

**Public Service Employment and Mandatory Work:
A Policy Whose Time Has Come and Gone and Come Again?**

By

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During the Great Depression, when unemployment rates were soaring toward 30 percent, public service employment seemed an inevitable part of the solution, and thus various programs like WPA and CCC were born. During summers in the 1970s, when youth unemployment approached 25%, and black youth unemployment was double that, the Summer Youth Employment Program provided summer jobs for young people. When welfare recipients were having a difficult time making the transition to work, presumably in part because they lacked real work experience, the work experience program in San Diego was born. And in West Virginia, with unemployment high and welfare caseloads growing, unemployed parents with children on AFDC were required to work in exchange for their welfare benefits. In between, Public Service Employment (PSE) was often excoriated as wasteful and a tool for political cronyism and corruption. It seems that PSE is either a powerful concept that cannot be killed or an anachronism that refuses to die.

We are engaged in another stage of the long saga of ambivalence toward PSE, brought on by welfare reform. A policy that seeks to push millions of welfare recipients to work must inevitably face the question of where the jobs will come from. And inevitably the “lessons” of CETA or WPA are called forth as examples. These programs and many others share the common trait that new jobs in the public or non-profit sector were created and subsidized, but they differ dramatically in their goals, economic context, structure, and target population. Yet often these divergent programs are swept together as a single example. Apparent lessons from one are carelessly extended to others. Political fallout from one success or failure generates momentum that often proves irresistible when the next program is proposed or reconsidered.

This paper examines what PSE has and has not been in the past and what it might be in the future. It tracks a mind numbing number of programs, yet finds reliable evidence sadly limited. Still there seems to be enough data to draw some sharp conclusions.

- PSE done wrong can be wasteful, inefficient displacing, and counterproductive.
- PSE done carefully seems to be able to increase employment, keep displacement near 25%, and produce genuinely valuable output. (And in some circumstances, PSE may raise earnings of low skilled workers more effectively than wage subsidies.)
- There are some critical tradeoffs in any PSE program:
 - Jobs which are more likely to increase future earnings also tend to be more expensive and difficult to implement.
 - Jobs which are more like “real” jobs seem to impart greater value to the community, but also carry a greater tendency to displace public workers.
- There is good reason to believe that states may have difficulty employing welfare recipients as they reach the harder to serve cases and as the economy moves into recession.
- Nonetheless, many states are currently implementing or planning small work programs. This experience may help them to better implement larger programs in the future.

Public Service Employment and Mandatory Work Defined

This paper is focused exclusively on programs that have several defining characteristics. They are programs where a central element is the creation of new jobs that would otherwise not exist in the public or non-profit sectors to employ people who otherwise would not be working. The two most operative phrases are “new jobs” and “public and non-profit sectors.” The Civilian Conservation Corps (CCC) of 1933-1942 put young people to work improving public lands. This was clearly new work, and it was clearly the public sector. In other cases, more ambiguity exists. The Youth Incentive Entitlement Pilot Program (YIEPP) guaranteed jobs to school age youth who remained in school. The jobs were provided primarily in the public and non-profit sector, but the programs also generated private jobs by offering generous subsidies to employers. The public and non-profit jobs meet our definition, the private jobs do not. We include the private sector in this case because it is a component of an overall public job creation program that guarantees jobs and acts as an employer of last resort. Generally though, programs primarily designed to offer subsidized private jobs are not included here. Thus at their heart, PSE programs are designed first and foremost to put new people to work in new jobs.

We also include a discussion of mandatory work programs including workfare. One can have a spirited debate about whether a workfare program in which welfare recipients are paid their usual welfare benefits, are required to work and are terminated if they fail to work, is PSE. Is such a program fundamentally different from a program that requires these same people to work, terminates them if they do not, and pays the minimum wage up to the amount of their previous welfare benefits? Some label the former workfare, the latter PSE. They are quite different in a several important respects—the dignity of a paycheck, the mechanisms for enforcement—but from many other perspectives, they are similar. Rather than fight about these definitions, we label both as mandatory work and include them in this paper.

Types of PSE and Work Programs:

While there are many gray areas, we choose to break the work programs discussed in this paper into three broad categories:

Countercyclical PSE—Public jobs in this context are designed to deal with widespread, large scale unemployment in the nation or a particular geographic area by generating public jobs to put the jobless to work. The overarching goals are simple: reduce unemployment and provide a paycheck to families whom otherwise would suffer more or end up on welfare. Improving long-term earnings prospects is not the primary focus since these programs target people who are presumably employable in better economic times. The two most prominent examples of this sort of program are the early (1974-75) Title VI CETA PSE and WPA programs.

Targeted PSE – Public jobs for narrowly targeted groups are designed to deal with the unique problems facing particular sub-groups who are faring much worse than other workers. In contrast to the countercyclical programs, targeted programs are focused on workers that are difficult to employ even when the economy is strong. Here the goals are

usually two-fold: (1) to provide short-term employment aid and income to a group that might otherwise be unemployed, and (2) to provide a set of experiences and skills that will enhance future employment prospects. Good examples include the Summer Youth Employment Programs, the Supported Work Program, and a variety of voluntary work experience programs for welfare recipients and others. Some programs contain components of both countercyclical and targeted PSE. The best example of this is the New Hope Program in Milwaukee, which guarantees work to anyone in a very poor section of the city.

Mandatory Work Programs – The public has long been suspicious of welfare programs offering cash benefits of unlimited duration to employable recipients. But especially when children are involved or the economy is weak, the public wants to maintain some form of safety net. Work requirements sometimes seem an appropriate answer. When there is concern that insufficient private jobs exist for recipients expected to work, some form of public employment may seem attractive. The West Virginia and New York City WEP programs are examples. The primary goals are to ensure that aid recipients meet a social obligation to work and to deter shirkers from getting aid while ensuring those in legitimate need do get aid (through work). Often, but not uniformly, improving the earning prospects of recipients is also a goal.

Clearly these three types of program have quite different goals, and are typically introduced in quite different economic and political conditions. But the differences between the first two categories, which are voluntary programs and the third category which are mandatory programs, seem particularly large. Mandatory work programs rather inevitably include two elements: job creation and forcing people who were otherwise not working into the workforce. The last thing designers of countercyclical programs usually want is to push even more workers into an already depressed labor market. A major cost of voluntary non-welfare programs is wage payments. For mandatory welfare workers (and some voluntary welfare participants) welfare payments can simply be converted to wage payments of equal value, incurring little, if any, additional wage costs.

Public Service Employment Programs and the Theory of Displacement

One critical set of issues arises in all work programs: displacement. The fear that money spent to create jobs is instead “wasted” by the displacement of other workers is expressed in virtually every program. In our reading, we were surprised by the lack of clarity and even confusion in the existing literature about this concept. Thus to begin our analysis, we start with an examination of a few of these issues from a theoretical perspective before looking at findings from the empirical literature. In this discussion we begin by considering voluntary programs and then we consider mandatory ones.

Displacement – Public Worker Substitution and Private Crowd-Out in Voluntary Programs

Two almost completely distinct types of displacement may cause concern in any PSE program. The first is often called fiscal substitution, but a better term may be public worker substitution. If one offers money to a public (or non-profit) entity in exchange for employing new PSE workers, there is a danger that the entity will instead substitute PSE

workers for other employees. In the extreme case, the entity may simply layoff (or fail to hire) one existing worker for every PSE worker employed. The extent of public worker substitution depends almost entirely on the nature of the PSE program and the effectiveness of the rules designed to avoid this form of displacement. The effect of substitution is to mute the overall impact of the PSE program. If the entity employs 10,000 new workers, but lays off 7,500, the net increase in public employment is just 2,500 workers.

The second type of displacement can be called private crowd-out. If PSE results in a net increase in public jobs, this additional demand will put pressure on the remainder of the market. In a well-functioning labor market with little unemployment, the increase in demand will drive up wages, which in turn will drive down private employment. The overall effect of PSE on wages and employment will depend on the elasticities of supply and demand. In the special case where unemployment is widespread, PSE may only soak up unemployed workers and lead to no rise in pay and no decrease in private employment.

The impact of public worker substitution and private crowd-out can be illustrated rather easily in a demand and supply framework. Let's begin with a very simple model with just one type of worker. We will assume that a government agency funds and fills PSE jobs and pays workers the going private market wage. Thus PSE simply shifts out the demand curve for labor.

Let q represent the fraction of PSE jobs that are simply substituted for other public workers. Thus the net increase in labor demand is simply $(1-q)PSE$, where PSE is the number of PSE slots created. In the case of no substitution, demand shifts out by PSE . If there is complete substitution, no net increase in demand occurs.

In a world where labor markets are functioning smoothly and there is little unemployment, demand and supply are equated as in Figure 1. Before PSE, wages are W^* and employment is E^* . PSE shifts out the demand for labor by $(1-q)PSE$. This puts pressure on wages, thus both diminishing private jobs and inducing more people to work. Ultimately a new equilibrium is achieved with wages at W^{**} and total employment E^{**} . Non-PSE employment has fallen from E^* to E' . This difference is the private crowd-out. The extent of private crowd-out depends on the elasticity of supply e_s and the elasticity of demand h_d .¹ Using these elasticities, one can derive the impact of PSE on a variety of different factors:

$$\text{Public Substitution (public jobs lost)} = q \cdot PSE$$

$$\text{Private Crowd-Out (private jobs)} = \frac{h_d}{h_d + e_s} [(1-q) \cdot PSE]$$

$$\text{Net Job Creation (net new jobs)} = \frac{e_s}{h_d + e_s} [(1-q) \cdot PSE]$$

Thus the effect of PSE on net job creation is greatest when there is little substitution (q), when the elasticity of supply (e_s) is large, and when the elasticity of

¹ I adopt the customary practice of using the absolute value of demand elasticity to reduce confusion.

demand (h_D) is low. The extreme example would be to create PSE jobs for a group experiencing high unemployment levels. If unemployment is high because supply exceeds demand at the current wage. In effect we have nearly an infinite supply elasticity, or more realistically the elasticity of supply (at the going wage) is very high. In this case, the only displacement would come as a result of public worker substitution, there would be little or no private crowd-out. If unemployment is low, crowd out will be much more serious.

It is important to realize that the cause of private sector crowd-out is rising wages for all workers in the market. This rise in wages might be seen as a positive effect. It is certainly a benefit of a PSE program that flows to non-PSE workers. The change in wages depends on the size of the program relative to the overall workforce:

$$\text{Percentage Rise in Wages} = \frac{1}{h_D + e_s} \frac{[(1-q) \cdot PSE]}{E^*}$$

PSE programs are often targeted to unskilled workers, such as youth or former welfare recipients. Thinking about targeted programs requires some extensions to the model to include different types of workers. Hiring a group of unskilled PSE workers might affect both unskilled and skilled workers. Generally, one would expect some substitution for unskilled public workers, but high skilled public workers could experience either an expansion or contraction of their job opportunities. For example, a municipality might use two unskilled PSE workers to do the job of one skilled public worker. Conversely, the expanded PSE low skilled workforce could lead to the hiring of more skilled workers to supervise PSE workers. Indeed, by one estimate, a targeted youth program led to an increase in the use of skilled labor.² One might then separately estimate the substitution/complementarity effects of the targeted PSE jobs on low skill and high skill public workers. For our purposes, it is probably sufficient to concentrate on the low skill market.

Displacement—The Special Case of Mandatory Programs

When a work requirement accompanies PSE, two market pressures occur at once. The mandatory program is taking people who otherwise would not be working and forcing them to do so. That expands supply—a supply push—and would typically put downward pressure on the labor market. But some or all of those newly required to work are being given PSE jobs, expanding demand as described above. The effects of the two policies must be considered together. Looking at both the supply push and the PSE demand pull of mandatory work programs yields a somewhat different picture than PSE alone. From the point of view of the private market, the supply push is really like PSE in reverse. The expansion in supply pushes down wages, leading to an increase in the number of private sector jobs, but also leading some existing workers to withdraw from the workforce. Let $E_{Mandatory}$ equal the number of persons newly required to work:

² Unicon

$$\text{Percentage Decline in Wages} = \frac{1}{h_D + e_S} \frac{[E_{Mandatory} - (1-q)PSE]}{E^*}$$

$$\text{Number of Private Sector Jobs Created} = \frac{h_D}{h_D + e_S} [E_{Mandatory} - (1-q)PSE]$$

$$\begin{aligned} \text{Number not working among former} \\ \text{workers and newly mandatory workforce} \end{aligned} = \frac{e_S}{h_D + e_S} [E_{Mandatory} - (1-q)PSE]$$

This last effect might be called private *worker* crowd-out, as opposed to the private job crowd-out caused by PSE alone. Private *job* crowd-out is due to higher wages that reduce the number of jobs; private *worker* crowd-out is due to lower wages that make work less attractive for some former workers. The effect of PSE is quite clear here. It mitigates both effects of the expansion in supply. PSE will reduce the wage fall caused by the supply push and reduce the number of former workers and newly mandated workers who do not work.³ The larger the PSE program relative to the newly mandatory group, the smaller the fall in wages and the private worker push out.

Estimated Displacement and Wage Effects Under Varying Economic Conditions

Ultimately the level of displacement is an empirical question that will be influenced by the particular character of the program being adopted and the economic conditions in which it operates. Nonetheless, we can get a rough sense of the potential size of displacement using the formulae above and estimates of supply and demand in the literature.

Substitution depends almost entirely on program rules, so we will simply use assumed values. These values are based on actual empirical estimates that we will examine shortly. For now let us simply assume substitution to be .25 in a low substitution program and .67 in a high substitution program.

Private crowd-out depends on the the economic parameters of supply and demand, which in turn depend on the target group and the economic conditions. Consider first a countercyclical program with very little targeting (except a focus on the unemployed.) Recently Fuchs, Krueger, and Poterba (1998) surveyed labor economists at leading institutions and found that the median estimate of overall labor demand elasticity was 0.4. Of course, in a recession or depression, when countercyclical PSE would logically be considered, the implied labor supply elasticity would be much larger. Under these conditions, whether the program pays at or below market wages, the amount of private crowd-out will be low. Table 1 provides a simple illustration. With a program of 1,000 PSE slots, some 250 would be lost due to the assumed .25 substitution rate and another 56 would be lost due to private crowd-out. Thus overall out of 1,000 jobs funded, just under 700 new jobs would actually be created.⁴

³ It is important to recognize that in formal terms, the model leads some people to leave work because their wages do not pay enough, not because they are “forced” out. In the case of unemployment, there will indeed be greater unemployment.

⁴ If such programs are implemented on a very large scale, then macro-economic effects should also be considered. We are ignoring those here.

Table 1 also shows what can happen if one implements a countercyclical program when unemployment is not high. One might observe this result if a program was designed and passed during a recession, but because of delays, began operation during a strong recovery. In that setting, the level of crowd-out can be quite large. Moreover if one fails to have effective anti-displacement measures, substitution can be very high. Thus in the second column, we examine the impact of a countercyclical program when the recession has passed and displacement is running at 67%. Using the parameters assumed there, out of the original 1,000 jobs, displacement would dissipate all but 111.

Next consider a more targeted program for low skill workers. Juhn, Murphy and Topel (1991) estimate the labor supply elasticity for low wage men to be 0.3 to 0.4. Moffit (1992) argues that the supply elasticity for women is closer to 0.2. Demand elasticities are even harder to measure. Hamermesh (1993) argues for a figure of roughly 0.5. Katz (1998) concludes that his “best guess at ‘reasonable’ parameters for ... the low wage labor market is a labor supply elasticity of approximately 0.4 and a labor demand elasticity of -0.5.”

Just as in the case above though, we would generally expect targeted PSE programs to focus on groups with high levels of unemployment. Column 3 of Table 1 illustrates that if we accept Katz’s “best guess” estimate on demand, but assume a very high elasticity of supply, we would still get a net job creation of roughly 2 jobs for every 3 created from a program paying market wages.

But if we target a group where Katz’s “best guess” elasticities of both supply and demand apply because the economy is strong, the crowd-out is much larger. Consequently, even if we keep public worker substitution to 25%, we would still see a net job creation rate of just 1 job for every 3 jobs funded under the PSE program.

One might reduce the likelihood of private crowd-out by paying below market wages in the PSE program. In that case, one should, in theory, completely avoid crowd-out. Still, the low skilled labor market is itself diverse and sub-market wages for one group may be above-market for another. Many programs simply pay the minimum wage in an effort to assure no crowd-out. But even in this case, crowd-out could occur if PSE jobs are less demanding or more appealing, carry greater benefits, or involve far smaller search costs. Then the benefits of the sub-market wage could be lost.

The pattern changes somewhat when we look at mandatory work programs. The combined effect of forcing 2,000 former non-working welfare recipients to work and providing 1,000 PSE jobs under different conditions is shown in the last two columns. It should come as no surprise that in a situation with high unemployment, pushing 2,000 more workers into the labor market while providing on net 750 public jobs would leave some people worse off. Even when the market is relatively tight, simple economics suggests that over 500 people will withdraw from the workforce as jobs become harder to find and wages fall. Without the PSE program, the number of workers pushed out of the market would have been closer to 900, so it is clear that PSE mitigates the effects of the supply push.

Thus it is obvious that depending on the program structure and the nature of the labor market, PSE can lead to a very high or a relatively modest level of displacement. But there are actually positive sides to displacement. The flip side of public worker substitution is fiscal substitution and freed resources, and the flip side of crowd-out is wage increases for workers.

The Obverse of Public Worker Substitution: Fiscal Substitution and Freed Resources

Suppose a \$1 billion program is designed to create 100,000 PSE jobs at \$10,000 each, but also allows very high levels of public worker substitution. For every 4 PSE workers hired, 3 equivalent public workers are let go. Public funders will argue that \$750 million was wasted and that the cost per job was \$40,000 not \$10,000. But from an economic point of view, the public worker substitution freed up other resources that can be redirected. If the regular workers and PSE workers are paid the same, a \$1 billion program with a substitution rate of .75 would free up \$750 million for other expenditures. If the public workers' wages were higher than those of PSE workers, even more might be freed up.

In this way PSE public worker substitution frees up other spending and thus is often labeled fiscal substitution. Unless the substituted money was somehow squandered on graft or corruption, one would be inclined to suppose it went for some other useful public purpose. If so, then the net cost of the program was just \$250 million and the cost per job was indeed \$10,000. Note also that in a targeted PSE program where the goal is to employ a particular group of disadvantaged persons, substitution takes on a rather different form. It may be that after employing 100,000 welfare recipients or youths, 50,000 other workers are laid off. Yet from the narrow point of view of the target group, there may be little or no substitution—the public sector really is employing 100,000 more former welfare recipients than before. (Of course if the substitution leads other workers who were not on welfare previously onto it, this purpose is also lost.)

Since the real losers in the case of targeted PSE can be existing and often higher paid workers, it should come as no surprise that PSE is often quite worrisome to government workers and their representatives. In the words of Gerald McEntee, head of the United States' largest public sector union (AFSCME), in his first negotiating session with Clinton's welfare reform team: "Near as I can tell, you want to create more public service jobs for welfare recipients as I have members. I find that mildly threatening."

Some economists might argue that finding a way to substitute lower priced labor for higher paid union labor increases efficiency of the economy overall. Needless to say this argument does not sit well with organized labor. Substitution can have negative effects on existing workers whether or not there is a union wage premium. Still, this is fiscal substitution, not traditional economic waste.

The Positive Side of Private Crowd-Out: Wage and Earnings Effects

Little noticed in most popular discussions of PSE is the fact that private crowd-out occurs *because of* a rise in wages. In other words, PSE programs help workers in two ways. They result in some net job creation, which benefits the newly employed workers. But they also boost wages for all other workers in the market. Naturally the extent of wage rise depends on how many PSE jobs there are in relation to the market.

If we adopt a PSE program for a low skilled market with little unemployment, PSE can be quite helpful in raising earnings. Using Katz's elasticity estimates again (as in the fourth column of Table 1) with an assumed substitution rate of .25, one can estimate that the effect of a PSE program equal to 10% of the old workforce will be to boost wages by 8.3%. We also increase employment of workers by 3.3%. Thus by paying for the equivalent of 10% of the workforce, we actually are increasing the

earnings of workers by 11.7%--3.3% in the form of more jobs and 8.3% in the form of higher pay for all workers. In this example, for every dollar spent on the pay of PSE workers, worker earnings rise by more than a dollar. Even though some money is displaced in the form of substitution, and the net job creation is low, wages are pushed up so much by the new job demand that workers overall benefit.

One can calculate the aggregate dollar change in earnings of workers per dollar spent on paying PSE workers. This figure is independent of scale, so it would apply whether the program was 10% of the workforce or 0.1%.

$$\text{Change in total earnings of workers per \$ spent on PSE wages} = \frac{(1-q)(1+e_s)}{h_D + e_s}$$

In this case, we calculate that the gain in earnings per dollar spent on PSE earnings is \$1.17, just as we saw above. Note the calculation only includes the cost of PSE earnings. It does not take account of any job creation costs, supervision or other costs.

Katz (1998) can be used as the basis for a similar calculation for an obvious alternative policy: a wage subsidy. In this case the gain in earnings per dollar spent is:

$$\text{Change in total earnings of workers per \$ spent on wage subsidies} = \frac{h_D(1+e_s)}{h_D + e_s}$$

Using Katz's preferred elasticities one finds that \$1 in subsidy yields only an \$.81 increase in earnings. So in this case, using this narrow definition, even though every 3 PSE slots yield only 1 real new job, the payoff to workers is considerably greater than the wage subsidy.

The last two rows of Table 1 show this other measure of the impact of PSE programs with a comparison to this measure for wage subsidy programs. In these examples, only in the second case, when substitution is very high, do we get larger earnings effects with a wage subsidy. Quick inspection of the previous two equations reveals that PSE programs will have a greater impact on earnings per dollar spent on wages if $(1-q) > h_D$. Thus if the elasticity of demand is roughly 0.5, any PSE program with less than 50% substitution will generate more earnings per dollar spent (ignoring administrative costs). In the special case where there is no substitution, wage subsidies are preferred to demand expansion only if the elasticity of demand is greater than 1.

While this latter result may seem counterintuitive to some, it is quite plausible. In agricultural programs, we learned long ago that the best way to increase farm incomes might be to pay farmers not to plant their crops rather than subsidize the prices they receive. The idea is to reduce supply (in the PSE case, by making jobs that soak up workers) rather than artificially increasing demand.

Accounting for the Value of Output

In deciding the real costs and benefits of a PSE program one final issue must also be considered: the value of output created by the PSE workers. Implicitly we have assumed that one net public job creates as much output as one private one. There is a danger that the work produced will be worth less than what such workers might have produced privately. Moreover, the pressure to keep public worker substitution to a

minimum tends to worsen this problem. One of the most obvious ways to avoid substitution is to put PSE workers in jobs that demonstrably would not have been done in the absence of the program. Unfortunately, if such jobs were not deemed valuable enough to fund without the payments of a PSE program, then it may be that their value will be less than the market price of its workers and their materials and supervisors. Still, the argument could go the other way. Models of public sector decision-making often suggest that government may be deterred from engaging in some activities with a high value added. PSE may allow such work to occur. Still most observers (and these authors) think the potential danger of low value output is real and needs to be closely considered.

The Bottom Line: An Empirical Question

This discussion makes clear that whether PSE is an attractive policy either as a countercyclical tool or as a method of helping certain disadvantaged workers depends critically on the unique circumstances of each situation. The questions ultimately are empirical. Thus let us next move to examine what is known about existing and past programs and their levels of public worker substitution, private crowd-out, value of output, and raised future earnings.

What Do We Know About the Effects of PSE Programs ?

We turn now to evaluating the impacts of past and existing PSE programs. We sought to examine what we knew about 6 different issues:

- Substitution
- Total Displacement (including substitution and private crowd-out)
- Output Value
- Impacts on Future Earnings
- Impacts on Welfare Costs/Welfare Deterrence
- Costs and Administrative Feasibility

Of course programs differ in the extent to which each of these is even a concern of the program designers. Substitution, crowd-out, the value of output, and costs are potential concerns in nearly all programs. But future earnings often are not an issue in countercyclical programs or even mandatory work programs. Welfare cost reductions may not even apply in some cases, such as youth programs.

Table 2 summarizes key programmatic features of a variety of PSE programs. Table 3 shows what we know about each of the key dimensions noted above. These tables are not an attempt to summarize any work program ever implemented.. Rather these are the programs where we have information on at least some important aspect of program performance.

Concentrating on Table 3, several features are quite prominent. First, none of the programs have an evaluation of all the critical elements noted above. Indeed, only for two is there an estimate of the total displacement, and in none do we have an estimate of the private crowd-out by itself. Second, the kinds of information collected and evaluated were heavily shaped by the goals of the programs themselves. Programs whose primary goals were countercyclical often have extensive analysis of substitution, but very little on

future earnings prospects. Programs designed primarily to improve the prospects of low skill workers rarely examine substitution or crowd-out. Only the youth programs with their sometimes joint goals of keeping youths busy and improving their long term prospects actually include information in both of these categories. Our goal is not to discuss the details of what we know about each program, but instead to examine what we know about each issue. Our strategy is to pick a few good examples in each domain where we believe reasonably reliable information is available. Footnotes to Tables 2 and 3 indicate where detailed information on each program can be found.

Public Worker Substitution

There are two ways in which substitution is typically estimated. The first involves asking questions of program operators and supervisors as part of a field study. Generally the questions seek to get at whether the work done by the PSE participant is work which would have been done in the absence of the program. The real problem with such methods, of course, is that it is often explicitly against the program rules to displace other workers. Even sophisticated questioners may not be able to elicit revealing responses from program operators.

Conversely, when PSE participants are placed within existing agencies, their overall contribution may be difficult to distinguish even when they displace no one. Suppose a PSE worker was placed in an office to help with filing for the summer, displacing no one. Such a person would likely be assigned to share duties that others would have done in the person's absence. As a result, people throughout the office might have a little more time to work on a problem that might otherwise have been ignored, or perhaps the filing would be done on a timelier basis. Since the PSE worker is intimately a part of the work operation, one can rightly say virtually all of the work done by the specific PSE participant would have gotten done in their absence, even though the total amount of work accomplished by all the workers had risen. Thus the field study method might assign displacement in this case even though there was none.

The alternative to this method is to use econometric analysis in an attempt to determine what the level of employment would have been in the absence of the program. If one can get information on the size of the employing unit over time, the trend in similar units, and the number of participants, one can, in principle, estimate the extent of substitution by regressing total employment on control variables and PSE participants. Of course, holding all else fixed is particularly difficult in such settings. And endogeneity is a potential problem. Sometimes PSE slots are simply allocated according to a formula that can be controlled for. But often, governments and non-profits are offered low cost or free PSE workers in exchange for a promise to supervise them and avoid displacing other workers. Presumably the fiscal health and public pressure on the agency will influence its willingness to take on PSE workers. Agencies being forced to cut back may be more inclined to take on PSE workers, creating an upward bias in the level of estimated substitution. Moreover, in smaller programs where only a few people are placed with an agency, it is very hard to get a reliable estimate of the substitution without extremely detailed data.

Only two programs really offer strong evidence about the extent of substitution: the CETA PSE program (along with its immediate predecessor), and the Youth Incentive

Entitlement Pilot Project. We also examine a third, the New York City Work Experience Program since it too offers some insights.

CETA and the Public Employment Program -- If ever there was a program that seemed likely to generate maximum substitution, it was the Public Employment Program (PEP) authorized under the Emergency Employment Act of 1971. Passed during the recession of 1971, but implemented during a recovery, it contained few rules regarding substitution and hiring. Money was given to state and local governments who could hire anyone who had been out of work for a week or more or who was underemployed—working less than full time or being paid low wages. According to Cook et al (1985):

With so few rules, the federal government in effect, “put the money on the stump and ran,” a characterization of many intergovernmental initiatives of the period.... The approach did, however, enable participating governments to hire subsidized workers quickly, which was a primary goal of the program.

State and local governments naturally tended to hire workers who fit easily into established workforce patterns.⁵

Logically we would expect substitution to be smallest when the workers being hired are unlike the current public workforce in skills and demographics. Yet PEP participants looked very much like the existing workforce. The vast majority of PEP recipients were male, over 22, had at least a high school diploma (a third had more than high school) and were white. There was no limit on the wages that could be paid (although the federal government’s share per worker could not exceed \$10,000 [\$28,000 in 1996 dollars] per worker), and there was no limit on job duration.

In 1973, the Comprehensive Employment and Training Act (CETA) was passed which included under Title II a program to combat structural unemployment which was to succeed PEP after it phased out in July 1974. Rules for hiring workers were slightly stricter: participants had to be living in a high unemployment area and be unemployed for at least 30 days. But by summer 1974, a new recession had emerged, and Title VI was added to CETA, establishing an explicitly countercyclical program; the requirement that participants live in a high unemployment area did not apply to this program. Title VI participants looked very much like PEP recipients, with large majorities again being well-educated, white, male, and not economically disadvantaged.

It should come as no surprise then that there is significant evidence of displacement during this period. Early papers by Wiseman and the National Planning Association found that PEP had displacement rates of 40-50% in one year.⁶ Using a somewhat more sophisticated econometric model, Johnson and Tomola (1977) found that, for the period from 1966-1975, while PSE initially created new jobs, displacement grew rapidly over time. They claimed that a program that started with 100 PSE slots had displaced 31 existing workers by the 3rd quarter and 97 workers by the 6th quarter. That is, after 18 months there was full displacement. Later research suggested that these

⁵ Cook et al. (1985) p. 6

⁶ Unpublished papers cited in Johnson and Tomola (1977)

results were unstable and sensitive to functional form.⁷ Yet the basic finding of high displacement remains. Bassi and Fechter (1979) used a different methodology and also found unstable results. They failed to find statistically significant evidence of net job creation in the 1975 and 1976 period.

When Title VI was renewed in 1976, stricter rules were imposed on newly hired PSE participants in large part because of concerns regarding substitution. At least half the participants had to have been unemployed for 15 of the past 20 weeks and have low income. In practice, Cook et al. (1985) claim that these new rules were applied to most newly hired PSE participants. Finally in 1978, rules for Title II and Title VI were tightened even further. By 1977 and 1978 the vast majority of participants were economically disadvantaged. This was also the period of really rapid growth in CETA PSE programs. Logically, one might expect a rapid build up in programs would make it more difficult to displace workers.

Surprisingly, and tragically, there is far less econometric evidence from this later period when one might have expected far less substitution. The one study we know about shows a very different story from the earlier period. Adams, Cook, and Maurice use significantly refined data to correct some of the weaknesses of earlier work and provide solid econometric evidence showing a substitution rate of roughly 70% for PSE grants of 1977, but 24-29% in the subsequent 2 years.

A “Brookings-Princeton” team, chaired by Richard Nathan and including the authors of the more recent econometric study, used field research methods to determine the extent of substitution from July 1977 to December 1980 based on meetings with providers, an examination of fiscal patterns, and the like. They concluded that substitution rates were between 10 and 20 percent. These figures seem to be a lower bound of displacement. Program operators had strong incentives to hide displacement (it was a violation of program rules). Moreover, a significant number of positions that were deemed non-displacing were placed in a category called program maintenance—cases where “PSE employees were used to maintain existing services that would have been curtailed without PSE funding”, a grouping that we find suspect at best. If we treat 2/3s of that category as disguised displacement, one gets displacement rates of 25-35%, not very different from the econometric evidence from this period.

It is unfortunate that so little seems to have been done regarding substitution in CETA PSE programs after 1975. One is always reluctant to rely on evidence from a single study team. Yet the existing evidence strongly suggests that much of the criticism of CETA and the claims of extreme displacement actually apply to a period when there was very little attempt to avoid substitution. In the later era, perhaps only 1/3 or 1/4 or even less of all PSE jobs may have been substitutes for public workers. While not trivial, these substitution estimates are a far cry from what may be the conventional wisdom that virtually all CETA jobs were substitutes.

Youth Incentive Entitlement Pilot Projects (YIEPP) – The YIEPP program offered high school youth a combination package. So long as they remained in school, they were guaranteed a part-time job during the school year and a full-time job during the summer. All low-income youths ages 16-19 in the program areas were eligible to participate. Since this was a saturation entitlement program, comparison sites were used to estimate

⁷ See for example Borus and Hamermesh (1978)

impacts, with groups of comparable low-income 16-19 year olds in areas that had no program acting as the control group. Jobs were generated in the public, non-profit, and private sectors using a subsidy of up to 100% of wages. Such jobs were supposed to be non-displacing. All paid the minimum wage.

Interestingly, just as in the case of CETA, there was at least one evaluation of the YIEPP program by a team that separately tried field research and econometric methods. The findings reported here were created by several groups under the direction of the Unicon Research Corporation, with an econometric team that included Finis Welch. The field instrument was somewhat different from the one used by the Brookings-Princeton team for CETA. It included separate determinations for whether output was expanding or contracting and whether the job was displacing. Every single placement in the agency or firm was supposed to be separately evaluated for substitution. “Suspect” categories, like reports that output was contracting or unchanged while no displacement occurred required considerable justification on the part of field associates. Field associates were also expected to assign their level of confidence in their conclusions.⁸

A second team collected detailed objective data on employment of different types of workers, output, finances and the like. Then an econometric analysis was done using these data.⁹ One advantage of both methods was that they allowed separate estimates of displacement by type of provider: public, non-profit, and private. Interestingly the two methods seem to tell a broadly consistent pattern. The field research found substitution rates of 57% in the private sector, 28% in the non-profit and 21% in the public sector. The econometric techniques found substitution rates of 47% in the private, 45% in the non-profit, and negligible displacement in the public sector. But in the private and non-profit sectors, the econometric results also showed some increase in supervisory personnel. The econometric findings also reported little or no displacement from part-time placements in any sector. Note that the program itself was very large in the areas it served, ultimately reaching more than 80,000 youth. Displacement should have been relatively easy to find.

New York City’s Work Experience Program—New York City operates the largest existing mandatory work program by far. The program first required Home Relief (now called “Safety Net”) recipients (generally single adults) to work in exchange for their benefits. Currently many welfare recipients (now called Temporary Assistance to Needy Families—TANF, formerly Aid to Families With Dependent Children—AFDC) are also required to work. This is a classic workfare/work experience program. Recipients found to be employable are placed with a wide variety of local government and a few non-profit agencies. Work hours for Safety Net recipients are determined by dividing their benefits by the minimum wage. TANF recipients are generally required to work 20 hours. Placements are made in 90 day blocks. In theory, people are reevaluated every 6 months and may be offered training, or reassignment to the same or a different position.

Currently roughly 32,000 people are working in WEP jobs monthly. Since New York City employs “just” 175,000 regular workers, the danger of displacement seems very large indeed. The city strongly denies that it is replacing highly paid union labor with WEP workers. As we note later, there is strong anecdotal and some weak

⁸ Unicon (1982)

⁹ Gould et al. (1982)

quantitative evidence that parks and other public areas are cleaner and better maintained than before the program, something that hints at new work being done. To our knowledge, there are no rigorous attempts to measure the extent of substitution.

In 1996, James Butler, president of the Municipal Hospital Workers Union Local 420 of AFSCME, testified that a total of “472 WEP workers [partially] replaced 896 Health and Hospital Corporation employees who accepted severance packages.”¹⁰ However Lerman and Rosenberg (1997) report finding “no correlation between a hospital’s use of WEP workers and its reduction in the number of regular employees.” The authors are unable to generate any overall estimate of substitution.

The *New York Times* highlighted a few other areas where declines in City workers seemed to be coupled with an increase in workfare participants. Ten years ago, 20 city employees did the Health Department’s maintenance work, but that number declined to 3 by 1995. Currently, 50 part-time workfare participants are assigned to the building. This same kind of scenario is also evident in the Criminal Courts building, Family Court, Surrogate Court and the headquarters of the Department of Housing Preservation and Development. The Sanitation Department’s paid workforce was 8,296 in 1990, 7,528 in early 1994 and 6,327 in 1997. The Department currently uses over 5,000 workfare participants. Due to layoffs and attrition, the Parks Department non-administrative work force fell from 2,786 in 1990 to 1,925 in 1994 and to 1,156 in 1998. Over 6,000 workfare participants now work for the Parks Department.¹¹

Our own reading of this evidence suggests that at least some displacement is occurring, but because the city was seeking to cut back employment anyway, the statement of one administrator is also true in many cases: “They’re [WEP workers are] saving this agency.”¹²

Labor Unions Attempts to Minimize Displacement While Allowing PSE—For rather obvious reasons, public labor unions have been particularly worried about substitution and have sometimes fought PSE programs. Yet a number of unions have recently adopted a more conciliatory approach designed to prevent substitution without killing the PSE program. The New York City workfare program was created under a contract between the city and District Council 37.¹³ And until recently, labor appears to have been surprisingly agreeable to WEP arrangements. One union division actually hosts an annual event to honor outstanding WEP participants who move to permanent jobs.¹⁴

AFSCME, the country’s largest public employee and health care workers union, is working with local governments in several places including Philadelphia, Detroit, Indianapolis, Albany, Seattle, Pennsylvania, and some California counties to develop wage-paying PSE jobs for welfare recipients that do not displace Union workers. An innovative agreement already exists in San Francisco, where the building trades unions have agreed to hire public housing residents, most of whom are welfare recipients, in exchange for the Housing Authority’s commitment to use union labor for all contracted

¹⁰ Lerman and Rosenberg (1997)

¹¹ Greenhouse (April 13, 1998)

¹² Martin (1995).

¹³ McFadden (1998).

¹⁴ Giuliani (1996).

work.¹⁵ But these agreements are delicate and can decay rapidly if one side or the other senses bad faith. In New York City, relations with Labor fell apart on April 16, 1998, when Stanley Hill, the executive director of District Council 37, filed a lawsuit accusing the City of illegally laying off 900 of the 35,000¹⁶ City hospital agency workers and replacing them with 1,000 workfare participants. Unions representing city painters and carpenters had already filed a similar suit.¹⁷ Hill went even further to call workfare “slavery.”¹⁸ Eventually, Giuliani removed all WEP participants *and* laid off 600 regular workers, and the union’s power has been weakened due to internal strife over allegations of financial mismanagement. In New York City and elsewhere, it is difficult to predict how well Unions will be able to prevent substitution, whether through mutually agreeable contracts or through confrontation.

Other Programs—Sadly there really seems to be almost no useful information on substitution on any of the mandatory programs. A report by Manpower Demonstration Research Corporation reviewing a large body of mandatory work experience programs says almost nothing about substitution/displacement at all.¹⁹ The only discussion references it as a political threat. It is quite common in the mandatory work experience evaluations to ask supervisors whether the work would have been done in the absence of the program or some similar question. For reasons noted above, we simply do not see how one can infer much from the question. At issue is not whether the work the person did would not have gotten done, but rather whether the entire operation got more done and whether some people were let go. Thus we really have no reliable information on the substitution effects of mandatory work programs.

Conclusions Regarding Substitution—It is extremely dangerous to generalize from a few studies. Yet it appears that in at least two very different programs--the later stages of CETA and YIEPP--we have fairly strong evidence that public substitution rates may be 25% or below in a reasonably tightly run program. Programs that successfully target low income, less skilled workers, provide short term employment, and pay relatively low wages appear to have far less substitution than the much more open programs of PEP and early CETA. The results also hint that displacement rates may rise over time as providers find ways to substitute the new PSE workers for unsubsidized workers (we will see more evidence in support of this proposition below).

One other observation- the large displacement effect in the private sector found in the YIEPP evaluations suggests a rather obvious conclusion: when a desire to maximize profits is driving the employing enterprise, the tendency to find ways to displace workers may be much more pronounced. Such a finding suggests that attempts to use subsidized wage strategies to induce the hiring of new private workers may lead to greater substitution than PSE would.

¹⁵ AFSCME (1998).

¹⁶ Greenhouse (May 2, 1998).

¹⁷ Rohde (1998).

¹⁸ McFadden (1998).

¹⁹ Brock, et al. (1993)

Total Displacement and Private Crowd-Out

One of the intriguing features of the literature on PSE is that in most empirical work, substitution and displacement are used interchangeably—entirely ignoring the other form of displacement, private crowd-out. The simple examples on Table 1 illustrate just how large private crowd-out can be under very reasonable assumptions. In part, the attention given to substitution may reflect a view that the programs primarily focus on unemployed workers who would be unlikely to be in demand in the private sector. But such an assumption is highly questionable. Some of the voluntary programs have placed no demands that persons be unemployed. For example, the YIEPP program was open to any low-income youth in the program area—no requirement of unemployment existed.

Of course measuring private crowd-out is even more difficult than measuring public substitution. Programs may draw out a very small portion of the existing workforce. All of the problems of controlling for other factors remain. In a voluntary program, the issue of endogeneity can be particularly acute: people will be more likely to enroll in the PSE program when opportunities for them are limited, so one cannot look across areas and get reliable estimates. Finally to get an accurate estimate of private crowd-out, one also needs an estimate of public (and private) substitution because the effective number of PSE jobs should be diminished by the level of substitution.

To our knowledge, no study has effectively sought to measure pure private crowd-out. But three programs do give some sense of total displacement—the combination of substitution and crowd-out.

YIEPP—In an evaluation of the YIEPP program for youth, Manpower Demonstration Research Corporation compared the employment and unemployment rates of youth in the program with similar youth in the comparison sites where the program was not instituted. Before the program, youth employment rates were comparable in the treatment and control sites. During the program, youth employment rates were dramatically higher in the treatment sites. If we compute the difference in employment in the treatment sites relative to the controls, we get a net number of jobs created. Comparing the net number of jobs created to the actual number provided by the YIEPP program, we can estimate an aggregate displacement effect in the program for the targeted workers. It must be emphasized that this method does not allow us to determine whether other workers, such as older youth or other low skilled workers, were displaced, only what the overall effect was on the target youth group.

Overall MDRC found that total displacement averaged about 40% over the course of the program. MDRC's estimates should include the combined displacement effect of both worker substitution and private crowd out. The MDRC team made an attempt to decompose that displacement into changes in private and public sector jobs, and they found a total displacement rate of 55% for private sector placements and 29% for public sector ones.²⁰ These figures, which are based on an entirely different methodology, are

²⁰ It should be noted that this decomposition is questionable theoretically, since it was gotten by comparing the number of private jobs apparently displaced and dividing by private placements, and using a similar procedure for the public sector. Since public placements should draw people out of the private sector due to crowd-out, this procedure would tend to overstate private displacement and understate public displacement.

surprisingly similar to the estimates of substitution displacement alone in the Unicon studies cited earlier. If we were accept both sets of estimates, we would conclude that, for low income youth in these sites, nearly all of the displacement was due to substitution and there was relatively little additional crowd-out.

A finding of relatively little net crowd-out is plausible in this program. We have seen that private crowd-out should be low if the group being employed suffers from high levels of unemployment. Unemployment rates for the target group averaged 67% in the program sites in the period prior to the program and was 68% in the control sites during the program.

The MDRC findings also include another intriguing aspect- the implied levels of displacement rise over time. School year displacement effects rise from 27% to 40% over the course of a year and a half, seemingly confirming earlier substitution results.

Summer Youth Employment Program (SYEP) – The SYEP existed during the 70s and early 80s. It was both successor to and predecessor of an ongoing group of programs designed to provide summer jobs for young people. Youth aged 14-19 from low income families who were enrolled in school during the previous Spring were eligible to participate. During the late 70s and early 80s its size varied dramatically as President Carter built up the program and President Reagan cut it back. At its peak in 1979, 45% of non-white youth employed during the summer in the entire country were in the SYEP program. Funds were generally allocated to “prime sponsors” according to a formula reflecting current economic conditions and past use. Subsidized jobs were then created primarily in the public sector, but not exclusively so. Jobs paid the minimum wage and typically lasted 9 weeks. Work could be full or part-time.

The highly variable size of the program, its large magnitude in some years, and the fact that the allocation formula is relatively easy to model make it possible to estimate total displacement effects with some degree of credibility. Crane and Ellwood (1984) use CPS data from 12 larger states and unpublished information on SYEP placements between 1978 and 1981 to estimate the level of total displacement. Their estimates range from 24% to 47% with the preferred model showing a level of 37%. The 37% figure for SYEP is very close to the overall figure of 40% for the YIEPP program. Unfortunately, no separate estimates are available for substitution in this program.

New Hope—The New Hope project in Milwaukee is unique among PSE programs. It is a program that is designed to improve well-being and increase employment of residents in select Milwaukee neighborhoods by making work as attractive and available as possible. It offered a sizable earnings subsidy, provided health insurance and some other services to anyone working in the neighborhoods. For those unable to find work, community service jobs (CSJ), generally in the non-profit sector, were guaranteed.

One unique feature of New Hope was that anyone in these very poor neighborhoods was eligible for the CSJ jobs whether or not they had been recently unemployed. Jobs paid the minimum wage, but the earnings supplement and health insurance were available to these workers as well as to workers in private jobs. By chance, the program began as Wisconsin commenced a period of strong recovery. During much of the experiment, the unemployment rate for the state was below 4% and

even in the Milwaukee area the rates were often below 4%, though the rates were undoubtedly higher in these neighborhoods.

Since the goal of the program was to encourage employment and increase effective earnings, little attempt was made to discourage the use of the guaranteed jobs. Indeed, such an attempt would have been inconsistent with the goals of the program. The program did try to take steps to ensure that the jobs created were not in fact substituting for the work of existing workers. Given the fact that New Hope quite consciously did not restrict aid to the long-term unemployed and offered jobs that might be as attractive as some private opportunities, and given the strong state of the Wisconsin economy, New Hope seems an opportunity to find some upper bound for potential private crowd-out.

and thus evaluators were able to measure employment and earnings. Since one can observe work patterns, one can explore whether or not residents offered the guaranteed jobs were less likely to take private sector employment. Thus at least one aspect of displacement can be monitored: were participants drawn to PSE jobs when private ones were available?

[NOTE TO READERS: THE FOLLOWING RESULTS ARE CONFIDENTIAL AND EMBARGOED UNTIL THE RELEASE OF THE MDRC EVALUATION OF NEW HOPE IN MID-APRIL!]

The experiment included a randomized control group so a very rigorous evaluation was possible. Evaluators broke the group eligible for PSE jobs into two groups: those who were already working full-time when they applied to the New Hope program (presumably to get the earnings supplements and health coverage) and those who were not working full-time when they applied. The former group (full-time workers) seems one that might be particularly prone to displacement.

Among those who had been working full-time on entry, a few did in fact take CSJ jobs. But over the two years of the experiment, only 2.6% of their earnings were from CSJ jobs, suggesting there was relatively little private crowd out.²¹ One slightly anomalous result did appear for this group though, the total employment of this group was higher but the total earnings of the treatment group were slightly lower than it was for controls, but the results were not no where near statistical significance.²² Thus worries about significant displacement for this group seem unwarranted.

By contrast, for the group that was not working when they applied, overall earnings were 13% higher as a result of the New Hope program, and the vast bulk of that came as a result of earnings in CSJ jobs. Their levels of private employment rose slightly relative to controls, but not statistically significantly. Thus for this group, the presence of CSJ coupled with the other supports, did not reduce private employment at all, and did raise the earnings of participants.²³

Overall, the New Hope results offer generally reassuring news about PSE jobs for disadvantaged workers. When coupled with greater supports for private work, the CSJ

²¹ Taken from Table 4.3 in the draft New Hope report. The 2.6% represents the difference in two year earnings of the group that was working when they applied to New Hope with and without CSJ counted.

²² Anecdotal evidence suggests that the support for workers ranging from earnings subsidies to health coverage and CSJ could have allowed some to switch to slightly less well paid but more appealing work.

²³ Table 4.3 in draft New Hope report.

jobs apparently increased the earnings of workers who did not have jobs, and did not reduce private work much if at all. It should be emphasized, however, that since the program did include a number of components designed to increase private work along with the CSJ. One cannot say for certain what the effect of the CSJ jobs alone would have been without those private supports.

WPA Programs—To our knowledge there is no reliable statistical work examining either substitution or private crowd-out in the large work programs of the depression era. It is quite clear from the record, however, that both substitution and crowd-out were large sources of concern. One mechanism used, which is far less common today, was to conduct projects that were clearly distinct from what would ordinarily have been done. The Civilian Conservation Corps' (CCC) emphasis on improving public lands is the most obvious example. In other programs, local governments had to apply to the federal government for WPA money to build public works. According to MacMahon et al. (1941), "The objective was to do things which the state and local governments would in all probability not do for themselves in the near future and perhaps might never do."²⁴ Many programs required a match. Kesselman concludes that sponsor funds put up for a match were often "displaced" in the sense that they were diverted from other projects, but goes on to argue, "The pattern of public spending on goods and services does not support the hypothesis of extensive displacement beyond that of sponsor funds."²⁵

Similarly private crowd-out was also a worry. Quoting Kesselman again, "Concerned about accusations that it was creating local labor shortages, the WPA acted forcefully when it saw the need. Entire projects would be halted in areas that were likely to experience general increases in their labor demand."²⁶ Wages were generally kept to low "security wages". There was no explicit requirement that people be unemployed, but only persons who had exhausted their unemployment benefits and were the "first priority worker" in their family were eligible.²⁷

Mandatory Work Programs – One would be particularly interested in measuring the total effect of mandatory work programs. In theory, the mandatory work should push some private workers out of jobs with PSE mitigating the effect. Chris Tilly performs a simple set of estimates on what a massive WEP program which is supposed to be adopted in New York City could do to work and wages using a model and parameters similar to those in Table 1. He predicts the displacement of 58,000 workers and a wage reduction of 26% from a workfare program affecting 100,000 aid recipients. Implicitly in this model, he assumes no real job creation (full substitution) under WEP other than private jobs generated by lower wages. His estimates are equivalent to simply requiring 100,000 people to work with no PSE jobs generated. This seems an extreme assumption indeed, and, in any case, does nothing to resolve the empirical question.

New York City's economic situation is one where increases in unemployment would be the more likely outcome if significant substitution were occurring in the WEP

²⁴ Page 307. Quoted in Kesselman (1978, p.179)

²⁵ Kesselman (1978), p. 180.

²⁶ Kesselman (1978), p. 199.

²⁷ Kesselman (1978), p.194

program. It has a significantly higher rate of unemployment: 7.7% in June 1998 (compared to the 4.3% national rate).²⁸

Conclusions Regarding Displacement – Considering how much money has been spent on public service employment programs, one of the starkest conclusions is that we know appallingly little about what may be the most volatile political question. The severe limitations of the literature imply that most pronouncements regarding displacement have relatively little hard evidence to support them.

But within the limited literature, it does seem reasonable to draw out several conclusions:

- Substitution is potentially a large problem in PSE programs. In those programs that do little to combat it, much of the initial effect of a new PSE slot may be rapidly dissipated.
- In programs where substitution is carefully managed, it appears to be possible to keep substitution fairly low, perhaps around 20-25% in the public sector. It appears to be much harder to keep displacement this low in programs designed to create new subsidized jobs in the private sector. Several factors seem likely to help keep displacement low:
 - targeting workers who are very different from the traditional workforce, including the unemployed
 - providing only short-term jobs, and not assigning permanent PSE slots to governments and agencies
 - using workers to do distinct assignments, as opposed to doing work which is identical to that performed by regular workers
- Far less is known about the impact of various union based anti-displacement provisions, including mechanisms for grievances or even union vetoes over PSE placements. This type of policy, often included in PSE legislation recently, has not been subject to systematic evaluation.²⁹ The natural place to examine its effectiveness is New York City, but there are no reliable estimates of the extent of displacement.
- Little is known about private crowd-out, but both theoretical and empirical evidence suggest it could be sizable under some circumstances. In general we would expect crowd-out will be kept to a minimum when:
 - workers are hired from a group with high levels of unemployment
 - workers themselves have been unemployed for extended periods
 - the PSE jobs pay noticeably less than equivalent work in the private sector
 - PSE jobs are temporary

Of course, some of the strategies to keep displacement down may themselves have adverse consequences for participants. Low pay interferes with a desire to improve

²⁸ Swarns (June 22, 1998)

²⁹ President Clinton's original welfare reform proposal, "The Work and Responsibility Act" included a carefully negotiated and detailed set of provisions designed to give local public workers a say in PSE programs for welfare recipients.

the well-being of those being helped. Short-term and distinctive jobs are likely to be of less value to both the worker and the community. And if the goal is to employ more workers of a particular target group or to increase earnings of low skill workers, some forms of substitution and crowd-out may not be a problem at all. The New Hope project is an excellent example where the goals of the program were not to create temporary dead-end jobs for highly unemployed workers, but rather to boost employment and earnings of all workers in a neighborhood.

The Value of Output

An absolutely central element in judging the impact of PSE involves the valuation of program output. Unlike transfer programs, mandatory work programs are predicated on the notion that people are expected to engage in productive labor in exchange for public support. And unless we capture the value of the products produced, we are certain to understate the benefits of PSE programs.

Most studies make at least some attempt to judge the quality of the work, examining questions like how satisfied supervisors were with the work or asking whether the work was valuable to the agency. But these lack any real quantitative precision.

Two methods are commonly used to assign quantitative value to output produced. The first is often labeled the “alternative supplier price” method. In the most common form of this method, supervisors are asked how much work was performed by the workers relative to that usually done by some baseline type of employee. The value of the service is obtained by multiplying the fraction of work done by the cost of hiring a baseline worker. When workers perform a distinct set of tasks from regular workers, a similar method seeks to determine what the cost of purchasing the services provided by the PSE workers would be if a private firm had supplied them.

Gottschalk (1998) emphasizes that the limitation of the alternative supplier price method is that (in the absence of full or nearly full substitution) we know that the agency does not value the output as much as it would have cost to produce it. Otherwise they would already have chosen to buy the work or service. Such a valuation method, then, is necessarily an upper bound. Now it may not be a very high upper bound if the service was recently eliminated due to budget constraints, but it is nonetheless an upper bound.

The major alternative is the “retail value method”. If the PSE workers produce some good or service that is later sold, the value can be determined from the actual selling price. Clearly this can only be used when PSE workers perform a saleable task or produce saleable goods. Even when the results are very tangible as in the 124,000 bridges and aqueducts built during the WPA it is difficult to assign value unless the output is sold in the private market.

Another variation linked to basic economic theory is to use the actual cost paid by the agency for the PSE workers they received. If PSE workers cost the agency \$1, they should be willing to hire workers up to the point where they perceive the marginal product of the PSE workers to be \$1. Since agencies pay only a portion (if any) of the wages of PSE workers and since this ignores any agency costs such as supervisory personnel, valuing PSE workers at their agency cost such a method would tend to give a lower bound. The alternative supplier price method seems less reliable, but it is also more easily measured for most programs. Fortunately there is at least one study that uses both

the alternative supplier and the retail valuation methods so one can get a rough sense of upper and lower bounds.

One point worth emphasizing is that both methods often rely heavily on agency valuations. The *agency's* valuation of the service is not necessarily the same as its public value, since government services themselves are the result of democratic institutions which might lead to over or under-provision of goods. It is possible that the public and/or the market would value the work more or less highly than the agency itself does. But in this effort we often have little choice.

We turn now to several examples:

Youth Corps—Youth Corps is a long-standing program with its origins in the CCC. It hires disadvantaged teenagers and young adults. These are placed in a variety of public service work settings. A recent evaluation of the program conducted by Abt Associates using the alternative supplier method suggests the potential for very valuable output, but also points to the tendency of this method to overstate value.

Where sponsors employed regular workers that performed similar tasks as participants, staff were asked what these workers were paid and asked to estimate the relative productivity of the Youth Corps workers. The estimated value of these workers, who were paid an average of \$6.76 per hour including wages, stipends and post-program benefits, was approximately \$7.58 plus another \$2.22 in fringes. Such a high value of output is indeed good news if plausible. Still arguing that unemployed youth are producing output worth nearly \$10 per hour when the private market pays less than half that rate is a bit troubling. Part of the issue may be a failure to consider supervisory and administrative costs. When all the other costs of the program are included, the value of the output per participant is still below the cost of the program (\$7,824 versus \$9,540 per participant). One might argue that a better estimate of is roughly 80% of its cost and so we might value the youth labor at 80% of its supply cost.

Community Work Experience Programs (CWEPs) for Welfare Recipients—The CWEP programs offer another example of valuable output that may nevertheless be somewhat exaggerated by alternative supplier estimates. About half of the states operated some form of CWEP program by 1985. Most were relatively small, with short duration placements, and CWEP was often combined with other elements such as job search. For example, San Diego had a 13-week mandatory CWEP program for people still unemployed after a period of mandatory job search. One exception to this pattern was West Virginia, which required one parent in two-parent families in the AFDC-U to work in a CWEP job on an on-going basis. Several of these programs have included estimates of the value of the output using the alternative supply price method. Supervisors' estimates of productivity were multiplied by a usual price for comparable workers.

Because participants were judged, on average, to be as productive or nearly as productive as regular new employees (more than half of supervisors rated them as being as productive as regular workers), the hourly value of participants is close to the hourly value of regular employees. Using information from final reports for West Virginia, San Diego, Virginia, Baltimore and Cook County, Illinois, we find an hourly value ranging from \$6.31 in West Virginia to \$9.21 for AFDC-U's in San Diego [1996 dollars].

Compared to wages for regular workers in these locations at the time, these values range from slightly below the average wage to slightly above.³⁰

As in the Youth Corps program, these reports are reassuring that the value of output is high. Still, they strike us as being somewhat high. If such short-term workers are as productive as regular employees, they should have been hired in their stead. Of course, hiring freezes or union wage agreements might make that impossible. We should note that supervisors were asked to compare CWEP workers with regular *new* employees, even though some CWEP workers had been on the job for awhile at the time of the survey. It is possible that new workers are initially overpaid relative to their productivity as they learn on the job. Thus using these workers for comparison could be misleading. One should also bear in mind that a *total* of 293 supervisors were surveyed over all CWEP sites.

AFDC Home Health Aid Demonstration—This voluntary program simply valued its participants' labor at the Medicare allowable rate times the number of hours that participants worked. The program was designed to train AFDC recipients to work as home health aids. In this case a very similar service is sold on the private market and it seems to be in short supply. Obviously the larger question in a program such as this is whether the CSJ workers are performing regular work that the private market would have otherwise creating displacement. But if the market is growing and shortages developing, a work related training program may indeed prove to be extremely useful, and valuing the work at the rate paid to regular employees may be reasonable.

New York City WEP—While nothing even as rigorous as a supply estimate has been made for output value in New York City's WEP, anecdotal evidence suggests valuable output. Lerman and Rosenberg (1997) report that managers in New York City's WEP rated participants as slightly less productive than regular workers (who are paid considerably more). Moreover, the percentage of NYC parks deemed unacceptable by the Department of Parks and Recreation decreased by about 35% in the areas where WEP workers were assigned³¹, even as public funding for parks is down 31%.³² The *New York Times* reported that, even as people expressed "mixed emotions" about workfare, there was "scant doubt" that the City was cleaner, just 8 months into the program.³³ They also report that Parks Department studies showed litter and graffiti down by one third since the previous year, and inspections showed that 79% of parks were "acceptably clean", a 9 percentage point improvement from the previous summer.³⁴

New York also offers an interesting anecdote that illustrates the tension between output value and substitution. When Stanley Hill, the AFSCME labor leader became embroiled in a debate over layoffs and potential displacement of hospital workers, Mayor Giuliani abruptly pulled every workfare participant out of the hospitals on April 23,

³⁰ Friedlander et al (1986), Goldman et al. (1986), Riccio et al. (1986), Friedlander et al. (1985), Friedlander et al. (1987), Freedman (1988)

³¹ Lerman and Rosenberg (1997).

³² "The State of New York City's Parks" (1998)

³³ Fisher (April 24, 1998)

³³ Fisher (April 24, 1998), Martin (1995).

³⁴ Ibid.

1998.³⁵ City officials said of the pull-out, “We doubt there will be more than a negligible effect, and it won’t be in patient care.”³⁶ This *does* imply that WEP participants did not replace regular workers, but at the same time, it completely devalues their work.³⁷

Supported Work—The Supported Work Program probably did the best work of any in valuing the work. It was a program of transitional employment for long-term welfare mothers, ex-addicts, ex-offenders and youth. Participants were placed in work situations with close supervision and gradually escalating workplace demands. When Supported Work contracts were bid, researchers used the next highest bid to determine value as an alternative supplier’s price. When goods were sold (as they were to raise revenue in some sites), the revenue was used in valuing output. When goods were not sold, researchers used professional contractors’ estimates of value, as well as published estimating guides for the industries. In some cases, researchers used work site estimates of Supported Workers’ productivity relative to regular workers.

The methodology gives a rare opportunity to compare a suppliers’ price/supervisor valuation method with a revenue based method. The former yielded a value of output which was roughly equal to 50% of the wages paid to the workers. The revenue method valued output at about 25% of the wages paid. Generally we would expect the alternative supply price to be an upper bound and the revenue method a lower bound. In this case the revenue estimate really is a very low bound because not all of the work was designed to produce saleable output. Still one might make the wildly incautious generalization from this work that the true value of output might be between the supplier price of the service and half that amount.

The supplier price value of 50% of wages is the lowest valuation rate of any of the programs for which an output value is assigned. It is worth noting that the program hired the *most* disadvantaged workers, those who employers presumably shy away from for fear their marginal product is well below the minimum wage. Thus it is quite plausible that the true supplier price would be closer to the 80% or more of wages that was found elsewhere if comparable participants were targeted. Still we fear some of the reason may also be traced to unusually great care that seems to have been used in developing these estimates of supply value.

Conclusions Regarding the Value of Output --It is hard for both practical and theoretical reasons to appropriately assign a market value to the output of PSE programs. The existing studies, with their almost uniform reliance on the valuations of supervisors is subject to enormous uncertainty and manipulation. With some real reluctance though, we draw the following conclusions:

- PSE jobs do not appear to be make-work jobs. Supervisors generally rate the work as valuable. However, the actual quantitative values assigned by supply estimates may overestimate the market value of the work.

³⁵ Fisher (April 24, 1998).

³⁶ Fisher (April 24, 1998).

³⁷ The City also pointed out that they could not have been replacing workers, given the skills of many of the people laid-off – 150 of them were doctors or nurses. Fisher (April 24, 1998).

- Estimates of the value of work as a share of wage payments to workers run from 25% using the retail value in Supported Work to well over 100% in the Youth Corps and most of the CWEP programs. We suspect a more reasonable estimate is perhaps 75% of the pay of workers plus program-provided supervision and benefits in a well-run program. But that estimate is highly speculative.

Future Earnings/Welfare Reductions

Some targeted PSE programs have as an explicit goal the desire to raise the future pay of program participants. This was true of the structural PSE programs in CETA, YIEPP, and especially the Supported Work and AFDC Home Health Aid programs. Still this goal is not common to all programs. There is little evidence that future earnings concerned the designers of most depression era programs. Similarly the Summer Youth Employment Programs of the 70s and early 80s paid scant attention to the issue.

It makes a difference. If one's goal is to raise future earnings, one might be less concerned with the value of current output, or even the extent of displacement, and design the program accordingly. This was clearly true in the case of Supported Work where the focus was on close supervision and gradually escalating expectations. Reliably determining the impact of PSE programs on future earnings probably requires the use of randomized control experiments. Such randomized controls were not used for evaluating the CETA programs or for some youth programs studies. But there are some generally accepted findings regarding the impacts of PSE. Since these are relatively well known and they are detailed somewhat more fully in Table 3 we will simply summarize the basic results in the literature.

- Like PSE on-the-job training, CETA PSE seemed to boost earnings by up to \$3,900 [1996 dollars] per year for women, with more mixed results for men.
- The intensive programs like Supported Work and AFDC Home Health Aides did show fairly sizable earnings gains (a few thousand dollars in the years directly following participation [1996 dollars]) for current or former welfare recipients. The Supported Work program showed little long-term impact for ex-addicts, ex-offenders, and youth.
- Youth public service programs, like nearly all youth programs, have not consistently shown positive results. The only program that showed much promise was the YIEPP program which showed 40% earnings gains 3 months after the program ended.
- Combination programs which included structured job search, CWEP, and sometimes limited training have shown modest but significant gains in earnings, ranging from negligible gains in Cook County to as high as \$873 in the second year after San Diego SWIM [1996 dollars].³⁸ These gains do not seem particularly impressive, but it is important to recognize that often less than half of the treatment group actually participated in any activity and less than 25% participated in the work experience component in any site.

³⁸ Gueron and Pauly (1991).

- In West Virginia, the one program that was a pure CWEP program showed no long-term earnings gains, though this could have been caused by the extremely weak local economy. In two other programs where job-search was compared to job-search plus CWEP, the addition of CWEP did not improve the results. Thus there is very little evidence that CWEP alone does much to improve future earnings.
- No information is available on the long-run earnings or welfare impacts of longer term or more comprehensive workfare/CWEP programs.

Thus the lesson seems to be, the more serious the job and intensive the experience, the greater the impact on future earnings. In some respects, it would be shocking if a 13-week work experience program could dramatically affect future earnings. And generally, like all employment and training programs, results were most promising for adult women and least promising for youth.

Perhaps the only surprise here is that CWEP programs as implemented do not seem to have had a large impact on welfare spending. One might have expected that such programs would push some off welfare who were reluctant to work, who had been working off the books, or who were frustrated by the process. Remember, though, that CWEP actually was used for only 3-24% of the treatment group, which was already a select group. And random assignment experiments cannot readily address the deterrence question.

Sadly we really know very little about the impacts on earnings or welfare of serious work requirements extended to a very large group of recipients. As we will discuss briefly below, large-scale, really serious work requirements combined with PSE/CWEP jobs are currently in place in only a couple of locations, notably Wisconsin and New York City. Wisconsin's caseload has plummeted, falling by over 75%. But most of the fall came before the work requirements were imposed, and the economy has had unemployment rates near 3 or 4%. The program for TANF recipients in New York is too new to judge impacts, and unfortunately, it appears that no rigorous evaluation on participant outcomes is taking place.

Cost and Administrative Feasibility

Obviously the non-wage costs are a critical element in thinking about PSE programs. Table 3 shows administrative (non-participant wage) costs as a percentage of the total cost in those programs for which we were able to determine it. In the case of Supported Work and the Youth Corps, administrative and supervisory costs were 53 percent and 59 percent respectively of total costs. Both of these programs are programs where the jobs themselves are essentially provided and supervised by the program. In the YIEPP program they were 37 percent. And in the CETA program, prime sponsors were, at various points in the program, allowed to use 10, 15 and 20% of funds for administrative costs; the rest had to be used for wages and fringe of participants. In most of these programs, the hiring agencies were expected to provide the supervision. We have little to offer about these figures except to note the obvious:

- Programs that are more rigorous, more oriented toward future earnings, and ones where the service is provided by the program itself tend to be more expensive administratively.
- As a very rough rule of thumb, programs which offer low cost workers to public agencies can expect administrative costs of perhaps 30% of total costs (42% of wages paid) while those which provide the employment supervision themselves may have administrative costs of nearly 60% of total costs (150% of wages paid.)

While these costs may seem high, remember that these “administrative costs” include all costs other than wages. Training and job search assistance programs, for instance, would have 100% administrative costs by this definition.

One of the features of the debate over welfare reform was the apparent fear that state and local governments have about creating large numbers of PSE jobs. Some of this may involve a fear of the administrative costs involved, some a fear of displacement, some a sense of political dangers. But often the problem is expressed as a fear that it is difficult to mount large-scale PSE programs. One of the striking results of reading the literature was the apparent lack of serious administrative problems for most programs in the job finding/creation parts of the PSE programs reviewed. WPA and CETA are obvious examples of massive build-ups and phase downs. But even a quick scan of Table 2 shows that many of the smaller and lesser known programs still managed to place a very large number of participants. The summer youth employment program placed 1.1 million people in the summer of 1978. The YIEPP program placed 82,000 youth in just 17 sites over a couple of years. The program operators reported that finding jobs was challenging, especially in the private sector, but not overly difficult. The New York City WEP program is now placing 32,000 persons per month.

The one serious administrative feasibility question that arises quite plainly in this review involves countercyclical programs. In a long depression, one can afford to take time to get a program up and running. But when a PSE program is designed to stimulate the economy during a time of recession, the dangers of missed timing are great. It takes time to get a new program up and running, and the costs of having one going when it is not needed may be large. There is some evidence from the recession of 1975 that countercyclical programs can come up to speed quickly. But generally the most poorly run programs and the ones with the greatest substitution seemed to be those which sought to expand very rapidly in the face of a recession.

The Critical Tradeoffs

Our assessment of voluntary PSE programs is mixed, but actually somewhat more upbeat than we expected. It is possible to keep displacement at relatively low levels. Intensive programs can yield modest long-term earnings gains. Administrative costs are reasonable, and may be at least partially offset by the value of output produced. Finding or creating jobs appears to be more feasible than we had expected.

However, two broad tradeoffs exist for any PSE program. First, more intensive programs will produce more long-term benefits and valuable output; however, they are also more expensive and difficult to implement. Second, programs with lower levels of public worker substitution may also generate less valuable output.

To some degree, the operators of work programs have to choose: is the goal to get people working quickly in as inexpensive a way as possible with little regard for future earnings or is the primary goal to improve future prospects or complete some major project? If the former, then short-term, work-experience like programs will work fine. The evidence clearly suggests that one can take people who would otherwise be unemployed and/or on welfare and insist that they do something of value in exchange for their aid. CWEP type programs can do that at modest cost and complexity. They do indeed seem to create positive value for the community and even recipients may prefer them to pure welfare programs.³⁹ But operators of such programs should not fool themselves. Such short-term, low maintenance work programs will not also guarantee a much brighter future for participants.

The second tradeoff involves a choice between limiting substitution and creating valuable output. It is relatively common in this literature to note, as we did previously, that avoiding substitution may reduce the value of work. If we seek to minimize substitution by hiring workers who do not fit the usual profile, using them in short-term jobs, and assigning them duties that otherwise would go undone, the very real question arises as to whether the work being done has a high social value. This ambiguity is revealed sharply in questions asked of supervisors like, “Would the work have been done in the absence of the program?” The right answer from the point of view of minimizing substitution is “no”. The right answer from the point of view of finding the work valuable is “yes”.

However, this second tradeoff is perhaps more easily mitigated. Carefully designed and monitored programs may be able to keep substitution to a minimum while still producing valuable output.

The Role of PSE and Mandatory Work in Welfare Reform

Work programs come up most commonly today in the context of welfare reform. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) shifted nearly complete responsibility for the former AFDC program to the states. But the act did include some strong rules. Recipients are now required to work in large numbers and most can collect aid for no more than 5 years over a lifetime. Many states have adopted even shorter limits, often 2 years. In principle, nearly everyone must work after no more than 2 years if they are still in the program. States are given almost complete flexibility in meeting work requirements, and among the options is CWEP or some other public work arrangement. However, nothing in the legislation requires that states provide any sort of work opportunity at all. Recipients can be required to work and pushed off welfare if they fail to find employment.

Many advocates and administrators are understandably concerned about what might happen if people are told to work or leave TANF when no form of last resort job is offered. If people cannot find private work, they may quickly become financially desperate. On the other hand, with a strong economy and very low rates of unemployment, it is possible that anyone who wants to work in most parts of the country could find a job. In a very tight economy, public service jobs may simply crowd-out

³⁹ CWEP participants reported overwhelmingly that they thought it was fair to expect them to work, and a sizable majority strongly agreed or somewhat agreed with the following statement: “I feel better about receiving welfare now that I am working for it.” Brock et al. (1993)

private work and discourage people from finding private jobs, although this does not seem to have been the result in New Hope. Yet even in a tight economy, the influx of a large number of new workers into the economy should push down wages (or slow their growth).

We want to briefly address two questions: how serious is the concern that significant numbers of former recipients will not find work, and to what extent are work programs figuring into welfare reform strategies of various states.

Will Significant Numbers of Welfare Recipients Be Unable to Find Private Work

When the new welfare reform bill was signed, large numbers of academics and advocates decried its combination of time limits and work requirements without any provision for new jobs. Given the nature of the welfare population and areas in which they work, it was projected that widespread unemployment and suffering would result among recipients.

Current press reports suggest that the critics concerns were exaggerated. Aided by a very strong economy, between January 1994 and June 1998, caseloads have fallen over 40%, and since August 1996 when the law was passed, caseloads are down 32%.⁴⁰ Yet there have been few visible cries of pain and anguish in the media. Perhaps, then, the skeptics were wrong. The next important question to ask, however, is what has happened to people leaving welfare.

Probably the best available summary of the data is from Tweedie and Reichert (1998). They summarize the results for 8 states. Generally of all those who left welfare one finds that between 50 and 70% are working. This does not, of course, allow us to judge how the non-working families are faring and whether they can sustain themselves in the long-run. Another critical point that seems strangely absent from much of the discussion is what is happening to people who never get onto welfare in the first place. We suspect that many states have made it extremely difficult to get onto welfare. It is hard to track people deterred from getting onto welfare. But their outcomes could be better or worse than those who are leaving it. The falling caseloads also raise the concern that those left on welfare may be a group even less able to compete in the labor market.

The most recent data we have seen comes from a study in Massachusetts. After a 45% drop in the caseload in Boston, one gets a hint of who is left behind by looking at the group still on welfare there: 54% are high school drop-outs, 77% are black or Hispanic, 71% are over 30.⁴¹ This last statistic may be the most telling, for it suggests the group is likely to have been on welfare and away from work for a very long time. Nationally while the unemployment rate for women 25 and over is 3.8%, for women in the same age range who are high school dropouts, the rate is nearly 10%, and for blacks the figure is 13%.⁴²

We also need to get some ideas of how many recipients will reach their time limit without finding a job. We cannot say for sure how many people will hit time limits and be pushed into work. But some hint can be gleaned from the experience of

⁴⁰ U.S. Dept. of Health and Human Services, Administration for Children and Families. Internet Site. August 1998

⁴¹ Dodson, et al. (1998)

⁴² U.S. Department of Labor, Annual Average Tables from the January 1998 Issue of Employment and Earnings, Table 7.

Massachusetts, which imposed a two-year time limit on a subset of families. As of December 1996, roughly 40,000 Massachusetts families began time limited benefits that expired after two years of welfare use. These were typically families with no young children. By December 1, 1998, the first 5,100 families hit the time limit, with 2,800 of these applying for last minute extensions.⁴³ Remember the only people who would be due to be cut off in December 1998 would be those continuously enrolled for 24 months. Others who had at least a one month interruption, will be cut off later as they accumulate additional months of welfare. Thus even though the caseload has dropped by over 40% in Massachusetts, the economy is very strong, and the limits were imposed only on a group without young children. Time limits seem sure to hit at least a third of the mandatory caseload. If these people get jobs at the rate of 40% like others that have been sanctioned off of welfare, a sizable number could have serious trouble.⁴⁴

We worry that the early apparent successes in welfare reform hide increases in insecurity, and that as we move to a more disadvantaged portion of the caseload, the early positive returns may turn to greater reports of failure. The potential for recession looms particularly large. Over time, states are likely to be confronted with a difficult set of choices. Obviously the most appealing result in the long run would be to really increase the employability of welfare recipients. But few really powerful program models now exist, and the most effective ones such as Supported Work are often expensive.⁴⁵ During a recession, however, these may not be very helpful anyway. If we are reluctant to leave families with children without some form of safety net and equally reluctant to simply pay welfare benefits without some expectation of work in return, public work programs may need to be an important part of the mix sometime in the future.

Current PSE and Other Work Programs for Welfare Recipients

Worries about a lack of jobs for some welfare recipients led the Clinton administration to include in its initial welfare reform proposal a plan for subsidized jobs for people hitting a time limit without finding an unsubsidized job. The plan offered jobs only to people who had been on at least two years, the jobs paid minimum wage, PSE workers were not eligible for the EITC, the plan had strict anti-displacement language, and the jobs were themselves short lived—all this to avoid displacement. But nothing like that appeared in the final welfare reform legislation.

Today program decisions are left up to the states, and they can decide to implement some sort of last resort jobs plan if they feel it necessary or appropriate. Cities and towns could also use funds from a variety of sources to create public jobs of subsidized work for welfare recipients. As we have already seen, New York City has chosen to do just that.

We sought to determine which states and local communities are including some form of public work as part of their welfare reform efforts. Given the diversity of programs across 50 states, collecting this information was no easy task. We cannot be certain we have found all the emerging programs. Still we think we have found most of the bigger efforts that involve public job creation/subsidization. The programs and a brief description of them are found in Table 4. In developing this chart, we looked only

⁴³ Wong (1999).

⁴⁴ See Robert Moffitt's forthcoming paper on "The Effects of Time Limits" for a more detailed discussion.

⁴⁵ For excellent summaries, see Office of the Chief Economist (1995), and Gueron and Pauly (1991).

for programs that seemed to be creating something more than the very short-lived, CWEP style jobs that many states offer for a small number of participants. The included programs are those where the jobs would typically last longer than 13 weeks and where the program seems to be a source of considerable local energy.

We found it helpful to separate these programs into two categories depending on how the compensation system worked. The first group, which we label work-for-welfare, is classic workfare. Participants continue to receive a welfare check and then are required to work a fixed number of hours. In many sites the required number of hours is determined by dividing the welfare check by the minimum wage. Some programs usually also have a maximum number of required hours—20 in the case of WEP. In work-for-welfare, no social security or other taxes are paid, and participants do not qualify for the Earned Income Tax Credit (EITC).

The other form is what we label work-for-wages. In this case people are assigned a work site/job and then are paid according to the number of hours they work. Wages are often set at the minimum wage, but sometimes higher. And since wages are paid like traditional jobs, employers and employees generally must pay social security taxes, and recipients do qualify for the EITC. This tax feature alone makes work-for-wages jobs more expensive to operate, but far more lucrative for participants since the EITC would typically increase gross earnings by 40%. These work-for-wages jobs also have somewhat more ambiguity as to their mandatory status. Typically a certain number of TANF recipients are assigned to one of the job sites, and their welfare checks reduced in accordance with expected earnings. But since most of the work-for-wages programs are run by organizations outside the welfare department, and since most are very new, it is uncertain just what actually happens with the two forms of payment. In some cases also, the work-for-wages option is presented as an “option” from a menu of choices, though our impression is that most participants are not really given much choice. Some programs, such as the Oregon JOBS Plus program, offer their services to some who are not on TANF such as unemployment insurance recipients.

Looking down Table 4, we are struck by two features. First, not even counting the modest CWEP programs that continue around the country, there are a large number of programs where some form of mandatory work program is at least in a late stage of planning. The chart shows at least 16 programs in 12 states, including many of the largest states. And it appears that many more small programs are being planned. An equally striking feature, however, is how few jobs are actually being provided now. In total, we estimate that perhaps 35,000 TANF participants monthly are currently in some form of public work. And virtually all of these are in two states: New York and Wisconsin. That work figure represents just over 1% of the 3 million plus families on TANF as of June 1998.

The current small scale should not diminish the significance of the programs that are being contemplated. The biggest need for PSE programs may not come until a recession appears. We have already noted that it can be difficult to gear up programs quickly if one is trying to adjust to a declining economy. The states that already have some experience with such programs will be in a much better position to gear up quickly should the need and desire to do so arise.

In the meantime, a rather obvious question is what is different about New York, Wisconsin, and to a much lesser degree, Massachusetts. For one thing, they are all high

benefit states with a history of generally liberal programs for the poor where the programs are now under the control of moderate Republican governors or mayors. Interestingly, the three take wildly different approaches to their work programs.

New York City, as we have seen, offers a classic workfare program. People are required to work for their benefits. It seems motivated, at least in part, by the same concerns that animated the jobs portion of the original Clinton proposal: a belief that it is appropriate to expect work of those collecting public aid, and an unwillingness to simply cut people off who say they cannot find unsubsidized work. (Many of those who worked on either plan would flinch at any comparison. Note also that the relatively high levels of unemployment in the city make it harder to claim that jobs are readily available to all who want them. Newman's work on jobs in central Harlem indicated that during the mid 1990s, there were as many as 14 applicants for each fast food job offered.⁴⁶

Wisconsin is at the other extreme. The W-2 program is a complete replacement of the old AFDC system. Services, including eligibility determination, are delivered by private providers, not government workers. No one deemed able to work is eligible for any cash aid unless they work. If providers think the person is ready to work and that jobs are available—and they usually are, given that the unemployment rate is below 3%— applicants are eligible only for support services and they must find unsubsidized employment. A much smaller group are offered temporary “trial jobs” that are work-for-wages and can last no more than 24 months. Persons with still greater needs can be placed in community service jobs or transitional jobs that supposedly include a training component. These latter categories are work-for-welfare, as recipients get a flat stipend. No more than 24 months can be spent in any one of the job components, and no more than 60 months total. Wisconsin's program is much more explicitly designed to move people into the private sector as quickly as possible than is WEP. It arguably has more of a work/training component.

Massachusetts maintains a welfare system, but requires some people to work almost immediately. If during the first two years, people cannot find private jobs, the state will on some occasions provide a community service job. But there are few such jobs and exactly who gets them is confusing. After 2 years, a sizable number are no longer eligible for aid due to the time limit described earlier.

Why did these states design the programs as they did? Each has a unique political story and the programs strongly reflect the personalities of the Mayor or Governors. Still some larger forces are at work. A common thread does appear to be a desire to get large numbers of people working in the marketplace, but an unwillingness to simply abandon those who seem willing to work and unable to find private jobs. And the differences in the economies probably explain part of the reason for the fact that WEP jobs are longer-term while W-2 jobs are rarer and more transitional.

A far more difficult question is why significant public work programs have *not* developed in more places. We have no ready answers. Many states are interested in far less radical reforms. Some are undoubtedly fearful of the costs. The natural coalition of public workers fearful of substitution, conservatives skeptical of public jobs, and liberals troubled by the prospect of make-work jobs seems a powerful opposing force. And as we have noted, there are some very real trade-offs between programs designed primarily to enforce work and programs designed to improve employability.

⁴⁶ Newman, 1999, p. 62.

Public Work, Welfare Reform, and the Future

It is far too early to judge the role public work programs can or should play in welfare reform. We continue to believe that as the economy weakens and harder-to-place recipients fill the remaining caseload, difficult choices will have to be made. Our conclusion from this fairly exhaustive (and no doubt for readers exhausting) review is that public service employment and mandatory work programs can provide a legitimate way out of the dilemmas one faces when jobs are scarce but the public and policymakers want to insist on work. And PSE may take on many forms depending on the political and economic context in which it operates. One of the striking features of the Wisconsin/New York comparison is that even within this broad goal of mandated work coupled with a safety net, public work can be used for very different purposes.

We believe that with hard work, moderately sized programs can be mounted with modest levels of displacement. And if the public is willing to invest in more serious work programs, some PSE jobs may even brighten the future of those who use them. Recent legislative initiatives mean that greater federal money will be available to provide public jobs in some circumstance, so the opportunity for expansion is present.

But the review also leaves us with a sense of the potential for waste and abuse in such programs. Loosely run can lead to wholesale substitution and waste. However, work programs can be used readily, more readily than some critics fear, to enforce work requirements. These programs may indeed add value to the community and dignity to participants. Intensive programs may be much harder to operate, but they may also raise future earnings of those who use them.

We would not be legitimate academics if we did not end a paper with a call for more research. More research really is needed. Public work programs come and go with a vigorous intensity. Yet for all these policy upheavals, to be left with so few studies on which to base conclusions regarding displacement, the value of output and similar questions is almost scandalous.

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Figure 1
 Public Worker Substitution and Private Crowd-Out
 in a Smoothly Functioning Market

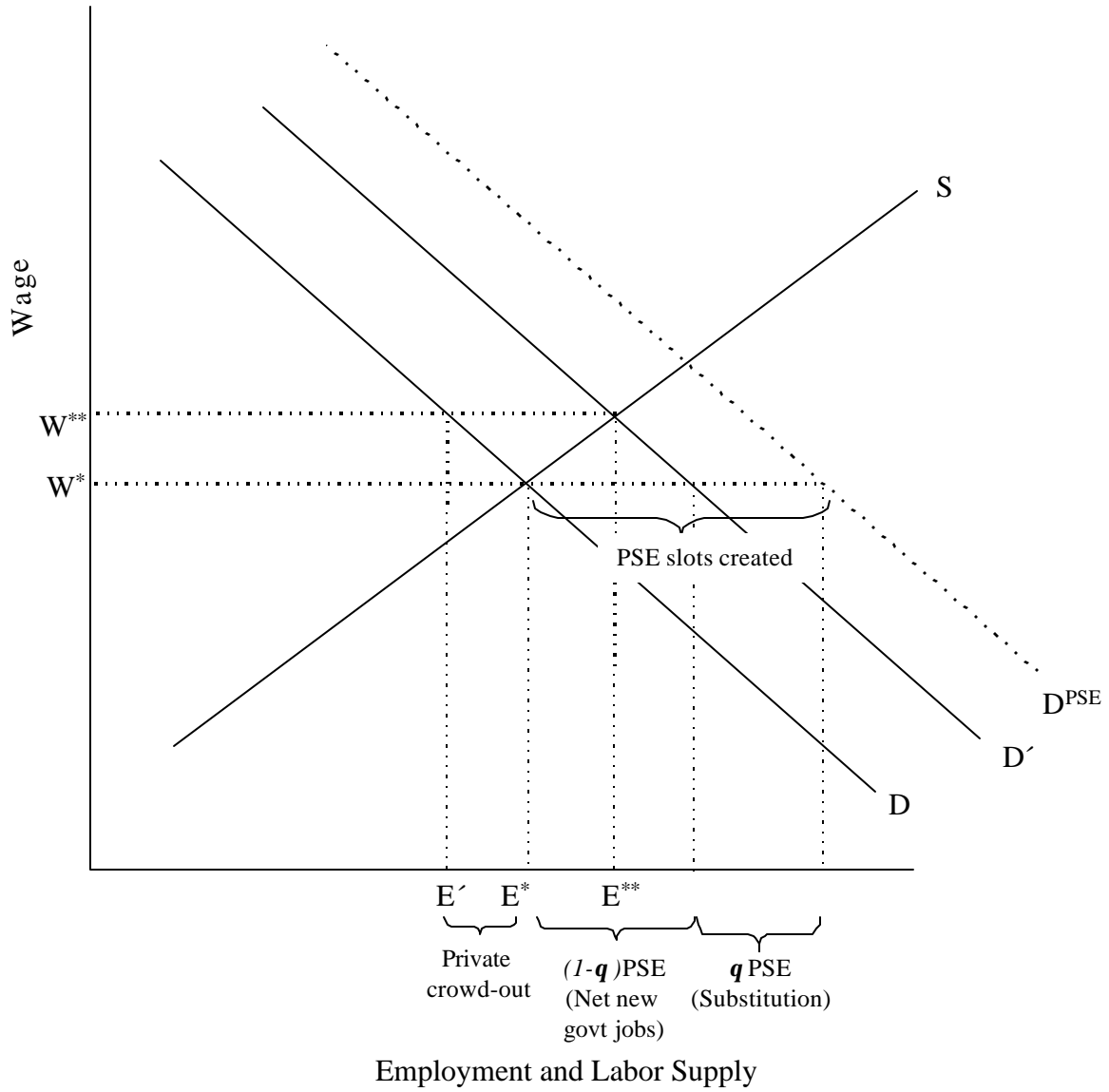


Figure 2
 Public Worker Substitution and Private Crowd-Out
 in a Market with High Unemployment

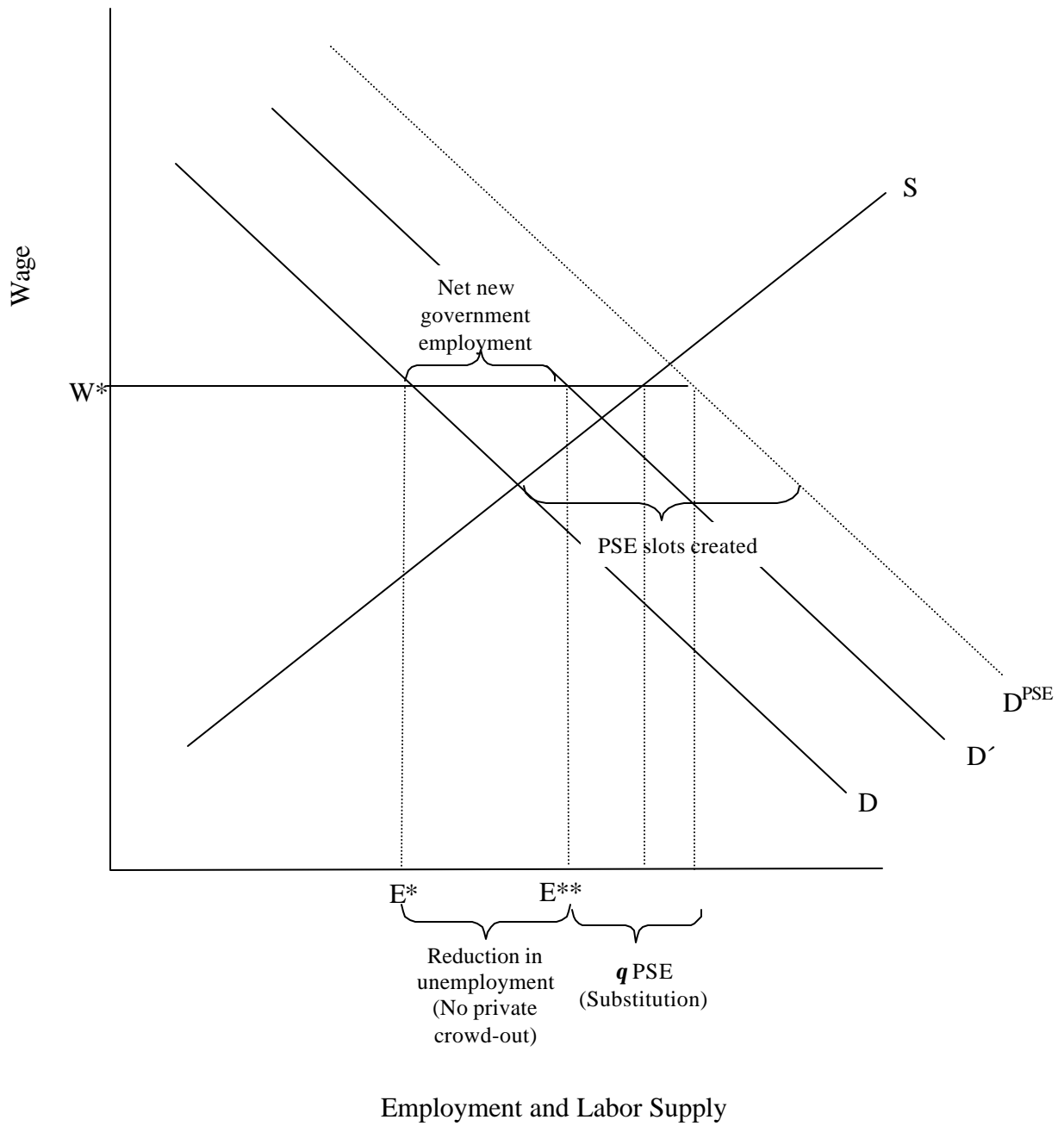


Table 1
Theoretical Impacts of 1000 PSE Jobs Under Various Conditions

	Countercyclical PSE High unemployment: $e_s = 5.0, h_D = 0.4$ Low substitution: $q = .25$	Countercyclical PSE Low unemployment: $e_s = 0.2, h_D = 0.4$ High substitution: $q = .67$	Targeted PSE High unemployment: $e_s = 5.0, h_D = 0.5$ Low substitution: $q = .25$	Targeted PSE Low unemployment: $e_s = 0.4, h_D = 0.5$ Low substitution: $q = .25$	Mandatory Work PSE slots for ½ of those required to work. High unemployment: $e_s = 5.0, h_D = 0.5$ Low substitution: $q = .25$	Mandatory Work PSE slots for ½ of those required to work. Low unemployment: $e_s = 0.4, h_D = 0.5$ Low substitution: $q = .25$
Number of persons newly required to work	-	-	-	-	2000	2000
Net number of public jobs created	750	333	750	750	750	750
Number of private jobs lost or gained	-56	-222	-68	-417	227	695
Net number of jobs created	694	111	682	333	977	1445
Number of former workers or welfare recipients not working now	-	-	-	-	-1023	-555
Overall change in wages	little change	up	little change	up	little change	down
Dollars in higher earnings to workers per dollar for PSE wages	\$.83	\$.67	\$.82	\$1.17	\$.82	\$1.17
<i>Alternative option: Dollars in higher earnings to workers per dollar for a wage subsidy</i>	\$.44	\$.80	\$.55	\$.78	\$.55	\$.78

**Table 2
Key Programmatic Features of Past PSE Programs**

Program	Dates	Target Group	Scale	Program Structure
Countercyclical Programs				
Works Progress Administration (WPA) ¹	1935 - 1943	Persons who had exhausted unemployment benefits, were not eligible for youth programs, and were the one "first priority worker" of their families. ²	-3.3 million people at peak in 1938. -7.8 million people total. ³	WPA was a Depression-era program that used federal funds to finance state and local-run construction and service projects.
Civilian Conservation Corps (CCC) ⁴	1933 -1942	Unemployed men between the ages of 18 and 25.	-Almost 3 million men between 1933 and 1942. -Peaked at 500,000 in the mid-1930s.	Workers lived in camps run by the Army and did heavy construction work in crews managed by the Department of the Interior.
Public Employment Program (PEP) ⁵	1971 - 1975 ⁶	Families below poverty level, Vietnam veterans, young and old workers.	-128,000 people on average. -185,000 at its peak in 1972. ⁷	Federal government provided funds to local governments to hire temporary workers.
Comprehensive Employment and Training Act (CETA) PSE ⁸	1973 –1981	Eligibility rules changed over time from very little targeting to requirements that participants be unemployed or disadvantaged.	-At peak in March 1978, >750,000 employed (10% of all unemployed).	CETA created temporary and longer-term jobs in public and non-profit agencies. Title II was originally designed to combat structural unemployment, and was limited to people who lived in high unemployment areas and had been unemployed for at least 30 days. The original Title VI was explicitly counter-cyclical, without Title II's eligibility restrictions. In 1976, Title VI was split into 2 types of positions: some "sustainment" positions that were fairly unrestricted and some "project" positions that were temporary and restricted to long-term unemployed, disadvantaged workers. In 1978, Title II became Title II-D, and both Titles were more strictly targeted to long-term unemployed, disadvantaged workers.
Minnesota Employment and Economic Development Program (MEED) ⁹	Jul 1983 - Dec 1988	Unemployed without unemployment insurance, had lived in the state for at least a month prior to enrollment, and were available to work for the duration of the program.	-19,000 placed between July 1, 1985 and December 31, 1988.	MEED offered subsidies of up to \$4.50 per hour for 6 months to small businesses with 50 or fewer employees. It was expanded to include jobs of 6-12 months in non-profit agencies after a few years of operation. Employers were required to pay participants the same wages as other employees doing the same work and to avoid displacing regular workers. Employers were also required to hire participants for at least a year after the subsidy ended and had to reimburse the state for up to 70% of the subsidy if they did not keep participants.

Table 2 Continued
Key Programmatic Features of Past PSE Programs

Program	Dates	Target Group	Scale	Program Structure
Targeted Voluntary Programs				
Summer Youth Employment Program (SYEP), Summer Training and Employment Program (STEP)	1965 – present ¹⁰	Economically disadvantaged youth (family income below Bureau of Labor Statistics lower living standard), ages 14-21, who are still in school. ¹¹	-47,600 in 1965. -1.1 million in 1978. -At its peak in 1979, 45% of non-white youth employed during the summer were in this program. ¹² -Currently hundreds of thousands. ¹³	SYEP provides part-time or full-time minimum-wage summer jobs in public and private organizations that last nine weeks. It also offers remedial education. ¹⁴
Youth Incentive Entitlement Pilot Project (YIEPP) ¹⁵	Summer 1978- Summer 1980	Ages 16-19 from low-income or welfare households who had not yet graduated from high school. Entitlement for all eligible youth in targeted communities.	-82,000 youth in 17 rural and urban sites (76,000 youth employed).	YIEPP was innovative in three ways: in its attempt to connect work benefits with school requirements, in its mandate to guarantee jobs for all eligible youth, and in its use of private sector placements. Participants were generally paid the minimum wage and worked 10-20 hours during the school year and up to 40 hours in the summer. Participants were required to demonstrate that they were still in school to continue participation. ¹⁶
Youth Corps ¹⁷	Began as CCC in 1933. Renewed activity in 1970s. Currently exists.	Educationally or economically disadvantaged youth, ages 17-26.	-Participation peaked at 500,000 in the mid-1930s. -About 120 Youth Corps programs are currently operating in 37 states enrolling about 30,000 participants each year. ¹⁸	Participants usually work in teams of 8 to 15 participants in service projects. Participation is full-time, with about 80% of the time dedicated to service projects and the rest used for education or other developmental activities. It is usually intended to last 6-12 months, but the typical participant stays in the program for 4-5 months. Most programs are non-residential, although a few provide temporary lodging. Some programs now contract to provide services, earning revenue to support their activities.
Youthbuild ¹⁹	First program in New York City in 1978. Youthbuild USA founded in 1988. Currently exists.	Disadvantaged teenagers and young adults.	-Currently Over 3,000 youth in 35 states. -Planning 10 sites for welfare recipients.	Participants typically spend half of their time building or renovating affordable housing and half of their time in education activities. Youthbuild emphasizes leadership development. Youthbuild USA was recently awarded \$4.7 million to apply their model to welfare recipients in 10 sites. These participants will have 9-12 months of community service employment while learning construction skills, earning their high school or equivalency degree, and receiving education and life skills counseling. ²⁰

Table 2 Continued
Key Programmatic Features of Past PSE Programs

Program	Dates	Target Group	Scale	Program Structure
Voluntary Programs (Continued)				
National Supported Work Demonstration ²¹	February 1976 – March 1979 ²²	4 groups: long-term welfare mothers, ex-addicts, ex-offenders and youth.	-10,043 persons in 15 sites enrolled. -6,616 made up the sample for the impact study (3,214 participants and 3,402 controls).	Supported Work provided temporary work in low-skill jobs. The work was accomplished in teams of participants with trained supervisors and gradually increasing work expectations.
AFDC Homemaker-Home Health Aide Demonstrations ²³	Jan 1983 - Jun 1986	AFDC recipients on the rolls for at least 90 days who did not work as an Aide in that period.	-4,020 entered training in 70 sites in 7 states. (Over 9,000 total with controls).	Participants received 4-8 weeks of homemaker-home health aide training and up to a year of subsidized employment.
New Hope Project (Milwaukee, Wisconsin) ²⁴	Aug 1994 – present	Any resident of the targeted Milwaukee neighborhoods.	->200 since 1994 -40-60/month -Over 12 months, ¼ participated in a Community Service Job at some point.	New Hope is designed to make work attractive by offering health care, child care and earnings subsidies to all participants who work at least 30 hours per week. It also guarantees minimum-wage community service jobs (CSJs), mostly in the non-profit sector, to those who are unable to find work after 8 weeks. Jobs last for up to 6 months, and participants must perform a 3-week job search before being assigned to another CSJ placement.
Mandatory Programs				
Community Work Experience Programs (CWEP) ²⁵ <ul style="list-style-type: none"> ▪ West Virginia ▪ Arkansas ▪ San Diego ▪ Cook County, Illinois ▪ Virginia ▪ Baltimore ▪ New Jersey ▪ Maine ▪ SWIM²⁶ 	1982-1987(Each evaluation lasted 3 yrs).	AFDC recipients. Work requirements varied between sites based on factors including AFDC-U status, age of children, and time on welfare.	->35,000, including experimentals and controls.	The CWEPs represent a variety of different program structures. West Virginia used an ongoing work requirement. Arkansas, San Diego and Cook County used a set sequence of job search followed by 13 weeks of community service. Virginia required job search as a first step for everyone and work experience as a later requirement for some participants. Baltimore offered a variety of services and workfare, with the sequence for each participant determined by the participant and case manager. New Jersey and Maine offered voluntary programs including on-the-job training. SWIM required a sequence of job search, 13 weeks of unpaid work, assessment, and education and training unless participants were already participating in training or part-time work.

Table 2 Notes

Key Programmatic Features of Past PSE Programs

¹ Johnson and Carricchi Lopez (1997).

² Kesselman (1978).

³ Cohen, Marie (1998).

⁴ Jastrzab, Blomquist, Masker and Orr (1997).

⁵ Nathan, Cook, Rawlins and Associates (1981).

⁶ Johnson and. Tomola (1977).

⁷ Gottschalk (1998).

⁸ Nathan, Cook, Rawlins and Associates (1981).

⁹ Johnson and Carricchi Lopez (1997), pp. 11-12.

¹⁰ Office of the Chief Economist *What's Working (and what's not)* (1995).

¹¹ Crane and Ellwood (1984).

¹² Crane and Ellwood (1984).

¹³ Office of the Chief Economist *What's Working (and what's not)* (1995).

¹⁴ Office of the Chief Economist *What's Working (and what's not)* (1995).

¹⁵ Johnson and Carricchi Lopez (1997), pp. 12-13.

¹⁶ Diaz, Ball, Wolfhagen et al. (1982).

¹⁷ Jastrzab, Blomquist, Masker and Orr (1997).

¹⁸ Johnson and Carricchi Lopez (1997).

¹⁹ Johnson and Carricchi Lopez (1997), pp.6-7.

²⁰ Cohen (1998).

²¹ MDRC Board of Directors (1980).

²² Johnson and Carricchi Lopez (1997).

²³ Bell, Burstein and Orr (1987).

²⁴ Brock et al. (1997).

²⁵ Gueron (1987).

²⁶ SWIM was not part of "The Demonstration of State Work/Welfare Initiatives" series on CWEPs published by MDRC. However, it took place within the same time period, was also evaluated by MDRC, and had similar structures and goals.

Table 3
Key Findings from Past PSE and Mandatory Work Programs¹

Program	Substitution	Total Displacement (including Substitution and Private Crowd-Out)	Output Value	Future Earnings/Welfare Reductions	Costs
Countercyclical Programs					
Works Progress Administration (WPA)²	-State and local govts required to provide sponsor contributions, but it was still “clear” that some fiscal substitution occurred. No extensive substitution beyond sponsor contributions. ³	-Projects halted in areas likely to experience general increases in their labor demand. ⁴ Wages kept to low “security wages”.	-617,000 miles of new roads, 124,000 bridges and viaducts and 35,000 buildings.	-Surveys in late 1930s. Most who left voluntarily were employed; most who had been terminated were not working.	-TOTAL cost: \$10.6 billion in 8 yrs (in nominal dollars).
Civilian Conservation Corps (CCC)⁵	-Projects were clearly different from what would have been done.				
Public Employment Program (PEP)⁶	-46% after one year. ⁷ -39%. ⁸ -60% after one year. ⁹ -Data including PEP and CETA indicated growing substitution over time: out of 100 PSE workers, 9 were substituted after 2 quarters, 31 after 3 quarters and 97 after 6 quarters. ¹⁰				-TOTAL cost: \$3.5 billion in 1972 and \$4.16 billion in 1973. Reduced scale through 1975.
Comprehensive Employment and Training Act (CETA) PSE	-Early years included with PEP: see above. -Early years: unstable results. Only real conclusion is that substitution increased over time ¹¹ -Early years: unstable results. No statistically significant job creation in 1975-76. ¹² -70% in 1977 and 24-29% in next 2 yrs. ¹³ -July 1977 to December 1980: 10-20% substitution. ¹⁴ -1977-1980: 25-35% substitution ¹⁵		-Workers approximately as valuable as regular workers. Especially high value when there was maintenance of effort, absorption and flexibility. ¹⁶	-Statistically significant impacts for women in year after employment (\$643-\$3,889 for minority women and \$1,524-\$3,633 for white women) across several studies. ¹⁷ -Mixed results for men. ¹⁸	-Local sponsors, Title VI: Originally: 10% max spent on non-wage costs ; 15% in 1976 and 20% in 1978. ¹⁹ -TOTAL outlays reached \$13 billion in FY78. ²⁰
Minnesota Employment and Economic Development Program (MEED)²¹	-55% employers said they would not have expanded without the subsidy.				

Table 3 Continued
Key Findings from Past PSE and Mandatory Work Programs

Program	Substitution	Total Displacement (including Substitution and Private Crowd-Out)	Output Value	Future Earnings/Welfare Reductions	Costs
Targeted Voluntary Programs					
Summer Youth Employment Program (SYEP) and Summer Training and Employment Program (STEP)		-Combined substitution and crowd-out for SYEP: 37% ²²		-Participants slightly more likely to work the following year, but no long-term gains demonstrated. ²³ -STEP, an educational program, had no additional long-term impacts over SYEP alone. ²⁴	-TOTAL cost per participant: about \$1444. ²⁵
Youth Incentive Entitlement Pilot Project (YIEPP)	-57% in private sector, 28% in non-profit sector and 21% in the public sector. ²⁶ -47% in the private sector, 45% in the non-profit sector, and negligible substitution in the public sector. ²⁷	-Total combined displacement: 40% overall; 55% for private sector and 29% for public sector. ²⁸ -Potentially very little private crowd-out. ²⁹	-4/5 employers found work valuable for at least 2 of 3 measures of value and congruence with mission. ³⁰	-3-month post-program period suggests 40% increase in earnings over comparison sites. No real impact on school observed. ³¹	-Non-wage costs averaged 37% of all non-research costs. ³² - TOTAL cost per participant: about \$3,282. ³³
Youth Corps³⁴	-56% of work sponsors said some work would get done without the Youth Corps, 25% said none of the work would get done, and 20% said all of it would get done.		-\$13.24 total value per hour (Of this, \$9.80 directly due to participant labor: \$7.58 wages and \$2.22 fringe) ³⁵ Total compensation actually received was \$6.76 per service hour. -Almost 80% of sponsors said the work was "good" or "excellent". 69% of beneficiaries said the work was "good", "very good" or "excellent".	-No statistically significant post-program earnings/ employment impact. More evidence of positive effects for African-American, Hispanic and white female participants. ³⁶	-Non-wage costs were 59% of total costs. ³⁷
Youthbuild				-Almost 2/3 graduated from program. Of these, 81% found jobs with an average wage of \$7.53 per hour or went onto post-secondary education. ³⁸	

Table 3 Continued
Key Findings from Past PSE and Mandatory Work Programs

Program	Substitution	Total Displacement (including Substitution and Private Crowd-Out)	Output Value	Future Earnings/Welfare Reductions	Costs
Targeted Voluntary Programs (continued)					
National Supported Work Demonstration	-Sensitivity tests reveal that 80% in-program and post-program displacement would be necessary to make net present social value negative. ³⁹		- Alternative supply value of program labor estimated to be \$4.46 per hour, about half of actual wages. -Revenue estimated to be slightly over half of the alternative supply value estimate. ⁴⁰	-Very little impact for ex-offenders, ex-addicts and youth. - AFDC recipients: By months 25-27 after enrollment, worked 35% more hours and had almost 50% more earnings. Wage rates were \$9.34 per hour compared to \$8.51 per hour for controls. Earnings were an average of \$188/month (\$2,260/yr) higher for experimentals. ⁴¹ -Due to significant reductions in welfare payments and food stamps , experimentals' total money income was only \$63/month (\$753/yr) higher than controls by months 19-27. ⁴² -Analysis of 8 yrs after end of program: earnings gains of \$872 to \$1,220 for each of years 1982-86 ⁴³ .	-Non-wage costs were 53% of total budget costs. ⁴⁴ - TOTAL cost per participant: about \$9,870.
AFDC Homemaker-Home Health Aide Demonstrations ⁴⁵	-Participants could only be assigned to serve clients who were found to be otherwise underserved.		-Range of \$1,624 to \$18,436 per training entrant. Based on Medicare cost reimbursement rate. ⁴⁶	-Much variation between states but fairly consistent gains in earnings. Average annual earnings gains: \$3,192 (Year 1), \$2,034 (Year 2), \$1,635 (Year 3). -Welfare reductions: \$1,096 (Year 1), \$1,291 (Year 2), \$500 (Year 3). ⁴⁷	-Non-wage administrative costs were 60% of total costs. ⁴⁸

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inia. Reductions of roughly
\$250 annually in Arkansas,
and reductions of about \$650
in SWIM.⁶¹

Table 3 Continued
Key Findings from Past PSE and Mandatory Work Programs

Program	Substitution	Total Displacement (including Substitution and Private Crowd-Out)	Output Value	Future Earnings/Welfare Reductions	Costs
Mandatory Programs (continued)					
New York City Work Experience Program (WEP)	<p>Newspaper accounts: -In 1996, 20 employees did Health Department's maintenance work, declined to 3 by 1995 with 50 part-time workfare participants. Similar scenarios in the Criminal Courts , Family Court, Surrogate Court , Department of Housing Preservation and Development. -Sanitation Department's workforce was 8,296 in 1990. Fell to 6,327 in 1997 but have over 5,000 WEP participants. - Parks Department non-administrative work force fell from 2,786 in 1990 to 1,925 in 1994 and to 1,156 in 1998. Over 6,000 workfare participants now work for the Parks Department.⁶²</p>		<p>-The percentage of NYC parks deemed unacceptable by the Dept of Parks and Recreation decreased by about 35% in the areas where WEP workers were assigned⁶³, even as public funding for parks is down 31%.⁶⁴ -Newspaper account: after 8 months of WEP, Parks Department studies showed litter and graffiti down by one third since the previous year, and inspections showed that 79% of parks were "acceptably clean", a 9 percentage point improvement from the previous summer.⁶⁵</p>		

Table 3 Notes

Key Findings from Past PSE and Mandatory Work Programs

¹ All dollar amounts in 1996 dollars unless otherwise noted.

² Johnson and Carricchi Lopez (1997).

³ Kesselman (1978).

⁴ Kesselman (1978).

⁵ Jastrzab, Blomquist, Masker and Orr (1997).

⁶ Nathan, Cook, Rawlins and Associates (1981).

⁷ Unpublished paper from the National Planning Association (May 1974) cited in Johnson and Tomola (1977).

⁸ Unpublished paper by Michael Wiseman cited in Johnson and Tomola (1977). Used NPA data.

⁹ Unpublished paper by Johnson and Tomola cited in Johnson and Tomola (1977). Used aggregate time-series data. The authors acknowledge that the model was limited by a crude lag structure and short time-span.

¹⁰ Johnson and Tomola (1977). Used aggregate time-series data from 1966-1975.

¹¹ Borus and Hamermesh (1978).

¹² Bassi and Fechter (1979).

¹³ Adams, Cook and Maurice (1983). Econometric analysis.

¹⁴ Nathan, Cook, Rawlins and Associates (1981). Based on field interviews, fiscal patterns, etc.

¹⁵ Author's estimates, assuming 2/3 of the "maintenance" non-substitution from the Nathan study was disguised displacement.

¹⁶ Nathan, Cook, Rawlins and Associates (1981).

¹⁷ Barnow. , Burt S. Paper includes detailed analysis of the various studies.

¹⁸ Barnow, Burt S.

¹⁹ Mirengoff, William et al. (1980).

²⁰ Nathan, Cook, Rawlins and Associates (1981).

²¹ Johnson and Carricchi Lopez (1997).

²² Crane and Ellwood (1984).

²³ Crane and Ellwood (1984).

²⁴ Grossman and Sipe (1992).

²⁵ Diaz, Ball, Wolfhagen et al. (1982).

²⁶ Unicon (1982). Field study.

²⁷ Gould, Ward and Welch (1982). Econometric analysis.

²⁸ Farkas et. al. (1982). Probably overstates private displacement and understates public displacement.

²⁹ Author's postulation given the similarity of the similar results for the overall and substitution-only studies.

³⁰ Ball, Gerould and Burste (1980). The survey was primarily intended to measure worksite quality, not output value.

³¹ Gueron (1984).

³² Diaz, Ball, Wolfhagen et al. (1982). In early 1979, all sites were given a standard to spend at least 60% of budgets on participant compensation.

³³ Diaz, Ball, Wolfhagen et al. (1982).

³⁴ Jastrzab, Blomquist, Masker and Orr (1997).

³⁵ Jastrzab, Masker, Blomquist and Orr (1996).

³⁶ Follow-up was completed 15 months after random assignment, and in-program earnings and employment were included in the analysis.

³⁷ Author's calculations based on budget figures in Jastrzab, Blomquist, Masker and Orr (1997). Author calculated percentage from budget figures.

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- ³⁸ Johnson and Carricchi Lopez (1997), pp.6-7.
- ³⁹ Kemper, Long and Thornton (1984).
- ⁴⁰ Kemper, Long and Thornton (1984). Detailed estimates using competitive bids, revenue, indirect estimates and supervisor productivity estimates.
- ⁴¹ Masters et al. (1981).
- ⁴² Masters et al. (1981).
- ⁴³ Couch (1992).
- ⁴⁴ Authors' calculations based on budget figures in Kemper, Long and Mathematica Policy Research (1981).
- ⁴⁵ Bell, Burstein and Orr (1987).
- ⁴⁶ Bell, Burstein and Orr (1987).
- ⁴⁷ Gueron and Pauly (1991) Figures include demonstration earnings. This primarily affects Year 1.
- ⁴⁸ Author's calculations based on budget figures in Gueron and Pauly (1991).
- ⁴⁹ Brock et al. (1997).
- ⁵⁰ Brock, Butler and Long (1993). Survey of 293 supervisors.
- ⁵¹ Author's calculations from Friedlander et al. (1986).
- ⁵² Author's calculations from Goldman et al (1986).
- ⁵³ Ibid.
- ⁵⁴ Author's calculations from Riccio et al. (1986).
- ⁵⁵ Author's calculations from Friedlander et al. (1985).
- ⁵⁶ Author's calculations from Friedlander et al. (1987).
- ⁵⁷ Brock, Butler and Long (1993).
- ⁵⁸ Gueron and Pauly (1991).
- ⁵⁹ Friedlander and Hamilton (1993).
- ⁶⁰ Brock, Butler and Long (1993).
- ⁶¹ Gueron and Pauly (1991).
- ⁶² Greenhouse (1998).
- ⁶³ Lerman and Rosenberg (1997).
- ⁶⁴ "The State of New York City's Parks" (1998).
- ⁶⁵ Martin (1995).

**Table 4
Current Welfare Mandatory Work Programs**

Program	Start Date	Scale	Job Descriptions	Other Information
Work For Welfare (Workfare--No Direct Wages Paid)				
Massachusetts Community Service Program	1995	-As of April, 1998: 1,181/month -Supported Work and Full Employment Program add an additional 383/month.	-Public, Non-profit	-The state's jobs programs also include: the Full Employment Program (small, wage-based) and the Supported Work Program (small wage-based, targeted to hard-to-employ recipients). -With all programs, still only 1/3 of recipients who are required to work are working.
New York City Work Experience Program (WEP)	Full implementation in March 1995 for Home Relief recipients and April 1996 for welfare recipients.	-As of July 1998: 18,700 TANF participants per month (7,500 in concurrent activities like education or training) -about 36,000/month total including Home Relief participants	-Public, Non-profit -20 hours/week -Ongoing jobs, re-evaluated every 6 months	-Safety Net (formerly Home Relief) recipients also participate in WEP. -Wildcat Service Corporation combines WEP with education and training. -About 5,500 of the TANF participants are in BEGIN, which combines WEP with education (GED, ESL).
New York-Westchester County	-TANF program began Aug 97. -Safety Net program began 1989-90.	-15,725 people since 1989	-Public, Non-Profit	
Virginia	- Began July 1995. - Jan 1998: full implementation.	-Approx 150 new participants/month -Between July 1995 and Oct 31, 1998, 5,253 people participated.	-Public, Non-Profit -Ongoing requirement; jobs assessed every 6 months. -Hours are determined by benefit divided by minimum wage.	-Occurring in context of high unemployment. -Mathematica study to be released at the end of this year.
Wisconsin W-2 Community Service Jobs (CSJ), Transition Placements and Trial Jobs	Sept 97	-As of July 31, 1998: about 8500 in CSJs, 2200 in W-2 Transition Placements (Together, this is 68% of all active W-2 cases)	-Non-profit, For-profit -Trial Jobs (wage-paying): Paid at least min wg; employers are reimbursed \$300/month; each job placement is 3-6 months -CSJs: \$673/month (=75% min wg), 30hrs work and 10 hrs training, 6-month positions -Transition Placements: \$628/month (=70% of min wg), 28 hrs work and 12 hrs training	-Assessment places recipients in one of 4 work-readiness levels- all require work. (The first level is unsubsidized employment, second is Trial Jobs, third is CSJs, fourth is Transition Placements.) -Each level has 24-month participation limit with 60-month lifetime participation limit in W-2 activities.
New Hampshire's Alternative Work Experience Program (AWEP)	Began as CWEP during JOBS era; modified somewhat for TANF regs	-average 71 people at a time -266 people between Sept 97 and Aug 98	-Non-profit, For-profit -Jobs are 13 weeks, with a maximum of 26 weeks at one site. -25 hrs/week minimum, but varies	-Focus is on work experience and training. -Not required of all participants. Participants selected for mandatory participation on case-by-case basis. -TANF recipients begin with 26 weeks of job search or AWEP (if hard-to-employ), then assigned to work placement (subsidized employment, AWEP, OJT).

Table 4 Continued
Current Welfare Mandatory Work Programs

Program	Start Date	Scale	Job Descriptions	Other Information
Work For Welfare (Workfare--No Direct Wages Paid)				
Tulsa IndEx	1992	-5-10 welfare recipients/month -50 total participants/month	-20 hours training, 20 hours work/week -Fill light manufacturing orders for private firms -Average 6 months, but no time limit -Structure similar to National Supported Work Demonstration	-Recent modification – can now choose to get min wage for 4 hours rather than stay on TANF – ½ choose wages. -also available to out-of-school youth and other adults (15-20 youth/month and 30-35 adults/month)
Work for Wages				
Vermont's Community Service Employment (CSE)	Nov 95	--45 active placements at a time -Between Nov 95 and Aug 98: 232 participants -Originally anticipated that 1400 positions would be needed by May 1998.	-Public, Non-profit -Required for all non-exempt welfare recipients who have gotten cash assistance for 30 months (15 months for 2-parent families) -Jobs are 10 months and can be reassigned after job search -Hours determined by benefit amount divided by min wage -Work requirement can be reduced to as little as 5 hrs/week for training and education.	-MDRC conducting random assignment study with current recipients and applicants between 1995 and June 30, 1997. -Cost of this wage-based program <i>above</i> an unpaid work experience program is \$1,687 per participant (due to FICA and stipend costs).
Washington Community Jobs Initiative (CJI)	June 1, 1998	-Plan 540 this yr in 5 areas of state -Expect to include 2,500 participants statewide by June 2001	-Public, Non-profit -20 hrs/wk at federal min-wage, stipend for work-related expenses (=20% of wages) -Receive supplemental grant if wages lower than previous grant amount -Jobs last up to 9 months	-Targets hard-to-serve (on welfare for >1 yr or live in "distressed" county) -Governor provided leadership.
The Seattle Jobs Initiative's (SJI) Preparatory Employment Program	Not yet begun	-Plans to serve 50 people.	-Non-profit, Public -\$5-6 subsidies -\$8/hr total wage	-One of 6 city-focused efforts by Annie E. Casey Foundation -Emphasizes training -Also serves unemployed persons, legal immigrants and working poor persons
Pennsylvania Job Opportunities in Basic Services (JOBS) program	In legislature as of Nov 1997	-Plan 10,000 jobs	-Public, Non-profit -Placement up to 18 mos -Full-time, min of \$6/hr -Subsidies are \$6/hr	-Proposal says funding should not include federal TANF funding so that participants would not be subject to the federal time limit on receipt of benefits

Table 4 Continued
Current Welfare Mandatory Work Programs

Program	Start Date	Scale	Job Descriptions	Other Information
Work for Wages				
Philadelphia@Work's Transitional Work Program	Aug 1998	-Plan 3,000 people and 750 jobs over 3 yrs (750 people every 6 months) -127 as of Sept 28, 1998	-Public, Non-profit (about half of each) -Avg 25 hrs/wk and 10 hrs training -Jobs up to 6 months -Bonuses up to \$800 if get job before 6 months	-Mayor provided leadership -Of first cohort (21 people), 6 had permanent jobs by Sept 28, 1998
Oregon JOBS Plus	Nov 94 in 6 counties (Statewide July 96)	-503 participants in Oct 98 -An additional 283 in CWEP and 68 in supported work, partial subsidies or OJT in Oct 98 -2311 JOBS Plus participants in July 97-June 98 -8% of state's active participants in 1997	-For-profit, Non-profit -Positions last up to 6 months -Employers not required to hire them at the end -Subsidies of \$5.50 per hour	-Cited as example of successful implementation -Half of placements result in unsubsidized jobs. -Also available to Unemployment Insurance and Food Stamp recipients
Kansas City's 21 st Century Communities	Jun 95	-221/month -From Jun 95-Aug 97: 565 people	-Public, Private -Subsidies of \$533 per month -Subsidized jobs can last up to 4 yrs -Wages are at least \$6/hr (avg wage is \$6.55) -Full-time positions	-Unusual to have such long subsidized placements. -Similar statewide program: \$267/month subsidy hours, 9-month positions. 290 people were enrolled from Jun 1995 through Aug 1997, and 138 were actively enrolled as of August 1997. 105 employers were actively participating.
California Work Study	Money appropriated 2/98	-\$18.2 million - \$34.5 million for job creation	-Subsidize up to 75% of wages	-Same structure as Federal Work Study except targeted to welfare recipients -140,000 welfare recipients enrolled in community colleges in 1995-96 (prior to this program)
San Francisco's New Ways to Work Program	Currently in RFP process	-Plan to serve 200 people	-Non-profit -9-month positions	-Targets hard-to-employ

Table 4 Continued

Current Welfare Mandatory Work Programs

Other places to watch:

- New York State Education for Gainful Employment (EDGE) and Philadelphia's Community Conservation Corps combine unpaid work experience with basic education and training.
- Chicago's Project Match is one of several programs that allows hard-to-employ welfare recipients to choose their own volunteer assignment as a first step into working.
- Several New York Counties are in the process of considering workfare programs.

Growing prevalence of work-for-welfare programs: GAO reviews of 7 states found that the percentage of active participants in community service activities grew from a 0 to 6.7% range in 1994 to a range of 5.3 – 39.3% in 1997.

States that require employment or unpaid work after a set period of time: California, Delaware, Massachusetts, Montana, New Hampshire, Rhode Island, South Dakota, Vermont, Virginia, Wisconsin (as of October 1997). Some other places have committed to work-for-wages programs:

- Baltimore held an RFP in Nov 1998 for PSE focused on hard-to-employ welfare recipients.
- Indianapolis has a commitment to employ hard-to-employ welfare recipients at the City Hospital
- Oakland's City Board of Supervisors is currently holding hearings regarding wage-based employment options for hard-to-employ welfare recipients.
- Ohio was recently awarded a WtW grant that includes wage-based employment in 30 Counties in Southeast Ohio.
- 4-5 local affiliates of the National Urban League (NUL) will develop wage-based programs in their cities with support from the Annie E. Casey Foundation.
- The Center for Community Change and Jobs with Justice have co-convened community organizing, labor and faith-based groups to promote public job creation strategies.

Other areas are discussing the possibility of wage-based programs:

- San Diego
- Los Angeles
- California
- Parts of Michigan
- New York City

Several Service and Conservation Corps and Youthbuild have now contracted with welfare agencies to replicate their programs for young adults. The Corps combine environmental and human service projects with education and life skills training. Other areas are developing Work-Study models:

- Kentucky will allocate \$1 million to colleges that develop work-study plans.
- Arkansas is considering reinvesting as much as \$5 million in welfare savings from caseload declines in work-study for welfare recipients.
- Philadelphia will use part of a competitive WtW grant to fund work-study positions for almost 400 teen parents who graduate from high school and enroll in the Community College of Philadelphia.

Prevalence of partially subsidized jobs: 37 states indicated in their TANF plans as of November 1997 that they would provide employer subsidies, but they do not appear to be widely used. In the GAO study, 5 of the 7 states have subsidized employment programs, but state officials said subsidies were not used much because they are expensive and difficult to negotiate with employers.