, after tax, and with account taken of the nonpecuniary satisfactions and troubles associated with their jobs, including, of course, the satisfactions of self-reliance, exceed the net benefits of welfare. I have chosen to say that they, or most of them, vote to support the welfare system out of "altruism," but that is obviously a catch-all for motives that may originate in religion, political philosophy, or inattention. In this context it simply means that most voters are prepared to sacrifice some private economic advantage so that those with the very lowest earning-power should not have to live at the impoverished standard that their own wages could support. That motive is surely not constant; common observation suggests that it may be weakened by the observation that many people seem to violate the norm of self-reliance or by the perception that the welfare benefit is relatively high compared with the earning power of many working citizens. It is easy to see how a politics of welfare can emerge and develop.

Now what would a work requirement do to this sort of equilibrium? Simply abolishing welfare reduces everyone at the bottom of the wage distribution to deeper poverty. It is a possible equilibrium if the working majority has grown resentful enough to lose whatever altruistic response it once had. The more interesting case is "workfare" — now welfare recipients are required to work for, say, the same benefit level as before. It is as if low wage rates are subsidized up to the benefit level, provided that the work itself is useful. The argument I have been developing suggests two sorts of consequence.

First, the welfare population will very likely be better off. It can achieve greater self-respect without loss of income. Remember the earlier evidence that people exposed to a mandatory work requirement quickly come to feel like regular workers, even a little resentful of the boss. (None of this holds unless the interests of children are given high priority. There is also a practically serious problem about the costs associated with working, including but not limited to the costs of child care. I will have a little more to say about this in the next lecture, but not much.)

Second, the work requirement may help to preserve the altruistic impulse of the majority by reducing both their tax burden and their general resentment at conspicuous violations of the norm of self-reliance. Alan Krueger has made the acute observation that the general popularity of the minimum-wage law and the Earned Income Tax Credit may reflect exactly the fact that they are both benefits that can only be got by working.

It is not *a priori* clear whether a work requirement would reduce the size of the welfare-workfare population. Bishop Firmus's work-shy might disappear from the books into criminal or other gray activity; but it is possible that others who had earlier chosen work over welfare, even at a cost in income, might shift to workfare just because the associated stigma might be less. What is pretty clear —again taking it for granted that the required work would have social value —is that the volume of "net uncompensated welfare payments" would be reduced by a work requirement.

One other important conclusion follows from this analysis. It has to do with the importance of what is called "packaging" for those who have adapted most functionally to the world of work-and-welfare. If the end of "welfare as we know it" means simply the end of welfare, simply throwing even the least capable onto the labor market to live off their earnings, the result is likely to be a higher incidence of abject poverty. The sort of idealized work requirement I have just been discussing is different: every capable person works, but welfare benefits (or a beefed-up Earned Income Tax Credit) top up the lowest earnings to allow a "decent" standard of living. Work is "packaged" with welfare.

This is what already happens anyway. Research has found that almost half of AFDC recipients, even without a requirement, now package work with welfare. Half of those piece together part-time wages and welfare benefits simultaneously; the other half cycle between work and welfare according to personal and family circumstance and the availability of jobs. Either approach should be seen as a way of living up to the norm of self-reliance.

The question of packaging will come up in the second of these lectures when I turn from the people who are supposed to find work to the work that they are supposed to find.

LECTURE II. GUESS WHO PAYS FOR WORKFARE

It is one thing to say, as I did in the first lecture, that the replacement of welfare by work would be a good thing for recipients, for taxpayers, and for the general reputation of public assistance to the poor. It is quite another question whether that transformation can actually be accomplished, and what it would then take to accomplish it. In particular, one is entitled to ask: what jobs will former welfare recipients find, and how will they find them?

This elementary distinction between desirability and feasibility is often neglected in political debate. During the rhetorical maneuvering that led to the welfare "reform" bill passed last summer, everyone seemed to be devoted to ending "welfare as we know it," but no one was prepared to describe how the new system would actually function. (Very likely "None of the above" would have been the most popular answer if the question had been asked.) Some time will pass before the shape of the new system is visible. The legislation left the main decisions to the individual states, who may well pass the buck to the large cities where most of the problem is, who may in turn pass the buck to the Bishop of Caesarea.

That particular question is not on my agenda because I am not trying to understand the consequences of any particular legislative proposal. (That has already been done for last summer's bill by the Urban Institute, with scary results that do not seem to faze the bill's protagonists a bit, as well as by Peter Edelman in a recent *Atlantic Monthly.*) My intention in this lecture is quite different from theirs. It is, first, to describe in theoretical but commonsense terms the consequences of withdrawing welfare benefits and forcing the former recipients into the labor market. What will become of them? Where will the jobs come from that they are supposed to find and occupy?

Then I will turn to the results of some experimental "workfare" initiatives on the part of several states, in order to get a quantitative grip on the employment and earnings prospects of former welfare beneficiaries and their successors. Finally, I will speculate briefly about what would be required for a successful transformation of welfare into work. My conclusion is going to be that we have been kidding ourselves. A reasonable end to welfare as we know it —something more than just benign or malign neglect —will be much more costly, in terms of budgetary resources and also in strain on institutions, than any of the protagonists of welfare reform have been willing to admit. And the reasons are normal economics.

On the question of job availability, there are two extreme positions to consider. The first is very optimistic: there is no problem. The jobs are there; they are always there. It is only necessary that those who seek them be willing to accept realistic wages. Former welfare recipients, having nowhere else to go, will do just that. They will be paid what their productive capacity justifies, and that may be more than you think. The demand for labor is elastic; that means even a small reduction in going wage rates will generate a substantial expansion of job openings. And the implied clear presentation of a route to self-betterment will lead unqualified workers to acquire the education and training they need to move up the ladder. The small residue of genetic or accidental incompetents—the true paupers—can be left to private or public charity.

There is nothing illogical or incoherent about this story. It could apply to some worlds. I have to say that I do not think it describes our world, the sort of world that generated the 1982 recession in the United States and a decade of 10 percent unemployment rates, now even higher, in the main countries of Europe. It would be irresponsible, almost Alfred E. Newmanesque, to depend on this idealized story to smooth the transition to welfare as we will come to know it.

There is another extreme theory that sees only rigidity where the first sees flexibility. It comes to deeply pessimistic conclusions. In this story, the total amount of employment is determined almost entirely by macroeconomic factors. Certain broad characteristics of the private economy, together with the stance of national monetary and budgetary policies, determine, within narrow limits, the aggregate expenditures of the final purchasers of goods and services. Most of the time the aggregate volume of production is limited by the amount of spending available to support it. The step from aggregate production to aggregate employment depends only on current productivity, a remote and slow-moving part of the macroeconomic equation.

It follows that the labor market is like a game, or several games, of musical chairs. (At my childhood birthday parties it had the more picturesque name of Going to Jerusalem.) When the music stops, the players scramble for the available chairs. Since there are fewer chairs than players, the losers are left standing. They are, you might say, unemployed. If the game were repeated, the losers might be different people, but the number of losers is determined entirely by the number of players and the number of chairs. Adding more players — which is what forcing welfare beneficiaries into the labor market would do — can only increase unemployment. Some former welfare recipients will find jobs, perhaps many will, because they are hungry, but only by displacing formerly employed members of the assiduously working poor.

I think that this story does not give enough credit to the adaptability of real market systems. Anyone who believed it would have a hard time explaining the fairly long periods during which the U.S. economy accommodates a growing labor force while the unemployment rate fluctuates within a fairly narrow range. The only possible explanations would be very good luck or very good policy, and you would have to be pretty gullible to find either one to be a plausible account of history.

Then how would a large-scale substitution of work for welfare play itself out in the real-world system of imperfect labor and product markets? A more accurate understanding will lie somewhere between the extremes I have just sketched. It will have to allow market forces to operate with some effectiveness, but will also respect the power of macroeconomic conditions over aggregate expenditure and output. This territory is still being fought over by mainstream economists, and I cannot stop for subtleties. I will do the best I can.

Any effective transformation of welfare into work, if it means anything, must mean that a substantial number of unqualified people will be looking for work who were previously not doing so. Some of them will find jobs just by being in the right place at the right time; they might have done so earlier if they had tried. These jobs will represent a net addition to aggregate employment. One sometimes gets the feeling that this is what some members of Congress visualize, and all that they visualize. If so, they cannot be right. There is absolutely no reason to believe that our economy holds a substantial number of unfilled vacancies for unqualified workers. The machinery of adjustment must be something more elaborate. Here and later, it is worth keeping in mind a point recently emphasized by Christopher Jencks (in "The Hidden Paradox of Welfare Reform," *American Prospect* 22 [May–June 1997]: 33-40). There are substantial cash costs associated with going to work, largest for the mothers of small children. For that reason, many welfare recipients who do find work will find themselves worse off, perhaps substantially so.

The most immediate route by which the ex-welfare population can find jobs is by competing with and displacing other unqualified workers who are already employed, either by being in some way a more suitable employee or, more likely, by offering to work for less than the incumbent is getting. Unqualified workers are presumably excellent substitutes for one another, so only a very small wage-cut would be needed. But pure displacement is just musical chairs: more players and the same number of chairs.

More important is the possibility that competition for jobs by ex-welfare recipients and their successors will drive down the wage for unqualified workers by enough to induce some employers to hire them to replace slightly more qualified incumbents who do the job better but have to be paid more. Since bottom-end workers are less than perfect substitutes for second-level workers, the fall in the unskilled wage will have to be perceptible to make the switch profitable for employers. There is displacement going on here too, but it is somewhat better than one-for-one because unqualified workers are, by definition, less productive than second-level workers. Also, a broader wage reduction for lowest-level *and* second-level workers has a better chance of expanding the number of employment opportunities available in that segment of the labor market. So there would be a small gain in total employment; but it comes at the expense of the earnings and job prospects of previously employed second-level workers. (This talk of discrete levels of skill is just an artificial simplification of a more complex process of job search by individuals and occasional matches with firms. It helps keep the discussion orderly.)

In principle, the process does not stop there. The erosion of the wages of second-level, slightly skilled, workers makes them more competitive with third-level, slightly more-skilled workers. The fact that some second-level workers have been displaced into unemployment may lead to a further bidding-down of third-level wages as the competition for jobs intensifies. So the costs of adjusting to the influx of former welfare recipients spread to the working poor, the working just-less-poor, and so on, in the form of lower wages and heightened job insecurity.

There is, of course, a long, branching hierarchy of skill levels in a modern economy. Each level is subject to competition from those just above and below, especially below. But one would naturally expect the degree of displacement to attenuate as one gets further and further away from the relatively unqualified former welfare recipients whose appearance on the job market is the source of the disturbance. By the time you get to the very top of the food chain, say the Princeton Philosophy Department, no one will be feeling any pain, and in fact the tenured members may be able to get their yard work done more cheaply. The adjustment costs will be concentrated at the bottom of the job hierarchy and the bottom of the income distribution. Of course it could be said that those are the very people who have been protected from competition all along by the unreformed welfare system. It is not a remark I would choose to make myself, but there must be some truth to it.

All this reshuffling in the labor market must have macroeconomic implications. The relevant question is whether any of them hold the promise of an easier transition to a world in which work has replaced welfare. Suppose we imagine the displacement and wage-reduction process to have worked itself out completely. The result is a lower economy-wide real wage. Can we expect that interim fact to generate enough net new jobs to accommodate the addition to the labor force created by the end of welfare as we know it? Or will there just be more unemployment?

It may help to think about two rather different varieties of unemployment. These correspond roughly to the two extreme theories I sketched to introduce this discussion. One sort of unemployment arises because there is not enough demand for the products of labor. Spending on goods and services is somehow inadequate. This is often called "Keynesian" unemployment. The other sort arises because, through one mechanism or another, wages are too high. Business firms could produce and sell more, but it would be unprofitable for them to do so. The way to expand production and employment is to have lower costs; for the economy as a whole, that means mainly lower labor costs. This is often called "classical" unemployment.

Classical unemployment will respond to wage reduction, though the process may be more complicated than this simple statement indicates. Keynesian unemployment may not respond; there is even a danger that a transfer from wage earnings to profits might result in lower total spending, which would be perverse for jobs. (This, too, is more complicated than it sounds.)

To come back to our particular problem, the issue is whether lower wages, on average, will more or less automatically provide new jobs to be filled by former welfare recipients and their successors. That turns on the responsiveness of the aggregate demand for labor to the real wage. There has been quite a lot of research on that very question, because the answer is of great general importance. I think it is fair to say that the measured responsiveness has been disappointingly small. (I say "disappointingly" because life would be easier if small real-wage changes could induce substantial shifts in employment, and if the same were true of other prices and the associated quantities.) It is not easy to characterize the range of estimates numerically, but it would not be far off to say that as much as a 2 or 3 percent change in the real wage level would be needed to elicit a 1 percent change in the demand for labor (in the opposite direction, of course). This result could be taken to reflect the relatively small weight of classical unemployment in the total, in the United States at least, or it might be telling us something about the working of labor-market institutions. In any case, the implication is that it would take a reduction of 3 to 5 percent in the average real wage to generate net new jobs equal to two-thirds of the adult AFDC population.

Is this a lot or a little? The first thing to say is that the required change in the national average wage is not the figure that matters. I hope I have made it clear that the competition for jobs set off by welfare reform would be concentrated at the lower end of the job hierarchy. It is certain that a perceptibly larger reduction in the wages of unskilled and semiskilled workers would have to take place if the bottom end of the labor market had to absorb an additional million and three-quarters relatively unqualified workers. I would not want to say more than that, not at the university with the best collection of labor economists in the country. But it seems likely that unskilled wages would have to fall by considerably more than 5 percent. If conventions of equity or propriety, or the existence of a statutory minimum wage, should prevent the required reduction in unskilled wages, the consequence would be higher unemployment. Either way, the working poor will pay.

The more important observation is not numerical at all. Apart from magnitudes, the argument leads to the conclusion that the burden of adjusting to any genuine replacement of welfare by work will fall primarily on low-wage workers, especially those virtuous ones who have been employed all along. The burden will take the form of lower earnings and higher unemployment, in proportions that are impossible to guess in advance. It would be too drastic to imagine that the process might lead to the growth of a distressed class of very-low-wage workers and, through the workings of altruism, to the recreation of welfare as we knew it. There are alternatives, to be discussed briefly later on. But I hope it is not drastic at all to doubt that many reasonable people who favor welfare reform have had in mind the imposition of nontrivial additional impoverishment on the industrious working poor.

Completeness requires me to mention one other way in which macroeconomic forces might ease this problem. Just because the addition of a million and three-quarters or so new workers to the labor force represents some potential unemployment, perhaps the Federal Reserve might see it as some additional protection against inflation. Any consequent easing of monetary policy —or other macroeconomic policy, if there were any —could lead to lower interest rates, economic expansion, and better job prospects. I think this is a forlorn hope, however. Wage-induced inflation does not come from excessive tightness in the market for unskilled labor, but from better-skilled, higher-wage, sometimes unionized workers if it comes from the labor market at all. The economy will not be measurably more inflation proof and will have to work it all out on its own.

I say this despite the tendency for wage-compression to occur in business-cycle upswings, that is, for low-end wages to rise proportionally more than high-end wages in good times. My guess is that this may happen because higher-end wages are more likely to be governed by long-term agreements, explicit or implicit, whereas low-end wages are free to respond to immediate market forces. It seems wholly unlikely that unskilled wage-push plays much of an independent inflationary role. Then an influx of former welfare recipients will not give the Federal Reserve much of a cushion against overheating.

Beyond these rather general considerations, there is some more direct evidence about the probable fate of welfare recipients forced into the labor market by the withdrawal of support. Most of it comes from the "workfare" experiments designed and operated by many states during the past decade. The most useful for my purpose are those that were conducted as genuine experiments, with participants assigned at random to the program itself or to a control group. The intake into the process consisted entirely of participants in or applicants to AFDC: experimentals were subject to the particular workfare program being tried out, while controls continued in AFDC, subject to the normal regulations. Differences in outcomes can thus be imputed to the effects of whatever mandatory requirements were imposed by the workfare program being tested. It cannot be assumed that these experiments anticipate the likely outcome of an all-out imposition of time-limits, work-requirements, or simply the closing-down of AFDC. They do give us some quantitative insight into the likely fate of welfare recipients tossed into the open labor market.

I shall use as my main example the California GAIN (Greater Avenues for INdependence) experiment to which I referred in the first lecture. It is the largest and best documented of the state initiatives; and MDRC has collected and analyzed data extending for three years after experimentals' first exposure to the program. (The results are reported in James Riccio, Daniel Friedlander, and Stephen Freedman, *GAIN: Benefits, Costs, and Three-Year Impacts of a Welfare-to-Work Program* [New York: MDRC, September 1994].) Longer-term observations are still to come. The program itself is complex; I will give only a brief and crude description and then cut to the chase. Upon assignment to the program, a welfare recipient or applicant who lacks a high-school diploma or a GED certificate (General Educational Development, probably worth very little), or scores low on a basic skills test, or is deficient in English, is assigned to one or another basic education scheme. Others, and those who finish their basic education, move on to an organized job search activity. This includes training sessions in which groups are taught basic job-seeking and interviewing skills and then supervised job search, with telephone banks, job listings, and some counseling. This goes on for about three weeks. Those who do not find a job in this way proceed to form an individual employment plan, working with a counselor. The plan will entail further activities, like vocational training, unpaid work experience, etc. These activities then alternate with job search.

The question is: what is the subsequent labor-market history of those subject to these requirements, particularly but not only as compared with the controls who simply carry on as before? We can answer this question for six miscellaneous California counties. One of them, Riverside, between Los Angeles and San Diego, is especially interesting because it is an outlier, conducted by its staff in a very energetic and aggressive way. Here are the key results, taking all six counties together, a total of 17,677 experimentals and 5,114 controls. During each of the three years of follow-up, about 40 percent of the experimentals had some employment. These were not steady jobs; in the last quarter of the third year, only 28.5 percent had any employment, and of course the proportion employed in any month or week would be still smaller. All told, 56.7 percent of the experimentals held a job at one time or another during the three-year period. Almost 51 percent of the controls had some employment during that time, so the net impact of the GAIN program was to increase the fraction ever employed by 6 percentage points. This difference is statistically significant, but it is fairly small.

The conclusion to be drawn is this: in California, in the economic conditions of the early 1990s, about a third of welfare recipients held a job at one time or another during any year; participation in the GAIN version of workfare increased that fraction by 4 to 6 percentage points. One cannot be sure that this small margin is an indicator for the future, but the burden of proof is on anyone who thinks that welfare recipients forced into the labor market will be very successful in the search for jobs.

I mentioned that Riverside County seemed consistently to get better results than any of the other five counties. It is worth seeing how much better, as an indicator of the best that might be hoped for. In one sense the comparison is a source of optimism. Riverside did do better than the other five counties; so it does matter how a welfare reform program is conducted, and activism pays off. That is the good news. The bad news is that even the Riverside results suggest that the job prospects for former welfare recipients are pretty grim.

Two-thirds of the Riverside experimentals held a job sometime in the first three years of their exposure to GAIN, 10 percentage points more than the average for all six counties. And the difference seems to have nothing to do with the Riverside area itself, because the control group in Riverside had the same experience as the statewide average. So the conduct of the program is the key. But the Riverside advantage diminished year by year and, besides, although it is big enough to be noticed, it is not big enough to solve the problem.

I could report on similar studies of the work-welfare experiments conducted by a dozen other states. But the basic message would be unchanged. The various states have tried slightly different programs, in slightly different economic environments, and naturally they produce slightly different results. But none of them offers grounds for optimism about the ability of welfare recipients to find and hold jobs or to earn a decent living. (Some are more pessimistic in their implications than the California GAIN experiment.)

Instead I shall describe briefly a much smaller and more casually studied episode in Michigan, because it replicates more nearly the effects of a pure-and-simple end to welfare benefits. (The analysis is reported in Sandra K. Danziger and Sheldon Danziger, "Will Welfare Recipients Find Work When Welfare Ends?" in *Welfare Reform: An Analysis of the Issues,* ed. Isabel V. Sawhill [Washington, D.C.: Urban Institute, 1995], pp. 41–44.) Until its termination in October 1991, the state of Michigan had funded a program called General Assistance that paid cash benefits of $160 a month to nonelderly poor adults without dependent children. The authors of the study note that this population was probably more rather than less able to find and keep jobs than the standard AFDC population. General Assistance was ended in October 1991. (Most of the recipients had been receiving, and continued to receive, other benefits.)

A representative sample of 426 ex-recipients of General Assistance were interviewed two years after the program had ended and were asked about their labor-market experience in the meanwhile. About 65 percent of them had worked at a regular job or at casual labor at some time during the period. This frequency was the same for those with less than a high-school degree and those with a high-school diploma, a GED certificate, or more. The better-educated group held significantly steadier and better-paid jobs, however. For instance, 46 percent of them were employed in the month of the survey, compared with 28 percent of the high-school dropouts, at average hourly wages of $6.07 and $4.78 respectively. Their total earnings in the month before the survey averaged $596 for the better-educated and $377 for the less-educated, which implies that the two groups averaged about 100 and 80 hours of work respectively in that month. (Full-time work would be about 160 hours.)

Those who worked in the survey month, even the high-school dropouts, earned more than the old General Assistance benefit of $160. But it could not be said that they earned a living. It would be a gross overestimate even to multiply $377 per month by twelve to get $4,500 because a third of the sample never worked at all during the two years, and very few of those who worked were able to work steadily. The high-school-educated did better, but for the same reasons, $7,200 a year would considerably overestimate the earning capacity even of those who succeeded in finding work at all.

The indications from Michigan and California are in the same ballpark. Without some added ingredients, the transformation of welfare into work is likely to be the transformation of welfare into unemployment and casual earnings so low as once to have been thought unacceptable for fellow-citizens.

More microscopic, almost ethnographic, observations only add depth to this picture. William Julius Wilson has powerfully documented the disappearance of jobs from poor, black inner-city neighborhoods like the South Side of Chicago. Katherine Newman, herself an anthropologist, followed up all job openings filled by four fast-food franchises in Harlem in 1993 and interviewed those who got them and those who applied but failed. (There were fourteen applicants for each job filled.) The winners in this sweepstakes were better educated and better connected than the losers, but even the losers were more experienced and more educated on average than the typical welfare recipient. Three-quarters of the losers were unemployed when interviewed a year later, although most of them had continued to look for work. (See Katherine Newman and Chauncy Lennon, "Finding Work in the Inner City: How Hard Is It Now? How Hard Will It Be for AFDC Recipients?" [Working Paper #76, Russell Sage Foundation, October 1995].) It is impossible to believe that the forced influx of ex-welfare beneficiaries into these labor markets could do anything but make a bad situation worse. (By the way, preliminary results from the Canadian Self-sufficiency Project confirm this pessimism.)

The proper conclusion from this analysis is not that the substitution of work for welfare, however desirable it may be, is infeasible in practice. That might be so if the only alternative to welfare as we know it were simply to walk away from it. More to the point, I think, is the conclusion that a decent welfare-to-work transition will require a more complicated —and more expensive — set of changes. Two policy conclusions, in particular, seem to me to follow from the argument of these lectures.

The first is that an adequate number of jobs for displaced welfare recipients will have to be deliberately created, either through some version of public-service employment or through the extension of substantial special incentives to the private sector (profit and nonprofit). Appeals to businesses to hire welfare recipients voluntarily are a form of abdication of responsibility, and even subsidies to employers are likely to run into real problems of management. There will have to be a determined and expensive effort to increase the demand for unskilled and unqualified labor.

William Julius Wilson has advocated the recreation of something like the Works Progress Administration of the New Deal years. I can see the point of that. Pretty clearly there are major infrastructure needs in urban and rural communities that could be met with little or no trespassing on the private sector and with intensive use of unskilled labor. But there are two ways in which this suggestion seems to fall short of the need. Wilson is thinking mainly about males trapped in inner-city ghettos without employment opportunities. But the AFDC population is primarily female, often women with children. Unskilled construction labor may be a mismatch if the goal is to insert that group into the world of work and to build up marketable skills.

The second deficiency is related. In an economy that has been durably trending toward the production of services instead of tangible goods, focusing on heavy construction is like trying to make water flow uphill. It would seem more useful to create an employment track that led to work habits and skills normally in demand in the service sector. This would also be a better match with the gender composition of the welfare population. There are no big-time models for such an effort, but some institutional ingenuity might find a way.

The main point, however, is not the design of a particular scheme. It is, as Wilson sees, the need for purposeful creation of jobs, in numbers, places, and forms that are suitable for the people who will fill them and that can provide the sort of experience that may eventually have cash value in the open labor market. Any scheme that will do the trick will be costly, in budgetary dollars and in the need to invent and to staff institutions of a kind for which we have little experience or even intuition. The task is even harder than it sounds, because it involves swimming upstream. There has been in recent years a massive shift in demand away from unskilled labor. The source appears to have been mostly technological, but the source is less important than the fact, and the fact suggests that the labor market will not naturally welcome an influx of unskilled workers.

The second conclusion I want to draw goes back to the notion of "packaging" that I planted toward the end of the first lecture. (On this, see Roberta Spalter-Roth, Beverly Burr, Heidi Hartmann, and Lois Shaw, *Welfare That Works: The Working Lives of AFDC Recipients* [a report to the Ford Foundation, Institute for Women's Policy Research, Washington, D.C., February 1995].) Suppose we succeed in managing a transition from welfare to work. The evidence implies inescapably that the jobs obtainable by former welfare recipients will pay very low wages and pay them irregularly. (The irregularity inheres partly in the job and partly in the situation of the jobholder, as we have seen.) I think it is legitimate for taxpayers to want welfare recipients to work, but not so legitimate to want them to live at the miserable standard that their earning capacity can provide, least of all if children are involved. The implication is that packaging will have to continue and should be planned for. This means, by the way, that time limits are incompatible with the substitution of work for welfare.

It was observed in the first lecture that a large fraction of welfare beneficiaries today either alternates between work and welfare or does both at the same time. That pattern will have to be recognized as normal, even as a good thing under the circumstances. It should be regularized and institutionalized, to see that the incentives point in the right direction and that justice is done and to guard against corruption. (Corruption is also a danger in any scheme of public employment. I have not dwelt on that fact only because corruption is a danger in any human social activity, perhaps even the Tanner Lectures on Human Values.)

The institutional details can be important. Here we have the advantage of an already functioning mechanism, the Earned Income Tax Credit. It could be calibrated to provide a tolerable standard of living for ex-welfare recipients —and others —who work hard and play by the rules, to use another of those phrases. Employers should understand that they benefit from the EITC too, because, like any subsidy, it puts a little downward pressure on the market wage.

The object of this mixed system should be to achieve a reasonable equilibrium between the norms of self-reliance and altruism. The real trouble with welfare as we knew it is that it tended to erode both. My suggestion is that a mixed work-welfare system, with an adequate supply of jobs, stands a chance of reinforcing both self-reliance and altruism, but such a system will not come cheap. There has been no sign yet that the United States is willing to put the necessary money where its mouth is.

Suppose nothing special happens. Welfare "reform" follows the script, without any amelioration. What will we then think about it? The welfare rolls will diminish. Governors will point with pride. Members of Congress and senators (and presidents ?) will nod their satisfaction. No one will ask what has happened to the former welfare recipients or to the working poor. If anyone asks, there will be no answer. There will be no data. As Alan Kreuger pointed out to me, the relevant experiments will not have been performed; the administrative system tracks only recipients, not the would-have-beens. They may be living with relatives who cannot afford them, or on the street, or under the bridges of Paris. The need for relevant data is not just the peculiar craving of academic social scientists. It is the life-blood of rational social policy and its evaluation.