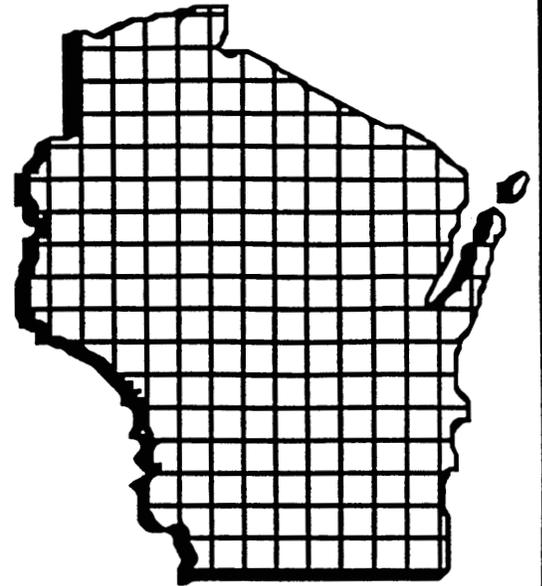


Wisconsin

Policy  
Research  
Institute  
Report



November 1994

Volume 7, Number 8

**ENDING WELFARE  
IN WISCONSIN**

*Work  
Cash  
Volunteerism  
Personal Responsibility*

## REPORT FROM THE PRESIDENT:

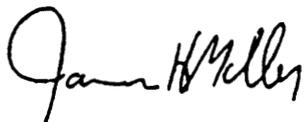
Wisconsin has assumed the leadership position in reforming welfare. While the federal government and other states debate the issue, we have passed a law to abolish welfare by the end of the decade.

We commissioned Professor Sammis White of the Urban Research Center at the University of Wisconsin-Milwaukee to develop a paper on how to restructure welfare in Wisconsin. He has done so using an insightfulness and creativity seldom seen in the public-policy world.

White dissects welfare, pointing out that it does nothing to raise the poor out of poverty. He adds that there is an enormous lack of personal responsibility built into the current system. To restructure this existing system calls for radical ideas ranging the entire ideological spectrum from Milton Friedman to Ralph Nader.

His two main arguments are that poor people must accept personal responsibility by performing a *quid pro quo* for their stipends and that they must be given the economic opportunity to raise themselves out of poverty. He moves away from the current system, where much of the financial outlays are directed into bureaucracies and service providers. Instead, White develops a system based on cash outlays given to poor people, thus saving millions of dollars on administration.

Finally, he develops a new ingredient in the welfare debate — the role of volunteerism as a tool for teaching personal responsibility to current welfare recipients. The range of ideas in this paper are new and exciting, and they should be seriously considered as a legitimate replacement for our current welfare system.



James H. Miller

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# ENDING WELFARE IN WISCONSIN

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## EXECUTIVE SUMMARY

The consensus in Wisconsin and the nation is that the current welfare system must be changed. Welfare today neither raises the poor out of poverty nor does it make them any less dependent. A new approach to welfare must be employed — one that both reduces poverty and moves recipients, as responsible citizens, into the mainstream of American life. The new welfare approach, unlike the present one, must encourage initiative and independence and be based on the realization that recipients have an obligation to actively strive to achieve that independence. No longer can the system provide an entitlement for an indefinite period: recipients must provide a *quid pro quo*; they must reciprocate for the support they are provided.

The new structure should not be based on any one political ideology. It must be pragmatic. The structure proposed draws ideas from individuals ranging from Milton Friedman to Ralph Nader. The proposed approach acknowledges that recipients are different individuals, that they should not and cannot all be treated similarly. It also acknowledges that many recipients are not valued enough in the marketplace so that they can sell their services at a sufficient price to become immediately independent. And it acknowledges that a combination of carrots, sticks, and higher expectations of recipient behavior are critical ingredients in the recipe for a new welfare system. In short, no single solution will work. What must be employed is a combination of several, coordinated initiatives.

The proposed structure is based on five principles:

- 1.) income support is **no longer an entitlement**: recipients owe society for its assistance and must begin to repay society within two years of accepting help;
- 2.) the system must include some program elements that **treat recipients differently from each other** because it is clear that existing and potential recipients will have varying abilities to support themselves;
- 3.) **known perverse requirements**, such as currently making welfare more remunerative than work or setting income guidelines that force recipients to stop working in order to receive any benefits, **should be eliminated** or greatly reduced in impact;
- 4.) all families should be assured of some **minimum level of income**, as long as they are making the required effort to move toward independence; and,
- 5.) the new system must, to the degree possible, help to **push low-income participants into mainstream activities**, such as work and education, through a series of incentives and opportunities.

The proposed new structure has three basic components. They are interrelated and form a system that seeks to promote recipient movement from dependence to independence over a limited number of years.

### Cash Grants

The first major component of the new approach is the substitution of a **cash grant** to low-income households in lieu of Aid to Families with Dependent Children (AFDC) benefits and Food Stamps. A new minimum-income program would be established that would create a base level of

indefinite period of support. Recipients will be allowed up to two years of assistance on the cash grant. After that, they must either be participating in the Time Dollars volunteer program or be working at least 20 hours a week. If they do neither, their stipend will be reduced by 30% for two additional years, after which they will be ineligible for any public support. The message is similar to another espoused today, "tough love." Higher expectations of behavior, as research in education has shown, should result in more mainstream behavior.

#### *Cost Estimates*

If only the current AFDC population were to participate in this program, it would be less expensive than the cost of the AFDC and Food Stamp programs it would replace. The program is likely, however, to appeal to some of those households which are eligible for, but not currently participating in, AFDC. To the degree that they do enroll in this program, they could force program costs above the savings level for the short and possibly intermediate runs. In the long run, the movement of families to work and the reduction in program administrative costs, due to the switch to cash grants, should make serving this population less expensive than the current approach.

The proposed approach has not resolved all of the issues, nor will it solve all of the problems of welfare. But it would be a significant step forward and a dramatic improvement over the present, failing system.

## INTRODUCTION

The alteration or elimination of welfare "as we know it" is a compelling topic today. Support for dramatic changes comes from all quarters, including from the governor of Wisconsin, the president of the United States, and from many persons who have been on welfare. The consensus is that welfare does not work: it does not do an adequate job of supporting those who purportedly are being assisted, and it does not help them become less dependent. One assessment of AFDC is that "it remains an outdated, administratively burdensome, stigma-laden, initiative-depressing program designed to remedy adverse economic outcomes, not to enhance personal opportunities. It does not raise the poor out of poverty. It does not bring the poor into mainstream society."<sup>1</sup>

To make matters worse, the real value of AFDC payments in inflation-adjusted dollars has dropped dramatically in recent years. In Wisconsin, for example, the reduction and then the freezing of benefits has resulted in a 27% drop in the purchasing value of welfare benefits for the average recipient. Current welfare payments are still higher in Wisconsin than those in the vast majority of other states. But the combination of the erosion due to inflation and the large-scale immigration of poor households, notably Hmong from Laos and African Americans from neighboring states, helped to contribute to the dramatic increase in the number and percentage of minority children in poverty in the state. In 1990, poverty rates among African American children were higher in Wisconsin (54.1%) than in every state except Louisiana, and the share of Asian American children in poverty in Wisconsin (48.1%) was the highest in the nation.<sup>2</sup> In terms of support for this population, AFDC is not reducing poverty, at least to the degree that it once was. Similar failure to move children out of poverty is found across the nation.

The conundrum of welfare reform is that society desires to help these children, but not their parents. The result is increasingly less support for children.

By the same token, the reforms instituted over the last several years at both the state and federal levels that have increasingly emphasized putting recipients to work have seldom invested sufficient capital to make recipients employable enough so that they can move off welfare permanently. True, approximately one-half of all welfare recipients move off the rolls within two years of coming on to them. But, then, half of this half reappear on the rolls, not able to make a permanent move to a higher income level. Recent analyses reveal that over the long run, somewhere between 60% and 80% of initial welfare recipients will be back on welfare within seven years, even if they are able to move off for intervening intervals.<sup>3</sup> Welfare, as currently constituted, does not give them the wherewithal to make the move permanently. In other words, long-term dependency is created.

Are there advantages to the current AFDC system? Actually, there are a few. The program is inexpensive: it requires only one percent (\$16 billion) of the federal budget and three to five percent of state budgets, on average, to assist the current welfare population. This compares rather modestly to the \$40 billion annual subsidy to home-ownership, a benefit almost exclusively realized by upper- and middle-income households. AFDC does provide moneys to a needy population. Its strong stigma forces many to avoid AFDC, if they can. In fact, only between 65% and 68% of those eligible for it are on AFDC at any point in time.<sup>4</sup> And many recipients do find ways to get themselves off welfare, even if it is for only short durations. Furthermore, AFDC and related programs employ thousands of workers who earn middle-class livings.

Despite these modest successes for AFDC, there is enormous pressure to change the system at the state and national levels. Both liberals and conservatives are involved. The main charge,

acknowledged by the leading liberal welfare scholar, is that welfare is creating a "dependent" population, one that will seldom be off welfare.<sup>5</sup> Another charge, made by the leading conservative welfare scholar, is that it enables, if not encourages, teenage girls to have illegitimate children.<sup>6</sup> Welfare is also said to split families or stop the formation of families because the support is largely for mothers and children, not parents and children.<sup>7</sup>

Welfare discourages work because it offers — through a combination of AFDC, Food Stamps, and Medicaid — a higher standard of living than many persons are able to earn on their own. Furthermore, welfare penalizes working mothers by allowing recipient mothers to have the freedom to be home with their children when the majority of all mothers, including those with very young children, are participating in the labor force, working to provide for their families. A more-refined complaint is that welfare was never designed to help the needy: because it concentrates two-thirds of its expenditures on services provided by middle-class service providers, the poor actually receive only one of every three dollars allocated to programs for the poor.<sup>8</sup> It is no wonder that this approach does not reduce poverty, much less does not foster independence.

New approaches have been proposed. Wisconsin, in fact, leads the nation in the number of welfare-reform experiments it is running or requesting. These include Work Not Welfare, Learnfare, Bridefare, and the two-tier level of support for in-migrants versus native new recipients. The state has also legislated an end to the current welfare system as of January 1, 1999. No replacement is currently available, but an effort is underway to develop a more-reasonable substitute.

Of the state's reform efforts either implemented or close to implementation, only one — Work Not Welfare — involves a dramatic change in welfare. In the affected counties, all AFDC recipients, regardless of age, will be subject to a work requirement after 30 days, starting July 1, 1995. If recipients work, they can receive up to the value of their AFDC benefits and the cash value of their Food Stamps. The amount they earn varies with their wage and the number of hours they work. The more they work, the greater their earnings. If they do not work, they receive no assistance.

Other states have been moving in similar directions, often with comparable emphasis on work. Massachusetts, for example, has requested a waiver from the federal government to substitute a zero-year program for work: all new AFDC recipients must move immediately to the labor force. California is pushing for a shortened period of support before welfare is cut off. Numerous other states have other types of waiver requests filed with the federal government seeking altered forms of welfare, usually pushing recipients into work much more quickly than today.

Appealing as the quick movement to employment may sound to some, it is not possible for the entire welfare population. A small part of the problem may be a lack of sufficient jobs. But much more in evidence is the sizable, but not well measured, portion of the AFDC population that is incapable of moving quickly into paid employment and a smaller pool of AFDC recipients who may never be able to become meaningfully employed in the traditional labor market. *What must be developed is an approach to income support that takes into account the variations in the abilities of the dependent population and the need to work with these persons over time to bring them into the mainstream of American life.* This paper suggests a possible means of beginning this task.

As is revealed in detail below, what is suggested is a substantial structural change in the current welfare system. It is a pragmatic approach, drawing on the cumulative knowledge developed over numerous years by many persons, from Milton Friedman to Ralph Nader. The recommended approach

involves:

- 1.) **the creation of a cash grant (Minimum Income) to assist those unable initially to assist themselves;**
- 2.) **a work requirement, to stimulate interest, and an expanded Earned Income Tax Credit program to supplement the wages of those persons who do not yet have the ability to fully support themselves with their earnings from employment; and,**
- 3.) **a “volunteer” program known as Time Dollars, by which individuals who are not yet sufficiently valued in the market to generate income can “earn” both an enhanced Minimum Income stipend and services to be provided by others by volunteering in their community for at least 20 hours per week while they develop the work-preparation skills that will be valued in the market economy.**

Individuals will be allowed limited terms in each category before they must move on to the next level or they face the loss of their income subsidy.

The proposal acknowledges that some individuals will need more time than others to become self-sufficient and that everyone deserves a minimum level of income support for a period of time. It also acknowledges that time pressure must be applied to recipients to help motivate them, because past experience has shown that additional income alone is insufficient. Furthermore, the approach is designed to avoid the self-defeating pattern of today's welfare system that makes staying on welfare more economically rewarding than moving toward self-sufficiency. And it takes as fundamental the thesis that all capable individuals must assume responsibility for their own lives, denying the current thesis that income support is an unrestricted entitlement.

The structural changes recommended require a dramatic reorientation of our approach to welfare. Numerous details will have to be further developed. But the current approach is sufficiently vilified that nothing short of dramatic change will begin to adequately address the current deficiencies.

## **PAST REFORM APPROACHES**

Welfare reforms of every description have been advocated and utilized to varying degrees for the last 40 years. Many have been repeated in different versions, depending on the decade. As we search for a new approach, we need to be informed of past approaches and their limitations and successes. Among the major themes of reform have been:

- *Social-service strategies:* the concept of social workers counseling recipients out of poverty and dependency, a concept that lost favor because of rapidly increasing caseloads and because it did not work.
- *Institutional strategies:* change the local institutions in the neighborhoods in which concentrations of recipients live. This concept has been tried in each decade in multiple forms, with little success.
- *Human-capital strategies:* attempted in two basic forms: 1.) trying to upgrade the skills and education levels of welfare recipients; and, 2.) enhancing their motivation to enter

the labor market, especially through programs that increase their take-home pay (i.e. the Earned Income Tax Credit). Still popular, but the timing of this investment in human capital is still debated: should it precede or follow entrance into the workforce?

- *Job-creation and subsidization strategies:* very popular during the Depression, but its appeal faded in the 1980s, when private-sector solutions to insufficient demand gained favor. In Milwaukee, the recently initiated, experimental New Hope project fits into this mold.
- *Income strategies:* best examples occurred in the 1970s, with President Richard Nixon's Family Assistance Plan, Senator George McGovern's universal demogrant, and the like, based on proposals by Milton Friedman and others for a negative income tax. A form of this concept was found in increased AFDC grants in the late 1960s and early 1970s. This has little current support because no single strategy is now believed to be appropriate.
- *Child-support strategies:* an attempt to get both parents to financially support children. This strategy was strengthened by federal legislation in 1984 and 1988. It has had rather modest success; in 1990, 16% of eligible children in the U.S. received child-support payments. In Wisconsin, the figure is 39%.
- *Macroeconomic strategies:* used for several decades, the notion that a rising tide can lift all boats is still a main principle used by the federal government, even if it has proven unable to raise all boats.
- *The "make work pay" strategy:* increasingly popular with economists, this strategy attempts to ensure that those who play by the rules and work full time should be able to get their families out of poverty. Strengthened by the expansion of the Earned Income Tax Credit in 1993.
- *The "make 'em suffer" strategy:* a set of "tough-love" reforms aimed at making recipients behave in certain ways as a condition of receiving and continuing to receive AFDC support. Popular in Wisconsin, with mixed evidence to date.
- *The "thousand points of light" strategy:* essentially, it means that there will be no more solutions from the federal government: each state must find its own solutions to welfare.<sup>9</sup>

Several of these reforms have been tried on more than one occasion. In fact, some have been tried repeatedly. Yet poverty remains, and the strategies are recycled again and again. We are continually confronted by the basic conflict between the desires to enhance the well-being of children and discourage the dependency of adults on government handouts. We could do one or the other with current knowledge. The problem is that we cannot do both simultaneously.<sup>10</sup> We, therefore, seek an uneasy truce between the two goals and vacillate on public policy. Moreover, we are prescribing policy for an ever-changing population moving within a shifting economy. It is no wonder that some strategies are revisited: they may be more appropriate in a new context.

### *The Appeal of Cash*

In the spirit of that vacillation and the revisiting of formerly used strategies, it is time to once again revisit one of these strategies that generated a good deal of interest in the mid-1960s to late 1970s, the so-called *income strategy*. This is the strategy that attracted attention from both liberals and conservatives. The basic concept is that welfare recipients (and others) would receive cash rather than a set of services to help them overcome poverty. Most plans also contain a series of incentives designed to induce recipients to work. The notion is that if they are able to receive in income more than they actually earn, recipients would have an incentive to work and to eventually work their way off welfare.

The notion was so well-received 25 years ago that it almost passed Congress in the form of the Family Assistance Program (FAP) proposed by then-President Nixon. One of the reasons that it did not pass is that there was considerable discussion on and off Capitol Hill as to what recipients' reactions would be to the income guarantee and high tax rate it imposed on earnings. Since there were diametrically opposite views as to the outcome, Congress decided that the only way to resolve the issue was to undertake a series of experiments with different income-support levels, different tax rates on earnings, different cut-off points at which the income support was no longer available, and different geographic areas to determine whether the responses would be the same in urban and rural areas. The results are reviewed later (see pages 11-13).

Transfers of money to the poor have appeal because the most basic explanation of poverty is that it is caused simply by a shortage of cash. Poverty, in one sense, can be cured by giving sufficient cash to those who need it. If this route is taken, it can also mean the dissolution of the huge bureaucracy that provides government services to the poor.

Milton Friedman, then an economist at the University of Chicago, was among the first to advocate a negative income tax.<sup>11</sup> He suggested that all persons below a certain income would receive money from the "tax man," rather than having to pay the "tax man." In other words, low-income households would receive a negative income tax. As incomes rose, households would gradually switch from receiving tax payments from the government to making tax payments to the government.

From an economist's perspective, such an approach could yield several benefits. First, it extends *choice* to recipients: they can use their cash benefits to purchase the combination of goods and services they and their families think they need, rather than receiving some arbitrarily chosen selection dictated by a legislature and modified by social workers. The recipients can shop around for the best quality at the lowest price, further stimulating the competitive market. And they have access to the same markets as the wealthy, so they need not put up with second-best service.<sup>12</sup>

Second, cash also makes service suppliers *more accountable*. Today, certain service providers have locks on services to welfare recipients because of government fiat. If cash grants were to be given, recipients would purchase the services they felt they needed from the providers they discerned as giving them the most for their money, if indeed the recipients thought that they needed the services. Not only would this end the many monopolies of service providers, it would give recipients a much-bigger piece of the anti-poverty pie, because they would receive more than today's one-third of the welfare-program budget. The transfer of money alone could go a long way in reducing poverty. The freedom of recipients to spend would instill greater rationality to the system because the consumer of services would be making the allocation decisions.

The third benefit is derivative of the first two: the welfare *bureaucracy* would be *diminished* in size. Some may argue that the bureaucracy should be abolished, but there are households that need services and that would continue to receive them if the recipients decided they wanted to purchase them. And there would still be a role for caseworkers who help to evaluate how independently households are able to function. But if programs such as Food Stamps were transformed from their current incarnation into part of a cash grant, fewer service providers/administrators would be needed. A greater percentage of the total anti-poverty budget would go directly to the needy themselves.

From a recipient's perspective, there are several other benefits that would be derived from a move to a cash-grant system. One benefit would be the decline in stigma associated with receiving government assistance. The long lines would disappear. Food stamps would not have to be shown in the grocery store. Hours would not have to be wasted waiting for some caseworker to talk about a particular problem. With increased self-esteem and incentives, recipients may well have the courage to tackle issues like further education or even work, but on their own terms, not those dictated by others. A move to cash would undermine the liberal view of recipients as individuals who are unable to solve their own problems; recipients would be empowered to do so with the right to spend cash.

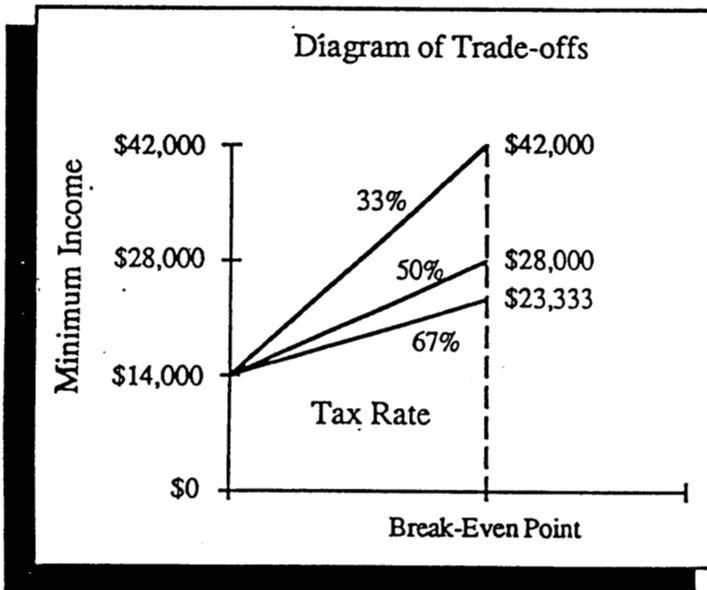
Other benefits could include a dramatic restructuring of the non-profit, anti-poverty industry. Some persons charge that this industry is self-serving, extremely inefficient, wasteful, and misleading, if not fraudulent, in its representation of assisting the poor. In other words, charities exist to help the middle-class service providers, not the poor they purportedly assist. Billions of dollars are misallocated. The move to cash would greatly reduce this abuse of the public trust.<sup>13</sup>

### *The Mechanics of a Negative Income*

How does a negative income tax or guaranteed income work? There are two levels at which the negative income tax should be understood. One is theoretical; the other more practical. First, the theoretical. The idea behind the negative tax is that everyone will be supported at some base level and that they will be induced to raise their income through work because they will have a better living and keep some reasonable proportion of their earnings. To some persons, the difference between a negative income tax and a guaranteed income is semantics, just the title. To others, the difference is that a negative income tax with a minimum level of support applies only to those who are willing to work. If one wants some government support, then one has to work, period. A guarantee, by implication, covers everyone. When the federal government experimented with negative income tax programs in the 1970s, there was no clear distinction between those who worked and those who did not: all were eligible for some minimum level of monetary assistance. Thus, it does seem to be semantics.

In either, there are three intertwined components. The first is the minimum level of support, basically a guaranteed income. The second is the tax rate that applies to earnings. The third is the so-called break-even point, the point at which recipients stop receiving assistance and start paying taxes. The three play off against one another. If we want to increase the basic level of support, the gap between the break-even point and the minimum will narrow, forcing a higher tax rate on earnings. This move will decrease the work incentive because recipients will receive more money without work, discouraging work, and the higher tax rate will be a disincentive to work more hours since less of each hour's pay will be taken home. By the same token, if the break-even point is lowered, fewer persons are included, and the tax rate will go down — increasing the incentive to work but providing less incentive in terms of the amount of assistance one can receive. In this case, a household might be able to raise its income only \$1,500 through a negative tax, rather than, say, \$3,000.

To illustrate this further, let us look at a more-complete example. We will look at an arbitrary, but reasonable, set of numbers. We will assume an annual minimum income of \$14,000 for a family of three, a mother and two children. (This is in the range of what this family would receive if the husband had died and it was collecting Social Security Survivors Insurance.) If they had no other income in the year, they would receive \$14,000, a full negative income. If, however, they had some earnings, they would have a higher income. If we assume a tax rate of 50% — a rate higher than any extant today, but far below the 100% historic tax for dollars earned while on welfare — the family will realize a gain of one-half of its earnings up to twice the minimum, or \$28,000, the so-called break-even point. Thus, if the mother is able to earn \$10,000, she would receive the basic \$14,000 plus one-half of the earned \$10,000 (or, \$5,000) — for a total income of \$19,000, nearly twice her actual earnings. Under the same assumptions, if she earned \$20,000, she would receive a net income of \$24,000 (\$14,000 base plus .5 x \$20,000, or \$10,000). There appears to be a sizable incentive to work the additional hours, especially at lower income levels.



To illustrate the interconnections between the three variables, one need only change one of the variables. If the tax rate were to be lowered to 33% to increase the work incentive, maintaining the same minimum income, the break-even point would rise to \$42,000, substantially increasing total program costs by including millions of additional households in the program. On the other hand, if the tax rate were raised to 66%, reducing the work incentive, then the break-even point would be \$23,333, greatly reducing the size of the eligible pool and total program costs. If,

under the original assumptions, the minimum income were to be lowered to, say, \$10,000 to reduce the work disincentive and the break-even were kept at \$28,000, then the tax rate would fall to 35.7%, offering a somewhat counterbalancing work incentive. Or if the minimum were lowered to \$10,000 and the tax rate were maintained at 50%, the break-even point would drop to \$20,000, cutting total program costs. There is a simple but confounding relationship among the three factors, illustrated in the diagram above.

This relationship makes the creation of an acceptable formula problematic. Society would like to see a set of factors that is not overly expensive, but which meets minimum needs while still creating a strong incentive to work. American society has a strong aversion to giving money to those persons who could work, but decide not to do so. Thus, to some, the correct formula would involve a low minimum, say \$5,000, for a family of three. If an acceptable tax rate, one which induces work over leisure, is 50%, then the point at which help is no longer provided is \$10,000. The appeal of the \$10,000 is that it is not very inclusive — not that many households will be helped, keeping total program costs low. On the other hand, such a low break-even point means that assisted households will still be under the official poverty line, and a 50% tax rate may be too high to induce much work from the target population.

If the minimum income were to be raised to bring it closer to the poverty line, the total program cost would rise, both because each household would receive more money and because more households would have a greater incentive to participate. One way to reduce the additional cost would be to tax

earnings more highly. But as soon as the tax rate is increased, there is less incentive for participants to work. Not only does the high tax rate and subsequent lower break-even point reduce their work effort, less tax money is raised from their earnings. The end result is that fewer households participate in work because the payoff is so modest. Poverty is not reduced by as much, nor is as much work undertaken.

The dilemma of welfare reform centers on this set of tradeoffs. Less-expensive programs provide less assistance and less incentive to work. More-expensive programs solve these two problems, but at the expense of a higher cost. Trade-offs must be made among competing objectives and competing means. The difficulty is achieving consensus on what the optimal mix is, since those choosing the mix have different conceptions on how individuals will react to different sets of conditions and incentives.

Because of widely differing conceptions of what it is that motivates people, the federal government has been forced to undertake a variety of empirical experiments of potential welfare reforms. Numerous new ideas are being tested today, and many others await federal permission (waivers) to be tried in states around the union. Wisconsin is said to have more experiments going than any other state. Most of these experiments (except Work Not Welfare) do not involve radical change — they are said to work at the margin, within the somewhat stretched boundaries of the current welfare system. But in the past, there have been some dramatic experiments undertaken, including one involving the negative income tax that is termed the largest social-science experiment ever undertaken. It is to that experiment that we must turn to better understand some of the recipient reactions to a negative income tax.

### *Review of the Experiments*

Between 1968 and 1982, the federal government actually sponsored four negative income tax (NIT) experiments. The experiments were geographically dispersed across the country, ranging from New Jersey and Pennsylvania to Gary, Indiana, to rural Iowa and North Carolina, and to Seattle and Denver. The experiments varied in size, family composition, different minimum-guarantee levels (from 50% to 125% of the poverty level), tax rates (constant rates ranging from 30% to 70%), and break-even points (ranging from the poverty level to 250% of the poverty level). The Seattle-Denver Experiment was the last and largest of the experiments. It was also the most generous in terms of guarantee level; its least-generous treatment was 95% of the poverty line, a level equal to the most-generous treatment in the other experiments. Seattle-Denver also experimented with differing treatment lengths (three, five, and 20 years) and variable tax rates.<sup>14</sup>

Several critical issues were explored in these experiments. The single largest was that of the labor-supply response. Would recipients respond positively to the incentives to work, or would they reduce their labor force participation either by reducing the hours they work during the week or the weeks they work per year? The net measure was total hours worked per year. A second important question was whether the guarantee would lead to household formation or dissolution. Unlike welfare, under the NIT, couples could stay together and still receive the financial assistance. On the other hand, the level of support provided could induce family dissolution because women would not have to rely on unwanted spouses to provide some financial support.

Numerous reports have been written analyzing the results of the experiments on labor supply.<sup>15</sup> Although the experiments were somewhat different, their findings were largely consistent. Briefly, the results were:

- In each experiment, there is an unambiguous decrease in the number of hours worked as

a result of the NIT regardless of the level of income support.

- Although there is substantial variation, the results do reflect fairly consistent patterns of reaction by gender and ethnicity: Blacks and Chicanos generally cut back more work hours than whites, and husbands cut back fewer hours than wives, single mothers, or youths.
- In no case is there evidence of a massive reduction of work; the reductions in hours

generally range from the equivalent of one week to five weeks of full-time work per year.<sup>16</sup>

**TABLE 1** Average Labor-Supply Response from All Experiments

	Annual Hours of Work	Employment Rate
Husbands	- 89 (-5.0%)	-03 (-3.5%)
Wives	-117 (-21.1%)	-06 (-22.5%)
Single Female Heads	-123 (-13.2%)	-07 (-15.7%)
Youth	-173 (-22.2%)	-09 (-20.0%)

Source: Philip K. Robins, "A Comparison of the Labor Supply Findings from the Four Negative Income Tax Experiments," *The Journal of Human Resources*, Vol. XX, No. 4, Fall 1985, p. 577

A summary of the findings, translated into common denominators, appears in Table 1 to the left. What is revealed are the average labor-supply responses in terms of total hours of work per year and the rate of employment. As is immediately

evident, the numbers are all negative: the NIT induces less work, not more, and the relative declines appear to be quite large for some population groups, such as youth. The relative rates of reduction are actually overstated because groups such as youth and wives do not work even half-time half of the year, on average, so the percentage reduction in hours appears to be very large. The actual impact in absolute hours, while significant, is not enormous (two weeks for husbands, three weeks for wives, and just more than four weeks for youths). Nonetheless, the negative response was initially taken as a strong count against the NIT. The inducement to substitute leisure for work because of the basic level of support appears to overwhelm the appeal of even a higher income attainable through the combination of the minimum guarantee and the return from continued labor-force involvement.

The evidence on the impact of the NIT on family stability is not as conclusive. The sample sizes were not large enough to make convincing judgments. Early analyses indicated that the NIT did indeed cause family dissolution. One estimate was that families participating in the experiment had rates of dissolution that were more than 50% higher than those for control-group families because of the availability of the NIT.<sup>17</sup> A more-recent examination of the same data indicated that the NIT had no statistically significant destabilizing effect on the marriages of married couples with children.<sup>18</sup> In other words, no "independence effect" was found to exist. While this issue will remain an important one, it seems safe to assume that its inconclusive impact should not hinder further experimentation with income guarantees, even though the early findings helped to create a strong negative perception of the NIT.

Are the findings on the work disincentives of the NIT along with the early assessment (later disputed) of the promotion of family dissolution barriers to further federal consideration of the NIT? Unfortunately, they may be. Despite the many advantages that a cash-based-support program offers, the work-disincentive findings have been damaging to the image of this approach, regardless of what else

might be said about it or despite what conditions might have changed since the time of the experiments. During the last two decades, it has become increasingly clear that the welfare population is very heterogeneous. Simple solutions such as a NIT with few criteria for participation work neatly for only a portion of the impoverished population. The NIT may play a role in the bundle of programs designed to help the poor, but it cannot address all of the problems. Nor will politicians let it, given its less-than-stellar performance during the experiments.

Despite the current image of the NIT, which seems to overstate the negative results of the experiments with it, the NIT should be reconsidered for several reasons. **First**, such an approach treats AFDC recipients as independent adults, capable of making reasoned judgments. **Second**, its creation would result in the displacement of several current support programs and the bureaucracies that run them, thus increasing the efficiency of income transfer, saving the government money. **Third**, the downside impact of the NIT, its work-disincentive effects, is not that strong. Granted, the program does not induce work in all recipients, but no program does — even the complete elimination of government support. The negative impact is very modest among the population with which many are most concerned, husbands. But even mothers (wives) do not reduce their commitment to the workforce a great deal, approximately two weeks a year in terms of full-time equivalent hours. And even this may change with the need for additional income today to maintain the same standard of living that was acceptable during the experiments. **Fourth**, a cash-grant approach would help to eliminate many of the complaints that current welfare recipients have with an arbitrary system that steals their time, makes them jump through meaningless hoops, forces dissolution of families, infringes on their rights of privacy, deprives them of decision-making authority over their lives, creates a stigma, generates fraud perpetrated by numerous “charities,” and dissipates to the middle class financial resources most needed by the poor.<sup>19</sup> **Fifth**, if a time limit and a minimum-work-hours limit were instituted for the recipient population, some of the voluntary withdrawal from the workforce would be eliminated, thereby making the approach more effective at inducing work.

## A PROPOSAL

One fact has become increasingly clear as we explore welfare and alternatives to welfare: **there is no simple solution**: The NIT is not the answer. The Earned Income Tax Credit (EITC) currently in force is not the answer. The end of AFDC is not the answer. The welfare population and the low-income working poor population are extremely heterogeneous. They have a wide range of skills, experiences, education levels, motivation levels, and personal philosophies. They cannot and do not all respond in the same way to the same set of incentives (be they positive or negative). If welfare is to stand any chance of being successfully reformed, those doing the reforming must recognize this diversity and create a set of approaches that allows for different abilities and attitudes and different time frames for responding. One standard approach will not work for all potential recipients. The answer lies in a more-complex solution than has been proffered to date.

Instead of attempting to rely upon an expanded Earned Income Tax Credit (the current form of the negative income tax that applies to working families) and a requirement that welfare recipients work — a goal that will remain unattainable given current skills, conditions, and attitudes in the target populations — an approach should be developed that admits to the various levels of ability to join the workforce while still attempting to adjust recipients’ attitudes toward work. Sufficient compensation for work is an essential element. Also essential are benefits such as health-care coverage and sufficient moneys for child care. If the new alternative offered to AFDC recipients is no support or two years of support (as the feds seem to be proposing), work will be a superior option to some persons. But many

others will choose to find non-working means of support (living off family, friends, food pantries and kitchens, panhandling, and the like), illegal means of support (various criminal activities), or giving up their children to public care in foster homes and the modern equivalent to orphanages. Since these options are not desirable from a societal point of view, do not help the children, and may be expensive — putting children in a residential village may cost as much as \$30,000 per child per year — a more proactive alternative should be developed. A proposal for such an approach is made below.

### *Five Guiding Principles*

Any proposal for welfare reform today must derive from a basic change in philosophy if it is to be accepted and successful. The present system has been identified as inadequate, perverse, demeaning, and non-supportive, along with a host of other adjectives. Recipients and providers alike dislike its operation and impacts. They may not both agree on the specifics, but they do agree that change is in order.

The change in welfare policies should include some new principles. One is that welfare recipients owe a *quid pro quo* for their public support. No longer should recipients receive public largess without owing something in return, at least if they are to receive any more than the most-basic level of support. Those who are struggling to survive may be excused, at least for a period of time. But those who have the skills, talents, and experiences to do more than barely survive need to commit themselves to meeting certain responsibilities in return for receiving public dollars. This *quid pro quo* may be work or volunteering time to help others, but it involves activity beyond the home. Having mothers spending time in such ways may not be viewed as healthful for young children. But since the majority of all mothers of children under one year of age are already in the workforce and there is recent evidence that active participation of the mother in the workforce has a substantial positive effect on some of the outcomes for children,<sup>20</sup> it is difficult to argue that the poorest mothers should be encouraged to stay at home while those who financially support them must work.

A second principle we must all realize and accept is the fact that welfare must include some program elements that treat recipients differently and have less-than-optimal results. We should admit up front that some potential and actual welfare recipients are extremely unlikely to become productive members of the paid workforce any time in the near future because of various addictions, illiteracy, health problems, work inexperience, and the like. Admitting to this allows us to design a system that supports such persons, but at levels below those of others who are more willing and able to contribute time and effort in return for financial support. It also allows us to accept and encourage some of the results we get today, but which pain certain members of society. We should be able to promote the notion of full participation in the workforce for adults, including mothers, but we should be willing to accept the fact that not all such persons are willing or able to fully participate in the paid workforce at this time. We should, therefore, design a system that allows different levels of work effort, but which also promotes full-time work through a series of incentives and requirements.

A third principle is that known perverse requirements or impacts should be eliminated or at least reduced as often as possible. The biggest one concerns the rewards from work: households should receive more income from working than they receive on public assistance. The incentive to not work should be removed. Another deals with splitting households. The current welfare rules in most states do not allow husbands to live with wives or fathers to live with the mothers of their children if the mothers and children are to receive welfare support, unless some specific prior work requirement has been met. This is perverse, if we as a society are to promote families. Yet another example is the current system of rules which forces recipient/non-recipient decisions on the basis of a few dollars of income. Today, if

household income rises above some arbitrary level, that household is ineligible for further support; below, it is entirely eligible. For instance, if a welfare recipient earns some additional moneys above what is allowed, they lose many, if not all, of their benefits. The recipients have a perverse incentive to stop work, to earn less, to provide less of a *quid pro quo* for their receipt of support. Any new system should provide for sliding scales of support that do not force precipitous changes in status or income in order for recipients to continue to receive any government assistance.

The fourth principle is that all families with children should be assured of some minimum level of income, for both humanitarian reasons and as an inducement to encourage certain behavior. This support is not an indefinite-period entitlement. It is a limited-term income that carries with it certain reciprocal responsibilities. The amount may not be generous. But children and soon-to-be mothers especially must be given enough support so that they stand a reasonable chance of leading healthy, productive lives. We as a society end up paying too much for low birth weight babies and very poor early-childhood development. One step towards reducing these many costs is to create a minimum income that creates the opportunity for more socially acceptable behavior for adults and children alike. Money alone will not solve the problem, but it is an essential element.

The fifth principle is that the approach should, to the degree possible, help to push low-income participants into mainstream activities. The system should help prepare recipients for participation in the workforce and help them prize education, training, and a longer-term perspective. The current system fails miserably in these regards. A new system must contain elements that are supportive of work and individual initiatives to improve one's life. Incentives and opportunities must be ever present toward these ends.

### *Three Program Elements*

What follows below is an exploration of my proposal for a reformed welfare system that adheres to these principles and attempts to address other concerns about the current approach. The proposal contains three major program elements: 1.) a **cash grant** for all households with children to insure a minimal standard of living that would replace AFDC and Food Stamps; 2.) a **work requirement bolstered by an Earned Income Tax Credit (EITC)** that further assists all persons who work to qualify for its additional subsidy to their earnings in order to promote work; and, 3.) the introduction of a **"volunteer" program known as Time Dollars (TD)** that would make non-working recipients give some of their time to assisting neighbors while concurrently helping themselves make the transition from no work to sufficient work to qualify for at least the EITC.

The proposed multi-tiered system would consist of four levels of participation: 1.) a "minimum" income in the form of cash for the least able to enter the labor force; the initial support level would be reduced further if the recipients were not able to move to self support or volunteer activity after two years; 2.) a minimum income plus a modest supplement for those who can do volunteer work on a consistent basis through the Time Dollar program rather than work; 3.) an EITC for those who can work, but who cannot earn enough in the market to put themselves out of poverty without assistance; and, 4.) independence for those persons who earn enough on their own to make an above-poverty living.

The basis for the recommendation is multifold. The current welfare system does not work well. Nearly everyone agrees that it must be changed. But an element that cannot be eliminated is some basic level of income support. The most-basic support level would be aimed at those persons who could not make the immediate transition away from support. These individuals are too dysfunctional through some combination of drug or alcohol abuse, illiteracy, mental-health problems, and the like to be expected to

hold a paying job that would keep them above the poverty level, at least in the short or intermediate runs. But because of their life choices, they will not be supported at a very high level. They would receive the lowest amount of support given, and this level would be reduced further if they cannot become functional enough to do volunteer activity within two years.

The move to cash as the form of income support has been explained above: basically, it helps more persons, gives individual recipients choices, and increases the efficiency of government-transfer programs by reducing the amount of money that is siphoned off to service providers and administrators before having a chance of getting to the poor. Some persons will need help in making reasonable consumption choices, but the vast majority of welfare recipients will be able to make informed, rational choices on how to best spend their resources.

The other half of a NIT, the earnings subsidy, is also needed. The EITC is already in place to help those who earn a limited income. This approach encourages work and makes taking low paying jobs more rewarding. No new program is recommended here: the EITC just needs to be fine-tuned to make it more influential in persons' lives, and a minimum number of hours of work would be required after a limited time period to promote greater participation in the workforce.

Unfortunately, given their current capacities, not all low-income persons can find work, even if they wanted to. An interim measure is participation in the Time Dollars (TD) program which allows them to be paid in time dollars or service credits based on the number of hours "volunteered" in various, sanctioned activities. The hours of volunteer service — be it driving others to the grocery store, providing companionship to the infirm or the elderly, providing homemaker services, making meals, or many other activities — can be traded for services or, in some cases, goods that they need. The system creates a new economy with a new currency, "time dollars" equal to the number of hours volunteered. This allows persons to earn assistance that they need while helping others and training themselves to become useful, productive, responsible members of society who can subsequently be employed in the other economy, the one that pays in U.S. dollars. Time Dollars also allow them to meet their *quid pro quo* for receiving public dollars.

Each of the three components of the proposed new welfare system must be explored further. Each component is elaborated upon and evaluated below as to the changes necessary for it to be included in a viable, new approach to welfare. Not all of the potential problems identified can be solved at this time. Other individuals and institutions must consider them and help to develop appropriate means of operating them so that a new system can be constructed, one that truly is better in all regards than the present one. The solution need not be perfect: none will be. It only needs to be significantly better than what it is we have today.

### **The Piece in Place: The EITC**

In spite of the somewhat negative assessment others have had of the Negative Income Tax (NIT), the question must be asked whether the NIT in the form of a basic minimum guaranteed income along with the Earned Income Tax Credit (EITC) currently in existence might not play an important role in the reduction of poverty, the reliance on welfare, and the diminution in the role of government-service agencies. The EITC is a form of NIT that assists those who have earnings, ignoring those who do not. The EITC by itself provides no minimum income, but those who work may have their earnings supplemented by payments from the federal government if their earned income is below certain specified levels.

The EITC works like an NIT in that recipients receive more net income than they actually earn. As it is now implemented, there are three different rate areas. One is a straight percentage increase in earnings over \$1, but less than an intermediate-income figure, currently \$8,425 for a family with two children. This rate is currently 30% of earnings less than the \$8,425 figure. Next comes a "flat" range of earnings in which recipients receive the full tax credit. Between the top of the flat rate range and a complete phase-out point, the "break-even" point, recipients are taxed at a predetermined, constant rate up to the break-even point, currently 17.68% for a household with two children. These figures all change by 1996 to provide even more support for the qualifying households.

As the name implies, the EITC is a credit one receives from the federal government through the income tax. It was originally designed as a way to relieve the burden of the Social Security payroll tax on low-wage, working parents. In 1975, when it was originally adopted, its value equaled 10% of earnings up to \$400 for taxpayers with children and covered the income range

from \$4,000 to \$8,000. The program has evolved since 1975 to the point that by 1996, it will cover taxpayers with no children as well; the income range covered will go from a low of any earnings to a maximum of \$9,000 for childless taxpayers to \$27,000 for a couple with two or more children, and the size of the maximum credit will range from a low of \$306 for childless taxpayers to \$3,370 for taxpayers with two or more children. A fuller set of the variables is illustrated in Table 2 above.

Basically, the way the program works, an EITC-eligible household, one that earns below the maximum, is eligible for a cash subsidy from the government. The size of that subsidy varies with the earnings of the family. If a family with two children earns between \$8,425 and \$11,000 in 1994, it qualifies for the full tax credit of \$2,528. (This sum will increase by 1996 to \$3,370.) Its income will consist of its basic earnings plus the credit. Thus, if it earned \$10,000, its post-tax-credit income would total \$12,528 (\$10,000 + \$2,528), assuming no tax liability. If it earned \$12,000, it would receive the \$12,000, but the tax credit would be reduced by 17.68 cents for every dollar it earned over the \$11,000. Thus, its subsidy would be \$2,528 - \$177, or \$2,351, and its total income, assuming no other tax liability, would be \$14,351. In both of these instances, the family ends up with a higher income than it would without the assistance, regardless of the size of its tax liability. In most instances, these households should have very modest tax liabilities on their basic incomes, allowing the tax credit to satisfy that liability and generate some additional, post-tax income.

As Table 2 shows, the tax credits will be even larger and the break-even incomes will be higher by 1996. These changes are aimed at the goal of "making work pay." Whether they are sufficient, time will tell. But the modifications of the EITC have made it more inclusive over a range of incomes, more supportive in terms of the size of the subsidies, and more helpful to those who work fewer hours or at

**TABLE 2** EITC Parameters Under OBRA93, Selected Years

	Credit %	Flat Range (\$)	Maximum Phase-Credit	Phase-out %	Break-even
<b>1994</b>					
1 child	26.3	7,750-11,000	2,038	15.98	\$23,760
2+ children	30.0	8,425-11,000	2,528	17.68	25,000
No qual. child	7.65	4,000 - 5,000	306	7.65	9,000
<b>1996</b>					
1 child	34.0	6,000-11,000	2,040	15.98	\$23,760
2+ children	40.0	8,425-11,000	3,370	21.06	27,000
no qual. child	7.65	4,000 - 5,000	306	7.65	9,000

Source: John Karl Schultz, "Tax Policy and the working poor: The Earned Income Tax Credit," *Focus*, Vol. 15, No. 3, Winter 1993-94, p. 3

Note: Figures for 1994 and 1996 are in 1994 dollars

lower wages. The intent is to help make work attractive to those persons who have had no or very marginal attachments to the workforce.

One potential barrier to the EITC working as effectively as it could as an inducement for work is the current administration of the program. The EITC is administered by the Internal Revenue Service. The most-common way of receiving tax credits is once a year when one files one's annual income-tax forms. Unfortunately, for a household that may qualify for an additional \$3,370, the wait may be so long that the incentive of the additional income is not strong enough to affect behavior. If one has to wait for up to 18 months after the fact to realize a gain, a gain that may be as high as 28.5% of total income for a family with two children, it takes a very motivated and focused household to use that fact to advantage. It may well be that the EITC is not able, as currently constituted, to provide the incentive to work that was intended.

On the other hand, if the EITC can be transformed into an incentive program that delivers the payoff, the additional income, regularly during the work year and if potential recipients can be made more aware of both the program and its immediate benefits, the EITC may then be transformed into a very viable vehicle for promoting work among low- and moderate-income households. The research on the NIT would suggest that the negative tax format is not sufficient in itself to promote work. In fact, in a widely circulated survey of the research on work incentives for welfare recipients, Robert Moffit concluded in 1992 that it is "extremely unlikely that [financial incentives for work] can be used to achieve significant gains in work effort in the low-income population."<sup>21</sup> But the combination of an immediate payoff, the sizable income incentive that the EITC provides under the new law, and a modest reduction in the size of the benefit (the tax rate) as incomes rise (including no rise at all in the so-called flat range of eligibility) may be sufficient to overcome some of the past barriers to success. In addition, the promulgation of a work requirement that is now under consideration in Wisconsin, other states, and the nation may be the key to insuring a higher level of success.

The EITC is the first major program that helps the working poor, not the largely non-working poor supported by AFDC, and the first to differentiate among the needs of the poor: it is targeted at those who can and do earn some income, admitting that there are others in need who require a different approach in order for them to get out of poverty. Both of these are dramatic changes in U.S. policy.

The EITC did not start with this focus. The EITC originally was created to just help pay the Social Security payroll tax for lower income earners. It evolved over time into a major support program that by 1998 is estimated to cost the federal government some \$24.5 billion.<sup>22</sup> This contrasts with the federal share of AFDC, which is estimated to cost \$16 billion in 1998. The difference in cost between the two programs is attributable to two factors: 1.) the EITC is aimed at both the poor and near-poor who are included in the eligible-income categories; and, 2.) the EITC will serve more persons than AFDC.

John Karl Scholz estimates that the EITC in 1996 will actually serve more households above the poverty line than below it and that it will move approximately 1.4 million households out of poverty.<sup>23</sup> The novelty of the program in relation to welfare is that if AFDC recipients are able to earn some income, they will reap the additional financial benefits that the EITC provides. With incomes of one-child households being augmented by up to 34% and households with two or more children being enlarged by up to 40%, the carrot part of an incentive program certainly seems to be in place.

### EITC Deficiencies

Unfortunately for the success of the program in generating increased work efforts, the plan still contains some negative incentives. The most pronounced is the incentive to work part time rather than full time when one earns above a certain wage level, if all current programs remain available to the poor or if those dollars are transferred to the poor on the same basis as they are today. The second problem is the seeming financial incentive for two parents or a parent and a friend to have two separate households. Also at issue is the current withholding of income, Social Security, and Medicare taxes from wages — which gives the recipients the impression that they are taking home much less than they were on AFDC. A fourth problem that potentially afflicts the EITC and did afflict the NIT is the actual time of realization of the income support. Both the NIT and the EITC are traditionally analyzed as having a payoff at the end of the tax year, which in practice they usually do. All of these issues must be addressed in a systematic fashion if the EITC is to work better as an incentive plan for welfare recipients.

Table 3 to the right compares earnings at four different wage rates for part-time (20 hours per week) versus full time (35 hours per week) work for the full year under certain conditions: earnings only; earnings and EITC at 1993 rates; and earnings, EITC, and other support programs counted on an accrual (as it is being earned) basis. As is immediately evident in the right hand column, there is not much difference in take-home income between persons who work part or full time, nor between those who earn \$4.50 and those who earn \$7.50 an hour, once the other support programs such as AFDC, Food Stamps, and an allowance for child-care expenses have been included.

The part-time versus full-time work disincentive may be a simple one to resolve: do away with the current support programs.

The EITC is designed to assist poor, working households. Its entry point is any one with earned income. If the entire welfare support system is changed with its resources going to the minimum income and some to support a higher EITC, then there is little issue. Those who work full time at a net rate enhanced by the EITC show (column 3) consistent income gains for those who work longer at higher wages. There is not an incentive to work part time: one always comes out substantially better working full time.

**TABLE 3 The Income Effect of Changing Wages**

Hours & Wage	Annual Earnings	Annual Income Accounting Basis	
		w/ EITC Only	w/ All Programs <sup>A</sup>
<b>Part-Time</b>			
\$4.50	\$4,536	\$5,378	\$11,326
5.50	5,544	6,573	11,872
6.50	6,552	7,768	12,355
7.50	7,560	8,963	12,802
<b>Full-Time</b>			
\$4.50	\$7,938	\$ 9,521	\$12,592
5.50	9,702	11,301	12,973
6.50	11,466	13,081*	13,261
7.50	13,230	14,701*	13,720

Source: Michael Wiseman, "Welfare Work Incentives in Real Time," prepared for The National Commission on Employment Policy, October 20, 1993, p. 20

<sup>A</sup> The figures in this column include the total of earnings, EITC, AFDC or equivalent support, the value of Food Stamps, and the result of allowing child care expenses. See Wiseman, p. 17, for details.

\* These figures do not have taxes taken out as do the figures in column four.

Note: The annual income figures are derived from numerous assumptions as to programmatic benefits, including the 1993 levels stipulated for the EITC. Totals include much more than earnings and EITC to illustrate the effect of the currently existing program mix on perceived income, depending on how one views it. See original for the details.

But if the other welfare programs remain in place, a significant problem is created, as can be seen

in column four (income support from all existing programs) counted as if it were being received on a regular basis throughout the year. In covering those who may work full time at a low wage or part time at a modest wage, the income ranges established create a dilemma for those who have a choice of full- or part-time work. The basic dilemma is that the combination of credit and other benefits is larger for the first 20 hours of work than it is for the second 20 or even 15. The net pay per hour drops as one works more hours, thus creating a disincentive to work those additional hours. Each hour does yield a higher income, but the marginal gain drops for each additional hour worked above the minimum. Such a situation should be avoided.

On an accrual basis, a person who works 15 additional hours per week at \$4.50 an hour for the full year will realize an income \$1,266 higher than the part-time worker. This amounts to \$1.62 per hour for the 780 additional hours worked beyond the original 1,000. At \$7.50 per hour, the incentive for full-time work is even smaller: \$918 for 780 hours of additional work. That appears to be a rather-modest inducement for the recipient to seek additional hours or even higher pay. The one advantage to higher pay is that it is likely to lead to even-higher wage levels sooner in the future than those who are still working at the minimum-wage level. Such a concept may be hard for some persons to fathom, leading to a work reduction to part time or no increase in work effort among those already working part time.

This work disincentive is most likely to affect those persons who have lower incomes, those in the so-called "flat range." They are the ones who receive the largest subsidies. They are the ones that the system is trying to encourage to work, period. Those persons who earn incomes in the "phase-out" range are less likely to be affected by the work disincentive for at least two reasons. First, they already have a reasonably strong commitment to the workforce and full-time work. Second, the disincentive to reduce hours worked is smaller. Thus, any problems that the EITC will create are likely to be concentrated among the lower-income population, the group which is being targeted most heavily for simple labor-force participation. The work disincentive is still a problem, but it is also a cost of jumping the major hurdle of getting this population into the workforce.

This disincentive must be addressed. If all other support programs are eliminated, the incentives for more work remain strong. The difficulty this path creates is that the level of support, the net income of participants, is markedly lower than it is today (compare columns three and four in Table 3). As has been noted above, without a commitment to at least as generous a base income as is received today, poverty among children is likely to continue to increase. Thus, some new combination of earnings, minimum income, and EITC must be constructed. The exact combination will require further thought and experimentation. Suffice it to say at this point that a new combination must emerge for it to be effective as an incentive to work.

### *Other Problems*

The existence of an EITC under the more-generous provisions may not only affect potential worker behavior; it may negatively affect employers. If employers can hire acceptable employees at minimum wages because those employees will have their income enhanced by the EITC and other support programs, the employers are likely to continue to pay low wages. Only when there is competition for workers will pressure exist to raise wages. When we as a society talk of attempting to achieve "living wages," wages on which one can support a family, we are undermining economic pressure to pay such wages by subsidizing employers through the EITC. We are also undermining the push for more and better education because we pay individuals to get by with less.

At the same time, the more-generous provisions of the EITC and other support programs help to

allow the further development of part-time employment. With these subsidies, it is easier to convince potential workers to accept part-time work. The workers will receive almost as much income from their part-time effort as from their full-time effort, and they get 10 to 15 additional hours of leisure per week to boot. Such an incentive is somewhat perverse in that it does not create the level of commitment to work that many in this country would like recipients to have. On the other hand, it is very much in line with the actual development of jobs in this country, where an increasingly larger proportion of jobs are part-time positions. Moreover, if it is mothers who are induced to work part time, the EITC helps to serve two important goals: 1.) enhancing the commitment to work; and, 2.) increasing the ability to spend time with one's children while generating additional income.

The argument can be extended to say that once more individuals make the transition to paid employment, they may well recognize, just as many employers do, that higher productivity through enhanced employee performance is the key to business success. Thus, in time the economy should move away from an induced reliance on low-wage, part-time employment. The transition will not be rapid, in part because the transformation of the workers will not be rapid. But employers will also slow the movement as many are slow to respond to claims about the needs of the new economy for more-productive, highly trained workers.

It may be that a time limit will need to be created for those on the EITC for part-time work. As envisioned at this time, after three years of being supported on part-time work, they would have to increase the number of hours they work or their pay rate in order to continue to receive the same support. A decreasing scale of support would be available each year after the target year unless hours or pay are increased to some higher levels. Such an approach would create an added inducement to greater commitment to work and help to reinforce the need to continue one's education and work commitment.

### *Family Stability*

The second major issue with the EITC is one that was raised with the NIT, the potential of the subsidy to split families or reduce the chances of their being formed. One author termed the current operation of the EITC "the harshest marriage penalty in the history of the U.S. tax code."<sup>24</sup> Under the 1994 rates, an unmarried couple, each with two children and \$11,000 in income, would lose \$5,686 in EITC benefits by marrying. Smaller gains could be made by splitting a married family if each spouse took at least one child with them. Under the 1993 amendments — which allow for persons with no children to receive an extremely modest stipend, \$306 — it appears that it does not pay for a single partner in the marriage to split off and live alone, leaving only the other one with dependents.

Large though this marriage penalty seems, and some effort should be made to attempt to further reduce its scale, it should not affect large numbers of households. Single individuals with low earnings receive very modest EITC support, so separate, single households are not likely to be encouraged. Secondly, few households split with one or two children going with each spouse. The cost of setting up the second household is likely to greatly reduce the supposed benefit of the EITC subsidy gain. If a household must pay \$400 a month for rent, that is \$4,800 out of the supposed \$5,686 gain in the example. And that does not count utilities. So the real inducement to stay apart or to split is not very large. Third, the EITC is an inducement for some households to marry. For example, if a single man with \$11,000 in income and a mother with two children and no earnings marry, they will be eligible for an EITC of \$3,370 by 1996.<sup>25</sup> Thus, the EITC works for some to encourage marriage and for others to not marry or separate.

The third and fourth issues, that of the lack of immediacy in the receipt of the additional income and the perception that actual pay is lower than it should be because of the withholding of various taxes that low-income earners will seldom have to pay, need to be addressed. In actuality, within the operation of the existing program, an advance on a recipient's EITC can be received in his or her paychecks throughout the year if the recipient has asked his or her employer to file the requisite papers. Many recipients, especially those recently leaving welfare, may feel uncomfortable asking a new employer to fill out all of the forms required for the advanced-payment form of EITC, which would force the recipient to admit that he or she is still on a subsidy, only one coming from a different program. Other recipients may not know of the advance-payment option or fear year-end tax liability. And many do know of the option and elect to wait for the payment, using the deferral as their only form of savings. At any rate, the option is seldom used: a Government Accounting Office study revealed that in 1989, fewer than 0.5% of persons eligible for the credit received any of it in advance.<sup>26</sup> If possible, that percentage should be dramatically increased.

Under existing rules, an employee need only file a form with an employer requesting participation in the Advance Earned Income Tax Credit (AEITC). In 1993, the maximum weekly amount that could be paid per week was \$27, or \$1,404 per year. The figure is not overwhelming, but it can make a difference in a weekly paycheck. Employees who elect this option must file income-tax returns on which the AEITC is reconciled with total tax liability. If they have received too much credit in advance, the excess is added to the family's tax liability. That fact alone may scare some potential recipients, but for many, the idea of receiving additional income on a regular basis can have nothing but appeal as long as it is not difficult to arrange.<sup>27</sup> In most cases, they will still receive a year-end bonus because their advance payment will still be smaller than their tax credit.

In addition to making the weekly or bi-weekly paycheck reflect the EITC, a second step to increase the take-home pay of recipients is to better handle the normal deductions for state and federal income taxes by treating the entire system on an accrual rather than a cash basis. Recipients should receive earnings and credits as they are generated, but precalculated as to their tax implications rather than at the time of tax filing. If this is done, virtually all part-time workers and many full-time workers (at lower wages) would receive more money in each paycheck because they would not have either state or federal taxes withheld or some taxes would be taken at lower rates.

To illustrate this, we will take a Wisconsin example. If a part-time worker were paid \$6.50 per hour for 20 hours per week, under the cash basis, the recipient would be paying \$70 annually for tax liability (later to be refunded) and would be eligible for a state earned-income tax credit of \$319 (to be received later). If this were precalculated and paid, the recipient would receive an extra \$389 during the year in addition to the federal AEITC. This would total some \$1,278, under the current payment schedule, allowing for deduction of Social Security and Medicare taxes. That is a sizable jump (19%) in weekly or monthly income for recipients and could well influence work behavior.<sup>28</sup>

Most of the shortcomings of the EITC can be addressed to reduce their negative impacts. Steps should be taken so that they are. The large hurdle that is difficult to overcome is the incentive to promote part-time work. A time limit on the number of years one can be supported for doing only part-time work may be the answer here. Such an option should be implemented. The EITC is an important element in the set of programs needed to move households off welfare. The deficiencies in the current approach are not enough to counterbalance the many benefits of the program. The EITC is a major component of the proposed approach.

## Cash Grant

The second major element being proposed is a minimum income in the form of cash for all families regardless of their efforts to find work or be involved in voluntary activities. This is a fundamental part of Friedman's original proposal, Nixon's Family Assistance Plan, and several other proposals. The minimum is a statement that all families should have basic resources to survive, regardless of whether they are able to function in the larger economy. The more family members become part of the mainstream culture, the more benefits they will receive (largely through their own efforts).

Why should we have a minimum income? How large should it be? These are two of many critical questions that must be answered. The second question will be answered first. On a general level, it is safe to say that the minimum must cover the very basics. The needs of children must still be met, even if the adults in the household are not capable of offering their services in any way. The initial minimum will be close to the combination of the average value of AFDC relief and Food Stamps by family size. It should be high enough to meet the basic needs, yet not be so high as to be a disincentive for participating in either the Time Dollar program or the EITC. The rate must vary by family size, with the minimum for a family being very low so as not to induce the same perverse response of families refusing to move into the Time Dollars and work programs because the support is so generous. Calculating such levels will be difficult, but it can be done. There will be errors at the margin. But with some effort, most of the problems can be minimized.

The minimum income ideally would be supported from a collection of funds created by the pooling of the budgets of AFDC and Food Stamps, plus additional funding, if it is needed. The creation of a universal minimum, unless it is very small, will attract the participation of additional poor families that have not been involved in AFDC. Their participation may raise the total cost of the program, but it will also reduce the poverty gap further than is being done at this point. Furthermore, the move to cash will save administrative costs, reducing the net cost of increasing participation.

Ideally, all recipients of this minimum would have to enroll in the Time Dollars program of volunteering as their *quid pro quo*, but that is not a reasonable expectation given the dysfunctional nature of many low-income persons. Every effort will be made to move these dysfunctional persons to Time Dollars and further into paid employment. But it is not reasonable to expect that this transition will be swift or complete, even with a work requirement after some limited period of time. Such a population must still be assisted in moving from complete dependency to lesser states of dependency. A minimum income seems the least-objectionable way to start. Furthermore, incentives will be built into the system that give such persons reasons to try to get themselves off the lowest rung on the economic ladder. It is proposed, for example, that those who participate in the TD program receive a larger income stipend than those who make no effort to move themselves up the economic ladder. Furthermore, after some mandatory period of support at the minimum level, recipients must move into the Time Dollar program to continue to receive their stipend. If they refuse, their stipend will be reduced 30%, a move planned to induce the intended behavior.

The strategy here is to build into the system a set of incentives (both positive and negative) that makes movement toward full participation in the paid workforce the ultimate, achievable goal. Each time a participant moves up the next rung on the ladder, he or she receives more rewards. Sometimes these rewards are monetary, as the minimum income increases for those who participate in the TD and EITC programs. Other times, it is the receipt of additional services, such as those who become involved in the Time Dollar program. Regardless, additional incentives exist to help move individuals up the economic ladder and up the independence ladder.

**TABLE 4 Tentative Timetable for Stages of Income Support**

Minimum Income	Two Years
Minimum Income minus 30%	Two Years
Minimum Income plus Stipend for Time Dollars participation	Two Years
EITC for part-time work (20 hrs)	Three Years
EITC for full-time work (35 hrs)	Indefinite

An element that will be needed is a timetable for when individuals must move from the minimum income to the Time Dollar program to the Earned Income Tax Credit with part-time work to the EITC with full-time work. The rewards at each level may not be sufficient in themselves to inspire participants to move swiftly to the next stage. Target dates will be set for all recipients (see Table 4 to the left), but these can be modified by caseworkers if there is

sufficient justification. Such discretion is necessary because of the strength of dysfunctions among some members of this population. It is important, though, that pressure be placed on both the recipients and the caseworkers to move individuals forward, because the history to date shows a reluctance to do so.<sup>29</sup>

Basically, recipients would enter with the minimum level of support. They would be asked to begin to participate in the volunteer program. If they were able to do so, they would receive an additional stipend. If not, they could receive the initial minimum income. After two years of minimum-income support, they would be required to again move to the volunteer program. If they were not able to fulfill the program requirements, they would be eligible for a 30% lower minimum income for two additional years. This option is created because it is likely necessary, and it is much cheaper than the most likely alternative — removing the children and putting them in child-care institutions, which could cost \$25,000 to \$30,000 per child per year, many times more than a minimum income.

Those participants who work a minimum of 20 hours per week at the minimum wage or higher would receive an income supplement from the federal government through the EITC program. Such participants could continue to be involved in the Time Dollar program: their only requirement is that they work at least 20 hours per week. After some pre-established period of time, say three years, if participants had not moved from part-time to full-time work, they would be required to do so if they wished to continue to receive the full EITC. Then, if the inducement of the market is strong enough, they will be able to earn enough over time to no longer qualify for the EITC. They will support themselves in the labor market.

A hypothetical example of some of the different income levels under the various stages of support appears in Table 5 on the next page. What it shows are the increases in income that are possible under the proposed changes for a mother with two children under the ages of thirteen. What becomes readily apparent is that the level of support received today under the welfare system is quite high compared to what some persons at the minimum wage may be able to achieve. This argues for less support for those who cannot work or volunteer and greater subsidy for those who can work or volunteer, but who have very limited income-earning capacity.

Reducing the minimum income below the current AFDC level, which already has been reduced by inflation, will create more poverty among children in Wisconsin. If households receive only the equivalent of the AFDC support, \$6,204, that household will be approximately \$3,000 short of meeting the rather-modest federal standard for poverty. That is a strong argument not to set the total support at this low level, unless most of the other existing anti-poverty programs are continued. But continuing these programs works counter to attempting to reduce the size and cost of the bureaucracy administering the anti-poverty programs. Some combination of moneys from these programs or the value of their

services, should they continue, will be reduced to meet the basic needs of these households.

On the other hand, if the difference between no work or volunteering and the minimum income is too small, then there is little incentive, as there is today, to move to more independent modes of living. This point argues strongly for reducing the support level or electing the other two options. Increasing the subsidy is acceptable, except it becomes more costly. And if it is more costly, the tax on earnings will be raised which will, in turn, reduce the earnings incentive.

**TABLE 5 Hypothetical Annual Incomes Under Alternative Welfare Options for a Mother and Two Young Children (1994 EITC Rates)**

Welfare Option	Annual Income
AFDC Today, WI	\$6,204
AFDC + Food Stamps (est. value \$2,568)	8,772
Partic. in Time Dollars w/ supplement @ \$600	6,804 (with FS* \$9,772)
EITC (20 hrs. week @ \$4.50 hr.)	5,625 (with FS* \$8,193)
EITC (20 hrs. week @ \$5.50 hr.)	6,875 (with FS* \$9,443)
EITC (20 hrs. week @ \$6.50 hr.)	8,125 (with FS* \$10,693)
EITC (35 hrs. week @ \$4.50 hr.)	10,008 (with FS* \$12,576)
EITC (35 hrs. week @ \$5.50 hr.)	11,788 (with FS* \$14,356)
EITC (35 hrs. week @ \$6.60 hr.)	13,568 (with FS* \$16,136)
EITC (35 hrs. week @ 9.50 hr.)	18,153 (no FS)

\* FS = value of Food Stamps if cashed out

The obvious choice then becomes building earnings capacity in the participants. The problem here is that this takes time and money. Undoubtedly, this is the best long-term strategy. But it cannot be universally implemented immediately. One or both of the other adjustments must be made because in the meantime there is only modest incentive to work up to 30 hours per week at less than \$6.00 per hour, even with the EITC.

This lack of incentive will change marginally by 1996, when the full increases in the 1993 law will go into effect. Instead of receiving only \$5,625, those working part time at \$4.50 per hour will receive \$6,300 per year, and those earning \$5.50 will receive \$7,700. The scheduled increases make the work option somewhat more appealing. But the Time Dollar option with only a \$300 per child supplement would still be more attractive on income grounds alone than any work that pays less than \$4.85 per hour for part-time work. And even the Time Dollar option is not very attractive compared with no commitment outside the home. That is why a requirement to participate is necessary.

Another point the Table 5 illustrates is that there are fine lines between each of the alternatives. No one alternative is markedly above the next. But it is also clear that if one can earn \$6.50 an hour on a consistent basis, even part time, one's standard of living will be considerably better than if one remained on welfare alone or, in our case, on the minimum income. If the value of Food Stamps is added into each alternative, the differences largely remain, since the value would be added to all household incomes below \$15,048.

What needs to be resolved is the size of the minimum income. This figure drives all others. I find it hard to advocate for a reduction below today's AFDC and Food Stamp payment levels; too many

children are dependent upon this minimum amount. Therefore, to put more incentives into the system, the state EITC for the lowest wage-earners must be increased to make work more attractive; concurrent baby-sitting TD service hours tied to the number of hours worked should be credited to each worker to make child care less of a burden, and the state EITC must be increased slightly for those earning just above the minimum wage in order to make work more rewarding than non-work.

### **Time Dollars**

The third major component of the proposed welfare reform package is Time Dollars. This program is primarily aimed at those persons who may someday be able to support themselves and their families through paid employment, but who are unlikely to be able to move immediately into the paid workforce. Barriers to immediate employment include the many factors discussed previously — health problems, illiteracy, drug and alcohol addictions, lack of education or work experience, and the like on the labor side and availability of jobs on the demand side. Making an immediate match is expensive, if not impossible. Spreading the matching of jobs and people over a longer time frame is likely to be less expensive, especially if it is done through an approach such as Time Dollars.

Time Dollars is basically a voluntary program: participants who qualify for the minimum income and are not working enough hours to qualify for the EITC must enroll initially, after which they have options. The program is voluntary in that individuals do not have to remain in it: they can either drop back to a lower level of income support, if the individuals prove to be unable, even with professional support, to meet their obligations of voluntary duties, or move on to an earned income that is assisted by the EITC. If they are unable to continue, they are “volunteering” for the lower level of support with fewer immediate obligations to the state.

Time Dollar participants who are being publicly supported would be required to volunteer 20 hours per week, just as those on the EITC must work a minimum of 20 hours per week to qualify for the EITC. Under the Time Dollar program, those who volunteer 20 or more hours per week qualify for an additional stipend: those households with children receive moneys to help pay for child care to cover some of the time they are volunteering. In Wisconsin, this stipend could be paid for out of the funds which support the state-sponsored EITC. Supported participants would continue in the Time Dollar program for as long as they desire: if they move on and support themselves through earned income, they can continue to participate in Time Dollars; they just will not continue to be supported by the minimum income.

Time Dollars is a program in which participants become part of a new economy, one that does not rely on the market driven by the U.S. dollar. Their participation in this new economy may last a lifetime. Or it can merely be used until the individuals are deemed acceptable by the market economy and offered employment that can support their families. While individuals are involved in Time Dollars, they help both themselves and their communities. Even those individuals that do not make a swift move into fully paid employment will still be contributing to their communities, receiving decent incomes, and setting reasonable examples that even middle-class families could use as examples for volunteerism.

Time Dollars differs from community-service jobs that others advocate as employment options for the poor. Community-service jobs are usually governmental positions. Holders of such positions are to provide services that governments traditionally have provided, but perhaps not in sufficient quantity. Some are related to infrastructure; others relate to community maintenance; still others involve working in traditional offices. Time Dollars, on the other hand, provide a variety of services that have largely been outside the purview of government. Furthermore, community-service positions are commonly full-

time jobs, whereas Time Dollar jobs are thought of as a series of duties that collectively add up to a part-time commitment. In short, they reflect a different philosophy as to what type of activity is needed as a training ground for the target population.

### *The Basics*

Time is money. We always say that, but we seldom mean it. With Time Dollars, time is literally money: it is the currency of exchange. Instead of measuring the value of all activity in terms of U.S. dollars, service credits or "time dollars" are the new currency. Time dollars are earned by helping other persons in need. One hour of service — be it a ride to the doctor's office, doing someone else's grocery shopping, helping with cooking and cleaning, taking care of plants or pets, or completing minor home repairs — earns the provider one service credit for every hour of effort. That service credit is centrally recorded and can then be used by the provider to "buy" other services that he or she needs — be it baby-sitting, typing, sewing, or a host of other services that may be offered by persons involved in their Time Dollar organization. Time Dollars is a modern incarnation of an old concept: help a neighbor who will eventually help you. It can also be said to be a form of barter in which the item traded is time.

Barter is a common activity in business today. Businesses trade services, say an hour of accounting work for an hour of legal work or an hour of consulting for an hour of trash removal. The measure of value need not always be in time; it is in an agreed-upon unit of measure of value. The point is that the practice is common. Time Dollars merely take this practice between businesses and apply it to activities between individuals.

Time Dollars for individuals have been implemented in Miami, Washington, D.C., Boston, St. Louis, New York, and San Francisco, and by two states, Michigan and Missouri. Time Dollars have had great success in making connections among people, in giving the elderly something to do, in assisting the elderly in staying independent, and in motivating people to donate their time and energy to activities and to others that otherwise was not occurring. Most of the early experiences with the implementation of the concept has involved the elderly, in large measure because the Robert Wood Johnson Foundation gave the sites moneys for this explicit purpose. But other sites have dealt with younger persons, and the potential for involvement of persons of all ages is enormous.

Just think of the un- and under-utilized resources in our populations — individuals who are looking for things to do and who have large amounts of time to spend, but who are not highly enough valued in our money culture to be induced to take on tasks. Youth are begging for activities where they can get experience and get involved in activities that are not crime-related. Middle-aged persons often seek outlets for their talents, but they go wanting because few organizations can make good use of volunteers. The organizations do not think that they can rely on volunteers, so they assign them to unimportant and demeaning work. The volunteers follow through in expected fashion, quitting in short order because their talents are not being utilized.

The elderly are often retired, but still active. They seek meaning and commitments. A voluntary organization that connects them to people needing their assistance is very rewarding, both because the service providers feel wanted and essential and because they feel a greater sense of community. This sense of community has been shown to have health benefits to the participants: belonging to a group and contributing to that group extends lives. Some health-insurance organizations even accept time-dollar payments for partial payment for health insurance for the elderly because the organizations have seen that participation in the Time Dollar program has improved participants' health and reduced their need for health services.<sup>30</sup>

Volunteers can be relied upon to do all sorts of work. They can take care of the elderly in their apartments. They can keep homebound persons company, either in person or by telephone. They can meet basic home-nursing needs, those that do not require professional training. They can baby-sit. Volunteers can do lots of tasks that are essential to making a community operate more like a community. Table 6 below shows a partial listing of common options. The list can continue to grow as individuals with different skills and needs become involved in the program.

**TABLE 6**      **Examples of Common Time Dollar Activities**

<b>Services for Elderly</b>	<b>Services for Children</b>	<b>Educational Services</b>
Adult day care	After-school day care	Arts and crafts
Adult evening care	Babysitting	Certificate program
Companionship	Child development	Citizenship
Escort	Home visiting	Deafness assistance
Excursions	Latchkey	Entrepreneurial/management
Gardening	Preschool	Establishing day-care business
Homemaker services	School support services:	Exercise classes
Light housekeeping	<i>cafeteria aide</i>	First aid
Meal preparation	<i>classroom aide</i>	Literacy/English
Pet care	<i>library aide</i>	Literacy/Spanish
Post-hospital care	<i>monitor</i>	Parenting classes
Reading	<i>teacher's aide</i>	Sewing classes
Religious visitations	<i>tutor</i>	Special courses:
Respite care	Sick-baby day care	<i>avocational</i>
Shopping	for working parents	<i>continuing education</i>
Telephone assurance	Sports-team coaching	<i>weekend institutes</i>
Translation		Teen-pregnancy prevention
Transportation		
Typing		

Source: Edgar Cahn and Jonathan Rowe, *Time Dollars*, Emmaus, Pa.: Rodale Press, 1992, p. 194

Most of our communities have deteriorated as we have transformed increasingly to a strictly market economy. Services are not given; they are only bought and sold. Assistance that used to be freely exchanged among neighbors is now only exchanged through the medium of money. The result has been that many tasks that used to be done routinely for free are just not done. The result is a deteriorating quality of life for many. This condition is likely to get worse as increasing needs develop among the elderly, as this demographic group begins to grow rapidly, and as the size of the poverty population grows in our central cities. Already our cities experience high tax rates that have brought about the reduction in services routinely offered a decade ago. We cannot afford to provide the services we think are necessary for the quality of life we think all should have. Our model of taxation and spending has reached its limits in many communities. Our use of only one medium of exchange, the dollar, has run out of options as a means of addressing societal needs. We need to introduce a substitute: Time Dollars.

This notion of getting something concrete in return for an activity is very deeply entrenched in our collective psyche. The concept of Time Dollars builds on this, but substitutes payment of a time dollar for payment in cold cash. The difference is enormous.

Time dollars are given for any service activity that is requested. All activities are equally valued. Thus, baby-sitting is valued the same as providing income-tax assistance. Teaching reading is valued the same as helping another person get to a doctor's appointment. Persons who have been repeatedly told by the cash market that their time is valued at a much lower level than everyone else's suddenly are told that they are the equal of everyone else. That is a very powerful message to motivate those who might previously have been totally defeated by the market economy. Individuals contribute what they can. If they are illiterate, they can do tasks that do not require literacy. In return, they can receive literacy instruction from someone else who may have another need that yet another person has met. This becomes an organized barter society with a central trading board that deals in service credits. The only limits are the skills and needs of those in the organization.

### *Payoff to Participants*

The Time Dollar program would give participants the experience of doing something akin to work for a minimum of 20 hours per week, preparing them for paid employment. It should also commit them more to their communities, as they help to serve others. This notion of service raises the level of commitment to others and of responsibility for others and oneself and one's family. It also reinforces work skills — appearing when required, completing assigned tasks, doing something regularly, and trying to please the client. Such skills and attitudes will be very useful when the participants decide to move to the next step, that of paid employment.

Participants may come out ahead in other ways with Time Dollars. It is very possible that service commitments may be much more physically accessible than paid work commitments or at least paid work commitments that offer at least 20 hours per week of employment. Furthermore, participants may not have to worry about upgrading their marketable skills; they can meet their volunteer commitments with their existing skills. They need not invest additional time and energy in further upgrading, perhaps at a time when they have too many household responsibilities or poor access to training and education programs. If the EITC is attractive enough, some will make the move to paid employment. Those that do not will still be contributing to their communities and receiving decent incomes.

It may be possible that certain individuals will find themselves in situations where the benefits from Time Dollars and limited paid outside work outweigh the benefits of moving to paid work of greater than 20 hours a week. Is this undesirable? It is easy to argue that it is not undesirable. Community work is being done that otherwise might not be. The fact that paid employment is unappealing matters not as long as at least 20 hours of volunteer time is committed. The issue is the *quid pro quo*: as long as recipients are giving of their time for approved activities, then they "deserve" to receive. Work may not be the best option for them at this juncture, but they will have an impressive history of helping others as long as they fulfill their Time Dollar commitments. Societal norms for work, plus additional income needs, may force them into a fuller commitment to the paid workforce at some point. In the meantime, they will be able to meet basic needs, meet their obligations to society, and develop basic skills that will aid them when the time comes to do more paid work. Time and further reflection will tell whether this is a better option than a lockstep march up the ladder from part-time volunteering to part-time work to full-time work. Such an option should be kept open and reviewed after implementation.

### *The Mechanics*

Time Dollars have been organized in a variety of ways. But all approaches contain some common elements. Persons are recruited to participate in the program. One person or place is chosen as

the central point of coordination. Individuals make requests for services, and other individuals are listed in the central office as being able to perform those services. The matchmaker at the central office then tries to make the connection between the two based on such factors as propinquity, personality, special skills, and the like.

The matchmaker is a critical role for the smoothness of operation. He or she must have an informative record on the individuals — their skills, their most recent assignments, the number of hours they have already given in the past week or month, their limitations, their likes and dislikes, their personality, and the distance they can travel. Certainly, most of this information is built up over time. But it is the type of information that the central operator would like to know to make the best assignments possible. Experience has shown that when the matchmaker is more familiar with both the giver and the receiver, the match is more likely to work. This does not have to be the case, but the program's efficiency can be increased this way.

When persons are first recruited into the program, they need some instruction on what it is they are to do and not do. Some programs have held training programs for their volunteers, while others have found that placing new recruits with mentors has worked even better.

As matches are made and volunteers perform their services, they receive credits in the central bank: one hour of credit for each hour of service work. The service recipient is charged with a one hour debit at the same bank. One model of tracking the delivery of services has the service provider asking for a signature from the recipient on a slip of paper noting the time involved. Other systems have evolved to the point that they assume that a service was delivered for a certain number of hours unless they hear from the recipient that the service was not given. This latter approach reduces the paperwork dramatically, but it relies on the integrity of the individuals. Under some circumstances, a mix of the two approaches may be needed.

The TD system works well when those involved are well-intentioned, have accomplished much in their working lives, and now want to give something back to their community. When we talk of attempting to apply this same idea to a population that has not much history of regular work attendance, consistent quality provision, or self direction, it is obvious that some of the mechanics may have to be adjusted to reflect a less self-directed population, at least initially. It seems more likely that training as well as mentoring will be needed, at least for a portion of this population. Some policing of the services supposedly provided will be necessary, at least until individuals are proven to be reliable. The greater the number of persons who can be released from reporting individual hours, the more efficient the whole system can be. Recruiting "volunteers" will not be an issue, since individuals will be assigned to participate until such time as they prove either unable, in which case they will be removed from this responsibility and their income reduced, or too able, in which case they have moved on to enough paid employment to participate in the EITC program. Such persons may continue to participate in the TD component if they wish too; they may well enjoy the community and rewards that such participation brings.

### *Related Questions*

A compelling question is whether an approach that has worked so well as a volunteer program, staffed by persons who really want to be there, can be successfully operated by a staff of persons who are somewhat required to be there. As we all know, those who choose to participate in any activity are much more likely to energetically participate in that activity. Education over time in the rewards for themselves, their communities, and their families will help overcome some of their initial reluctance.

But participants initially will be forced into the program until such time as they prove they are not capable of handling the responsibility. They will be offered encouragement, rewards, and actual assistance in learning to meet their commitments on a regular and timely basis. But if they are unable or unwilling to do so, their income will be reduced to the minimum level and they will not have earned the rewards of service in the Time Dollar program. If the scale of the number of persons sliding back to the minimum support levels grows too large, then the time limit on their support at the minimum level will send them back to Time Dollars, unless they are adjudged to be truly dysfunctional and will virtually never be able to move upward.

The question as to whether this program can be successfully operated with a team of "semi-volunteers" cannot be fully answered until it is tried. All of the evidence to date would suggest, however, that it could be. The rewards are such that they have made many persons who have never before volunteered into ardent proponents of the system. Everyone becomes a winner because they come to realize that they are needed, that they are contributing to others who appreciate their assistance. This encourages further participation, even without the rewards the Time Dollars themselves will bring. Many volunteers to date do not even report most of their hours: they feel so good about what it is they have been doing that they do not think that they need any additional rewards. In the proposed system, participants could not be so cavalier about their hours: they would have to report their service hours in order to receive the additional stipend.

A major challenge with the new participants will be helping those assigned to the program see its benefits and assisting them in meeting their obligations to the program. Unlike most of the current TD sites, in which members of a largely elderly population are helping one another, these new sites will involve the young and old alike and many individuals who would never consider participating in such an endeavor. They must be educated on the benefits to themselves, as well as to the larger community. New participants must be motivated, be it by the obligation to participate, a sense of wanting to build a better community, or by a desire to better serve their own families. Although these seem like natural forces, they are not always shared values. But that is what they must become.

Another question for a non-voluntary program is how is each group to be organized geographically? Should it be organized by neighborhood, or should it be by some institutional arrangement, be it a hospital or a school? In Florida, there are examples of both — hospitals, day care centers, and community organizations. Individuals at each institution made a claim for the Time Dollar franchise in their general area. A very strong argument can be made that a specific, limited geographic area is the best model because individuals who live in the area will see and feel the impact on their community of a greater sharing of time and energy. The impact does not get lost in some larger community: it is focused on the givers and the receivers. Transportation and travel time become non-issues. Creating a sense of commitment to one's community is a spillover benefit, as is much greater knowledge of other persons in the community.

A counterargument to this that should be considered is that many individuals may have commitments to certain institutions that they would like to help. It may be a day-care center, a school, their medical center, or some other organization that plays a significant role in their lives. Making a time commitment to such institutions should probably not be discouraged and must be explored, even in cases where these institutions are not in their immediate neighborhoods.

Another obvious question is whether there are enough organizations out there that would be interested in participating in Time Dollars to accommodate all those persons who may be assigned to this option. That is a very difficult question to answer before the program is implemented. If there are not,

some mechanism must be established for expanding the program with other than volunteer franchise sites. More-active recruitment of sites, rather than individuals, will be the order of the day.

A related issue is that of actually creating the demand for services and beginning to get them met. This same issue has been addressed by all of the sites that have started. Each site has had to identify persons with needs. They have gone about this in a variety of ways, usually by asking existing organizations to find persons with needs — be it trips to the store, ground needing breaking-up for gardening, college students needing a home-cooked meal at Thanksgiving, elderly needing to be read to, or whatever. With needs identified, volunteers are recruited who simply fill out a form on their own skills and needs. Matches are made as quickly as possible. One program in Miami tries to make an assignment for a new volunteer within 48 hours of their registering, so they bond quickly to the program. What often happens is that a service-credit deficit builds for the early recipients and a surplus for the early volunteers. These work out over time as individuals get involved in the other side of the equation.

One last issue must be mentioned: the possibly limited supply of services among the new participant population. In many of the existing elderly Time Dollar programs, the participants come from a host of backgrounds and with a variety of skills. This makes meeting a range of needs quite easy. With the lower-income population proposed for the expanded Time Dollar program, it is reasonable to ask whether its skills and experiences will be too limiting to make the program work. The answer will not be known until the program is tried. But it would seem, at first blush, that many of the needs of this population are quite basic and can be provided by others in the program. As one looks at the list of common requests in Table 5, it is evident that most of these requests can be met by at least some, if not all, members of the participant pool.

#### *A Public Program*

As has been mentioned, although the bulk of places that are using Time Dollars are private, non-profit endeavors, the public sector has become involved in several locations. No one, to date, has used Time Dollars in the manner proposed here, as a required stage in the welfare program. But the attempts elsewhere by governments to become involved in Time Dollars do raise many questions as to the viability of the proposed use of the program.

It must be emphatically stated at the outset, though, that neither in the proposed program nor in any of the existing programs is Time Dollars a government bureaucracy. The Time Dollar programs are run independently, although in the proposed case, a monitoring of the program hours will be necessary. But that can all be done under contract. It need not be a direct extension of the state bureaucracy. In fact, it should not be.

Even minor government involvement spawns complications, however, and it causes a host of new concerns. Listed below are several which should be addressed if this option is to be viable:

- whether volunteers must be covered by workers compensation;
- whether they need to be bonded for damage or theft they may do;
- whether participants must have some criminal background check;
  
- what liability coverage they may need for harm they may cause to recipients;
- what liability coverage is required for the government if their volunteers cause damage and are sued;
- whether the government will be held liable in the future for hours earned but not used (is

there a long term guarantee that service providers will be able to collect for the hours they have invested?);

- whether the credits received can be taxed;
- whether service recipients must be needy;
- what regulations the state already has regarding volunteers that must also be complied with under the Time Dollar program;
- what the government must pay for (computers, aides, organizer for each TD community, telephone lines, storefront, etc.);
- how to handle the early heavy enrollments;
- how to get mentors for the programs;
- how to train the new “volunteers;” and,
- what centralized or decentralized computerized record-keeping system would be required.

Answers to many of these questions are not entirely clear. They seem to vary by state and local interpretation. A few of the more-critical concerns should be discussed at this juncture. Issues like workers compensation, liability insurance, concerns with theft by volunteers, and the like must be addressed. Insurance and bonding issues can be addressed rather directly — if it is required, it can be purchased, at moderate cost for the program.

Of greater importance is the issue of the taxability of the service credits. Will the Internal Revenue Service (IRS) tax individuals who have received service credits for their volunteer work? The answer appears to be no, but a new ruling on the specifics of a new program in Wisconsin would be wise. In two programs of Time Dollars in Missouri, the IRS held that the credits were tax-free. The IRS concluded that the credits have “no monetary value” and service recipients do not incur a “contractual liability.”<sup>31</sup> The one rub that may affect a TD program is that the TD program may be construed as less voluntary than other Time Dollar programs established to date. The one being proposed here is borderline between voluntary and required — to receive a higher level of monetary support, individuals must participate, but they can choose not to receive the higher level of support. The question is whether the IRS statement that “credits posted to volunteers’ accounts serve merely as a means to motivate the volunteers” is still accurate.<sup>32</sup> The credits are one motivator under the proposed program: the other major motivator is the slightly higher level of minimum income received. Again, since individuals may choose to participate, a strong argument can be made that it is still a volunteer program in the same sense that the Missouri program is.

Answers to several of these other questions require further exploration. The issue of possible criminal backgrounds or future criminal behavior may raise some objections. Such an issue has not been important among the elderly, given that the propensity for crime among the elderly is very low. Some sort of background check should be done when the program is extended to all ages. But for most participants, the check need not be extensive. The issue of a needs test for recipients was raised in Florida as a red herring. Should all service recipients have to go through some paperwork to prove that they are deserving of assistance? Such a requirement would greatly complicate the operation of the program, divide the population into classes, and undermine the basic notion of everyone’s time being worth the same. Besides, would many wealthy persons seek help from welfare mothers participating in some required work program? It seems unlikely. A needs test may be debated, but it appears to be

counterproductive.

If this were to become a state program, as is recommended, which state agency would oversee it? That would have to be decided by others. But a reasonable case can be made for the Department of Health and Social Services, since it oversees AFDC and numerous other economic support programs in the state. If others, such as the Department of Revenue, want to contend for the privilege, then a debate must occur as to the merits of each. Whichever agency is chosen will be responsible for deciding what computer system will be used to track the service credits statewide. Should it be connected to some existing system or should some new system be employed? This may seem like a non-issue, but in Florida, a huge debate centered around the merits of using the existing welfare computer system, even though everyone knew it to be arcane and dysfunctional. Accurate record keeping is an essential element of Time Dollars: a responsible answer to this question is critical to successful implementation.

Other issues would have to be explored further than can be done here. Determining what the state would need to pay for to make sure the program was sufficiently financed across the state must be examined. Should it rely on existing volunteer organizations to operate the program, supplementing their budgets, or should it organize new, free-standing Time Dollar entities? A strong case can be made for working with existing organizations to the degree possible, since they have contacts with both potential service recipients as well as providers. But it may be necessary to establish new organizations, if existing entities cannot handle the number of volunteers.

Using existing organizations would also help to answer the question of who would be available for training and mentoring volunteers. If the TD organizations are brand new, they will not have the human resources at the outset to operate the program. Human resources must be developed over time. New organizations will take longer at doing so than already-operating organizations. Thus, enrollment in the TD program can be accelerated if existing organizations are employed. The double benefits of utilizing existing organizations makes a compelling case for focusing on them in the implementation of a new TD program.

Yet another question to be answered is whether the program should have only one or two target service-recipient populations at the outset. Should, for example, the target populations be the elderly or those receiving meals or health-care assistance? Persons involved in the initial Time Dollar programs advise organizations to focus on specific targets initially. Once they have those well under control, then they can expand slowly to other target groups. They advise that a program cannot efficiently or effectively provide services to multiple targets until it has developed the mechanisms for serving a few.<sup>33</sup> This advice is aimed at specific organizations. It may well be that with an expanded population of service providers and organizational foci, a wide variety of recipients can be served: it is just that each organization will target specific groups that need not be the same as other organizations.

### *Program Costs*

A critical question for any program today is how much will it cost to implement. Even though the program has numerous benefits, it will not be appealing unless it really is the inexpensive, volunteer program it claims to be. The proposed Time Dollar program should be relatively inexpensive. But the program will necessarily be more expensive per person served than a completely voluntary program. The increased expense comes from several aspects. One is the scale of the proposed undertaking. Involving many more persons than have other efforts to date will require more resources. More organizations will have to set up time banks. More computers will be needed, as will more phone lines and time, more paper and postage, and more space for the offices. A second reason is that, given the clientele, more help

in training volunteers and in monitoring their early performance is likely to be needed. In several of the programs to date, the volunteers are very accomplished because they are basically older persons who require very little in the way of training, monitoring, or assistance to complete their tasks well. This will not be the case with the majority of new participants. Furthermore, if it is decided that the matchmakers should be paid, that is an additional expense that only a few of the existing sites have had to incur (basically, those which have involved state-government support).

To date, costs have varied between \$15,000 and \$120,000 per site. The scale of each operation has been a major determinant. Also contributing have been the voluntary nature of persons involved, the need to procure additional rented space, the payment for telephone use, the need for trainers, and similar factors mentioned above. As details are worked out on the specifics of any site, more-precise cost estimates can be generated. One figure that has been used is that the program can cost in the neighborhood of \$1.50 per volunteer hour. Even if the figure should be slightly higher with the additional cost a new, expanded program would require, the cost is far less than alternative ways of dealing with this population. Providing professional, personal services directly to the needy population would cost at least the minimum wage and likely considerably more. Dealing with the participant population, attempting to prepare them for the U.S. dollar economy, would also require far-greater expenditure than participation in this form of preparation. When we combine both types of expenditure, it is clear as to why the State of Missouri so emphatically endorsed this program as a way of meeting the needs of its senior population without breaking the state treasury.

The expenses that are probably the ones to be paid for by the state include those required to make the program work. Rental for any additional physical facilities, phone lines, and the like, to the degree that they are not available in the institutions which get involved, would be included as would the critical personnel that are not offered by the institutions vying for the Time Dollar franchises. Common computers and software are also likely expenses. The exact construction of the costs must wait for greater detail on the location of the Time Dollar franchises. But past estimates should not be far from the mark.

#### *Additional Variations*

In its simplest version, Time Dollars works within single organizations. Participants give to and receive services from the members of that organization. The next level of sophistication allows participants to use their credits to receive services from members of other organizations that also run TD programs and whose banking systems are interconnected. This can be very local or expanded within the whole state. For example, a participant may earn credits for taking care of an elderly person in Milwaukee and spend the service credit by giving it to her own elderly father in Hurley, who can then use it to "pay" another volunteer in Hurley to assist him.

The TD program can be taken to yet another level. The program can be used like a real bank. Former welfare mothers, for example, might take a loan of service credits as they attend classes, if they cannot give enough service hours at the time of the classes to cover baby-sitting, transportation, or possibly even the classes themselves. Those recipients who have moved on to work may be able to use their reserve of service credits to aid them in seeking additional training in a similar manner. Fathers who owe child support but who cannot find employment can make child-support payments in the form of Time Dollars. The Time Dollars will be donated to their children's mother's account. The fathers can use the program to not only meet their obligations to their children; they can also get the experience needed to move the next step into the monetarily paid workforce. Thus, at least a double benefit would be derived from their participation in the Time Dollars program.

These and other variations can be developed, if the desire is there. Time Dollars can become the motivator and currency in a new economy, one that prizes the value of time. The rewards from helping others and helping one's community can be embellished by the rewards of cashing in one's credits. Time Dollars can help us put meaning back into the family and to the community by making service provision an activity that is done by oneself and one's neighbors, not by some hired hand paid for by yet another party.

Time Dollars can become an addition to all communities. It need not and should not be limited to just former welfare recipients or low-income households. The concept can provide multiple benefits to the persons involved. What is needed at this juncture is a more-detailed development of this concept for the newly stated purpose in Wisconsin.

The argument has been made here for the many advantages that can be derived and the essential role it can play in the movement of low-income individuals into the economic mainstream. It solves many problems — cost of service provision, job-readiness training, access to additional resources, heightened self-concept, and improved community, among other things, at very modest public cost. If time limits for participation are needed, either to get persons into the program or moving to paid employment after the program, they can be utilized. But if the program functions well, it is entirely possible that individual participants will see the benefits of investing in themselves and their communities by utilizing Time Dollars to prepare for paid employment and then move on as they assess their own readiness.

#### *Related Benefits*

Among the big issues for AFDC participation in any form of work program is the potential loss of health-care and child-care benefits. Currently in Wisconsin, a welfare mother can receive Medicaid and child-care benefits for up to one year after leaving the AFDC rolls. Without this extension of benefits, few welfare recipients would make the transition to work since wages are so small in comparison to the value of these benefits plus the AFDC award. Similarly, a move to a new approach will require that medical coverage be universal in some sense. Either health-care coverage must apply to all persons, Medicaid must be available for an extended period of time to low-income households, or the minimum stipend must include an allotment (probably a voucher) for medical insurance.

The argument for child care is almost as compelling, although perhaps it can be handled differently. Today, child care is assured for a period of one year after leaving AFDC. If this benefit were to be removed, recipients would balk at going to work. The traditional way of handling this need has been for institutions to provide day-care services, locking provision into traditional service providers. This approach must be changed. Just as cash should be substituted for a range of services, child care should be included in that range. Recipients should be expected to make their own arrangements for child care. Those who have gone to work will have to choose among a variety of public and private, profit, non-profit, and family, child-care arrangements. Users of these services will have to pay for some of the options; others they may trade for or receive for free. The less expensive the alternative, the more money the recipients will have for other purposes. Recipients should receive child-care help in the form of cash or vouchers, if the latter proves necessary.

The key question here is how should the cost of child care be handled? Should it be assumed that those who work can pay for it? This is not a very good assumption at \$4.50 an hour for 20 hours a week. Should it be assumed to be included in the current calculation of the EITC? The EITC is significantly

larger for households with children than for those without. Or should an additional sum be included in the EITC explicitly for child care? Such an approach would be more costly, but it would fairly directly address concerns of current welfare recipients who are used to the idea of child care being treated as a separate expense. Perhaps the best idea is a small supplement to the EITC payment for households with children under a set age, say six years old, and the notion of Time Dollar credits being given to part-time workers on a one-to-one basis for each hour worked. Regardless of the solution accepted, a strong argument can be made that the current support levels were established without explicit consideration of child-care expenses, and they should be considered.

The issue of child-care support may be somewhat different for those participating in the Time Dollar program. They are able to make private arrangements for child care when they must do their service activities. They may choose to trade their TD credit hours for child-care hours, but this seems silly. Why literally trade sitting for someone else's children for sitting for one's own? That sort of trade-off is counterproductive. Yes, it may help reinforce the notion that a participant must commit to helping others on a regular basis. But a participant in the TD program should be advantaged by her participation, not just taken away from her children. (This principle is not adhered to today by many of the close-to-worthless job-club and related activities that have been devised as very low-cost approaches to forcing welfare recipients to work or to at least feel the pressure to work.) Therefore, participants in the TD program should receive some child-care allowance that they can use for child-care or other expenses. This would be part of the justification of a higher level of minimum support for those persons who elect to participate in the TD program rather than accept the minimum level of support. The scale of support on the minimum must be related in some way to the number and ages of children and the costs associated with some acceptable level of child care. The TD program must avoid, to the greatest extent possible, creating barriers for its own success. On the other hand, it must avoid being too costly, or it will be an unacceptable alternative to the present approach.

#### *Costs of the New Approach*

It is difficult to estimate the costs of this new approach at the outset because we do not have a very good idea of how many persons would end up in each program level by the end of the any given year, nor do we know how many additional families are eligible for AFDC, but who do not participate in it, would participate in this program. We know that supporting those at the bottom rung, those who are not working or volunteering, should cost somewhat less than at present because many of them will be receiving cash and not services from the government, thereby reducing total program costs through administrative savings. A larger group is expected to be in the middle category, volunteering in the Time Dollar program. Supporting this group will be a bit more expensive than at present because its members will receive an additional cash stipend for participating, and the Time Dollar program has an hourly cost of administration per volunteer. On the other hand, since they can redeem their volunteer credits for services, the cost of providing additional services to this population may decrease from the present. If some persons are moved into the workforce and can earn an Earned Income Tax Credit, they will not be counted in the program budget because they will have moved on to an existing program beyond welfare. And those that are able to fully support themselves in the work place move beyond all government subsidies.

If we were to put some very hypothetical numbers on the program, assuming 100,000 AFDC cases in Wisconsin, they might look like those in Table 7 on the next page. To calculate these, we have arbitrarily assumed a \$500 savings per case in using cash, rather than the combined cash and Food Stamps as they are administered today. (The true figure may be larger.) The \$2,000 cost figure is estimated as a combination of the average number of children per family, assumed to cost \$500 per

**TABLE 7 Hypothetical Cost Savings from Proposed Program**

<b>Program Category</b>	<b>Number of Participants</b>	<b>Cost Savings</b>
Minimum Income	20,000	$\$500 \times 20,000 = \$10 \text{ mil}$
Minimum + Stipend + TD	60,000	$(\$2,000 \text{ (ave.)}) \times 60,000 = \$120 \text{ mil}$
EITC	20,000	$\$7,500 \text{ (ave.)} \times 20,000 = \$150 \text{ mil}$
<b>TOTAL PROJECTED SAVINGS</b>		<b><i>\$40 mil</i></b>

stipend for child care, plus \$1,500 for the costs of administering the 20 hours per week of Time Dollars per participant. This is an additional cost, not a savings. The savings projected under the EITC are derived from an estimate of the reduction in cost of the suspension of AFDC and Food Stamp costs per average household, since these costs would no longer be incurred. With these assumptions, the cost savings in the first year work out to be \$40 million. Such a figure is a gross estimate, but plausible. As the population moves between categories, the numbers will change. The true savings will vary with the conditions in any given year.

An additional concern with the accuracy of this estimate is the likelihood that additional eligible families will be attracted to this new program. If the AFDC-eligible population is one-third again as large as today's population, as is estimated nationally,<sup>34</sup> then an additional 33,000 Wisconsin families could potentially participate. If the average cost of each family is assumed to be the same \$7,500 per year for AFDC and Food Stamps, as is used above, it would require only 5,333 of these households to participate as minimum-income recipients to consume the projected savings. Therefore, the attractiveness of the approach is very likely to undermine any shorter-term cost savings. In the long run, however, savings would be realized because more families would become independent through work than happens through the current support system.

## CONCLUSION

Welfare must be reformed. The current system is inadequate on many counts. But the selection of an alternative approach is not immediately clear. Cash grants, earnings incentives, work requirements, and "volunteer" programs cannot independently work neatly or completely. But when combined into a ladder of coordinated incentives, they may provide the steps to independence we seek for all of our citizens.

Cash grants, on the one hand, are less expensive than our current multi-program approach because they avoid the costs associated with the administration of many service programs. On the other hand, they are more expensive because they are likely to include more persons, both the poor and the near-poor. And as we have seen, they have a mild work disincentive built in. This work disincentive can be overcome, in part, by more-rigid work requirements. But the opportunity to work less and still be supported at some level will remain.

Earnings incentives, such as that found in the current Earned Income Tax Credit, make the taking of lower-wage positions much more feasible, especially if the job takers are covered by health-care insurance and receive an additional stipend for child care. The ability to increase household income by 30% to 40% above outright earnings through the EITC is a sizable inducement to join the paid

workforce. Unfortunately, it too has a downside. The current program has a marriage tax that may appear to encourage family dissolution, and the payment schedule has a strong incentive to work part time rather than full time, if all existing support programs or their equivalents are continued. A requirement to work a certain number of hours in order to receive the EITC may help to reduce this bias, but it remains endemic to the notion of subsidized earnings.

Volunteering time may appear to some as rather hokey, but the experience to date has proven it to be immensely successful at helping both the giver and the receiver of assistance. Numerous details of a plan to use Time Dollars as a stage in the welfare system must still be worked out. Even the IRS must become involved. And many issues regarding the appropriateness of some of the participants to provide services to others must be thought through further. But there is evidence enough at this point to show that this approach has sufficient potential; it must be seriously explored.

Obviously, volunteering does not pay the bills. Time Dollars is an interim solution. It cannot solve the welfare problem by itself. But it involves many elements of a program that can help to move many persons from a life of dependency to one of complete independence.

The clear answer here is that the approach to welfare must be more coordinated than it has been. Recipients have varying abilities and attitudes toward work and independence. The combination of programs to be instituted must recognize this diversity and try to work with it to create an approach that is much more responsive than the present one. Not everyone will work immediately, or perhaps ever. But if that is their decision, they should not be treated the same as those persons who do try to meet their own needs.

Welfare reform will not solve all of the problems of the poor. Some problems are intractable. Others are only tangentially affected by the changes advocated here. But the reforms recommended above can make some of the problems less pressing and help many current recipients move on to more-independent, productive lives with higher incomes. The new approach can be more supportive, less demeaning, and more apt to have permanent, positive impacts on the participants. And the new approach could also help create communities where caring is part of everyday living.

## NOTES

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- 30 Edgar Cahn and Jonathan Rowe, *Time Dollars*, Emmaus, Pa.: Rodale Press, 1992, p. 89.
- 31 *Ibid.*, p. 78.
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- 34 Blank, *op. cit.*

## ABOUT THE INSTITUTE

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Under the new federalism, government policy increasingly is made at the state and local level. These public-policy decisions affect the lives of every citizen in the state of Wisconsin. Our goal is to provide nonpartisan research on key issues that affect citizens living in Wisconsin so that their elected representatives are able to make informed decisions to improve the quality of life and future of the State.

Our major priority is to improve the accountability of Wisconsin's government. State and local government must be responsive to the citizens of Wisconsin in terms of the programs they devise and the tax money they spend. Accountability should be made available in every major area to which Wisconsin devotes the public's funds.

The agenda for the Institute's activities will direct attention and resources to study the following issues: education, welfare and social services, criminal justice, taxes and spending, and economic development.

We believe that the views of the citizens of Wisconsin should guide the decisions of government officials. To help accomplish this, we will conduct semi-annual public-opinion polls that are structured to enable the citizens of Wisconsin to inform government officials about how they view major statewide issues. These polls will be disseminated through the media and be made available to the general public and to the legislative and executive branches of State government. It is essential that elected officials remember that all the programs established and all the money spent comes from the citizens of the State of Wisconsin and is made available through their taxes. Public policy should reflect the real needs and concerns of all the citizens of Wisconsin and not those of specific special-interest groups.