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*Building an Effective Safety Net:
Lessons From a U.S. Perspective with a
Special Emphasis on Children*

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WORKING PAPER

Korea Institute for Health and Social Affairs

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Special Emphasis on Children***

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Individuals (and particularly children) can be or become poor for a number of reasons: because they live in families that have experienced death, disability (of both short and long duration), unemployment, low wages, or due to problems securing and retaining employment. Different programs are needed to address these different situations. In the United States, social insurance programs address the first three, work support programs such as the Earned Income Tax Credit, child care assistance, and food stamps address low wages, and the public assistance system provides income and services to enable individuals to overcome their employment barriers.

Both work support and public assistance programs underwent considerable changes in the 1990s. In the early 1990s, the primary public assistance program in the United States was Aid to Families with Dependent Children (AFDC). In 1996, it was replaced with Temporary Assistance for Needy Families (TANF), and new time limits and enforced work sanctions were introduced in the cash welfare assistance program. At the same time, the funding for work support programs including the Earned Income Tax Credit, health insurance coverage for low-income children, and child care subsidies was increased substantially.

Let me begin by applauding the philosophy and vision of the Korean National Basic Minimum Living Standard. To implement this vision in Korea or in any country, policymakers need to understand the heterogeneity of the population that should be served by a safety net. This paper begins with a discussion of this issue and then proceeds to a discussion of some guiding

principles that should form the basis for a safety net. The paper then briefly describes the three main elements of the safety net --- social insurance, work support programs, and public assistance --- and their appropriate roles in serving individuals and families. I then draw some lessons from a U.S. perspective which reflect both successful aspects of the current system and ways in which it could be improved. The paper then turns to the overarching topic of parental responsibility and the government's role in supporting children, especially in cases where the parents are separated. Finally, the paper addresses a number of specific administrative issues that can have a substantial impact on the success or failure of implementing safety net programs.

This paper does not address health insurance coverage, retirement programs, education, or macro-economic changes that might increase job availability. The paper also does not discuss the safety net for the elderly; the primary focus is on families with children. The goal of this paper is to make a few suggestions regarding the design and implementation of a safety net in Korea.

I . Heterogeneity of the Population Served by the Safety Net

People who are poor are heterogeneous and have low-incomes for a variety of reasons. Some families and children are poor because of a death or disability of the primary breadwinner. Some are poor because adults lose jobs during an economic slowdown or recession. Others lose jobs because of the natural workings of a dynamic economy where firms go out of business because demand for products or services shifts or because technological change produces economic dislocation. Still others are poor because the particular skills or human capital that a person possesses does not result in a wage rate high enough so that the individual and his dependents can realize a minimal level of income to meet basic food, shelter, and other needs. Finally, some individuals have one or more barriers to employment that make it difficult or impossible for them to secure and retain employment.

Policymakers designing safety net programs often try to differentiate the deserving poor that is, people who are unable to work, from the undeserving poor those who are able to work but choose not to. Distinguishing between people who can work and those who cannot is more

complicated than it may seem. A substantial portion of the population served by cash welfare assistance have a number of barriers to employment. At the same time, a national profile of people with incomes below the poverty line suggests that they have a stronger attachment to the labor force than many people assume. Dividing the population of people who need assistance from safety net programs into these different categories is further complicated by the fact that a given individual's employability can change over time, for example, with the onset of illness, disability, or recession.

Over the past few years, a number of studies have shown that the population served by cash welfare assistance in the United States has a high incidence of various barriers to employment.²⁾ While this research describes the employment barriers facing individuals in the United States, these barriers are probably a universal phenomenon and it is likely that they exist in South Korea as well, although the percentage of the population exhibiting these various barriers will vary. In the United States, roughly one-fourth to one-third of current welfare recipients have a serious mental health problem; it appears that upwards of one-fifth of current recipients have physical impairments that limit their ability to work; a substantial proportion have learning disabilities, and two studies that tested the IQs of current recipients found that one-fifth to one-quarter had low IQs

2) Sheila R. Zedlewski, *Work Activity and Obstacles to Work Among TANF Recipients*, The Urban Institute, September 1999 and Sandra Danziger, Mary Corcoran, Sheldon Danziger, Colleen Heflin, Ariel Kalil, Judith Levine, Daniel Rosen, Kristin Seefeldt, Kristine Siefert and Richard Tolman, *Barriers to the Employment of Welfare Recipients*, University of Michigan, Revised February, 2000.

(less than 80).³⁾ Finally, substance abuse problems are also significant. An estimate of the extent of substance abuse problems is more difficult: the figures range from about two percent to 20 percent and depends partially on how the questions about substance abuse are asked.⁴⁾ Many individuals have multiple employment barriers. These same studies indicate that the probability of employment decreases significantly as the number of barriers faced by a given individual increases.⁵⁾

In terms of work effort, a national profile of the 5.2 million poor families with children in the United States in which the parents were not ill, disabled, or retired counters the perception that most poor families include adults who could work but do not.⁶⁾ Of these families, 3.9 million or 76 percent had one or more working parents. Most of these families 3.4 million showed a clear connection to the labor force, with parents working more than one calendar quarter. Nearly one-third of these families had workers employed full-time and year-round. In many instances, the primary issue is that wages are not high enough to provide a livable income.⁷⁾

Most families in the United States that receive public assistance have adults with recent work experience. As a

3) Sweeney, Eileen P. 2000

4) Ibid.

5) Sheila R. Zedlewski, *Work Activity and Obstacles to Work Among TANF Recipients*, The Urban Institute, September 1999 and Sandra Danziger, Mary Corcoran, Sheldon Danziger, Colleen Heflin, Ariel Kalil, Judith Levine, Daniel Rosen, Kristin Seefeldt, Kristine Siefert and Richard Tolman, *Barriers to the Employment of Welfare Recipients*, University of Michigan, Revised February, 2000.

6) Tabulations of Census data by the Center on Budget and Policy Priorities.

7) Jared Bernstein, Chauna Brocht, and Maggie Spade-Aguilar 2000

result, these families' yearly incomes are a combination of public assistance and earnings. This group of families includes those who use public assistance as a temporary safety net when a job is lost due to a layoff, disruption in child care or transportation arrangements, illness, family crisis, or other factors; many such families remain on assistance for relatively short periods of time. This group of families also includes families that leave welfare when a parent finds work. Finally, this group includes families in which a parent is working but the family remains eligible for assistance as a result of low earnings. Some 72 percent of the families with children that received public assistance at some point in a year during the late 1990s had a parent who worked at least part of that year.⁸⁾

8) Tabulations of Census data by the Center on Budget and Policy Priorities.

II. Guiding Principles

Even though the reasons that an individual or family is poor at a given time may overlap and divisions between the groups are not clear cut, different programs are appropriate for families in different circumstances. When an individual or a family needs income assistance, the first line of defense should not be public assistance programs. The first major component of a nation's safety net should be social insurance programs which provide a social insurance payment when an event such as recession, disability, or death occurs. Eligibility for these payments depends upon having a work record and the payment replaces a percentage of lost wages. These programs, in keeping with Korea's vision of productive welfare, are based upon work, and should help families avoid the need for public assistance programs.

The second major component of a safety net should provide working families that earn low wages with an earnings supplement and child care subsidies to ensure that their work effort is rewarded. Some of these working families may need additional assistance in meeting housing and food needs. They should have access to these work supports only if they are working and their earnings are low

enough that they are in need of support.

Public assistance should be the third major component of a nation's safety net. The guiding philosophy behind the National Basic Minimum Living Standard is appropriate: Productive welfare is an ideology, as well as a policy, that seeks to secure minimum living standards for all people, while expanding opportunities for self-support in socio-economic activities for the purpose of maintaining human dignity.⁹⁾ Public assistance programs should ensure that recipients are engaging in activities that will make them more productive and allow them to become financially independent. The nature of these activities will vary for families and individuals with different needs and barriers to employment and may include employment training, publicly-funded jobs, education, and substance abuse treatment.

In brief, the guiding principles of a strong safety net should be:

- a minimum living standard for all people so that poverty and deprivation are minimized;
- a strong emphasis on work among all non-elderly adults (with exceptions for some adults taking care of young or disabled children) which seeks to promote self-sufficiency and financial independence while minimizing dependency upon government assistance. Work should be rewarded by keeping marginal tax rates¹⁰⁾ as low as possible within budget constraints. For

9) Kwan, Chau Pak 2000

10) The effective marginal tax rate is defined as the percentage of each additional \$1,000 in earnings that a hypothetical family or individual would lose in the form of taxes or benefits from all programs. For example, a family who loses \$600 in benefits when income increases by

any family, work should increase their standard of living significantly. In certain programs and for certain adults, work should be required and enforced with appropriate sanctions, and publicly funded transitional jobs should be provided when employment in the private sector is not possible. These transitional jobs can provide valuable work experience, build a work ethic, and provide a bridge to jobs in the private sector;

- barriers to employment should be eliminated wherever possible through the appropriate provision of services that effectively and efficiently address these barriers;
- that the public view the safety net as just, and that the safety net reflect the culture and ethic of the vast majority of the populace. For example, requiring single mothers to work should be based upon Korea's culture and societal norms about the value of child rearing versus requiring the mother to support herself by earning wages;
- that the minimum living standard is adjusted for inflation each year and reflects regional differences, if any, in the cost of living;
- that the provision of this minimum living standard seeks to minimize interference with the market economy;
- that clients of assistance are treated with dignity, but with the expectation that earnings are honestly reported and other program requirements are met, and
- that both parents and the government have a role in supporting children. When a child's family is poor, when the child is disabled, or when the child is a victim of abuse

\$1,000 faces a 60 percent marginal tax rate. When marginal tax rates are high, families are penalized significantly for each extra dollar they earn.

or neglect, the government's role is greater than it would be otherwise. Nevertheless, in most cases, the children's primary source of financial support should be their parents, regardless of whether they are living together. When parents are separated, this obligation should be enforced through a child support enforcement system.

III. The Role of Social Insurance

Consistent with Korea's vision, the first set of programs that families and individuals without jobs should be directed to are the work-based social insurance programs. Individuals who have become unemployed or who are unable to work due to a temporary or permanent disability, or who are dependent survivors should not be immediately referred to the social welfare system.

The social insurance system provides cash benefits to replace earnings lost as a result of unemployment, disability, or death. This protection is obtained by working in jobs that are covered by the social insurance programs. Social insurance programs in the United States are financed by taxes paid by employers, employees, and the self-employed, and pay benefits to individuals largely on the basis of work histories. Once workers are employed in covered jobs long enough to be insured, they are automatically eligible to receive benefits and are not subject to a means test nor required to accept any available job; instead, they are permitted to look for jobs similar to previously held jobs. In contrast, public assistance programs are financed by general taxes and pay benefits according to a family's need without taking into account work history or previous earnings.

Social insurance programs differ from traditional private-sector insurance programs in that the programs are national, and coverage is generally compulsory and nearly universal. They are designed to prevent poverty by providing additional protection for families with children, and by providing a larger degree of earnings replacement for low-paid versus high-paid workers. In the United States as of 1999, there are about 1.4 million children (2.0 percent of all children) who receive survivor benefits because one or more of their parents are deceased. Another 1.4 million (2.0 percent) children receive disability payments because their parent became disabled.¹¹⁾ Because these benefits are fairly generous, very few of these children are poor.

The main components of the social insurance system in the United States include:

- **Old-Age, Survivors, and Disability Insurance (OASDI)** pays benefits to retired workers and their dependents, to disabled workers and their dependents, and to the survivors of workers who die. Nearly all American workers are covered. Benefits are based on a worker's average earnings, and are financed by a payroll tax shared by workers and employers. In 1999, of a total work force of approximately 158.5 million workers, about 151.7 million workers and an estimated 96 percent of all jobs in the United States were covered under Social Security.¹²⁾
- **Workers' Compensation** pays the cost of medical care and compensation for lost income for employees who are

11) Social Security Administration 2000

12) US House of Representatives 2000

injured in a job-related accident or who contract a disease as a result of their job. Workers' compensation also provides payments to dependents of workers in case death occurs. Benefits vary by state and depend on the type and duration of the worker's disability and previous weekly earnings. Most states set minimum and maximum limits on benefits, and limit the duration of receipt of benefits.

- **Unemployment Insurance** The program has two main objectives: (1) to provide temporary and partial wage replacement to involuntarily unemployed workers who were recently employed; and (2) to help stabilize the economy during recessions.

Unemployment benefits vary. In order to qualify for benefits, an unemployed person usually must have recently worked for a covered employer for a specified period of time and earned a certain amount of wages. About 125 million individuals were covered by unemployment compensation programs in 2000, representing 97 percent of all wage and salary workers and 89 percent of the civilian labor force. Most states provide benefits for up to 26 weeks. The unemployment benefits are weekly cash payments that are generally equal to about half of the worker's full-time weekly pay rate, with minimum and maximum limits.¹³⁾

These programs are conceptually similar to the four major social insurance programs in South Korea: the national pension system, health insurance, unemployment insurance, and industrial injury insurance. However, coverage and benefit levels under these programs are considerably less in

13) US House of Representatives 2000

South Korea in comparison to the United States. According to one assessment, Despite advancements, the entire population has yet to be covered by the social insurance system and the level of benefits is still insufficient.¹⁴⁾ Current government efforts to enhance the employment insurance system will increase the number of eligible employment insurance recipients to 7.6 million, or 80 percent of total workers, and to 20 percent of the total number of unemployed by the end of 2002.¹⁵⁾ Korea should continue to strive for more universal coverage in its social insurance programs.

Since these programs are conceptually similar to those in the United States, the discussion of issues surrounding these programs will not be extensive. However, there are several improvements that could be made to these programs in the United States, and may be applicable in Korea as well. The tax base for these various social insurance programs should be better coordinated. This would ease considerably employer reporting burdens (and probably increase compliance and lower administrative mistakes). Unemployment tax rates are to some extent employer specific. In other words, if an employer does not manage his work flow properly and is constantly hiring and firing workers, his tax burden will be higher. As a result the employer has an economic incentive to be concerned about the impact of layoffs on his employees.

To receive unemployment benefits, an individual must have been laid off because of economic reasons and must be looking for work. These two requirements mean that

14) Kwan, Chau Pak 2000

15) Ibid.

only to 35 to 50 percent of unemployed persons in the United States receive benefits. New entrants or reentrants to the labor force are not eligible for benefits. In addition, if a person had to quit employment because child care arrangements fell apart, or because a worker followed a spouse to another part of the country and could not find work immediately, or because of the birth of a new child; the worker is probably ineligible for benefits. The safety net in the United States could be improved by allowing some of these workers to be eligible for benefits. Policymakers in Korea will have to decide whether some or all of these situations should be covered through unemployment benefits.

Another instance where the American safety net could be improved is our treatment of dislocated workers. These are workers who have been employed for a considerable period of time but because of technological change or other reasons, they become unemployed with little chance of returning to their industry or firm. These workers need income support as well as training, vocational counseling and job seeking assistance. They should not have to turn immediately to the public assistance component of the safety net.

IV. Supporting Low-Wage Working Families

In the United States, the wage and career opportunities available to less-skilled workers have substantially worsened in the last 20 years or so. Employment no longer provides these workers the economic security it once did.¹⁶⁾ For 23 years, from 1973 through 1996, wages and benefits deteriorated for most workers. However, a turn-around began in 1997. While there are still many losses to be regained, the wage trend is finally moving in the right direction.

- Wages paid at the median of the pay scale declined between 1973 and 1996, but finally began rising in 1997-99. However, this median wage did not surpass the 1989 level until mid-1999 and it remains substantially below the level reached in 1973 when the downturn began.¹⁷⁾
- There are a growing number of jobs paying poverty-level wages, defined as an hourly wage so low that a worker employed full time cannot pull a family of four above the

16) Rebecca M. Blank 1997

17) *Wage and Income Trends: Up the Down Escalator*, Economic Policy Institute. Online at www.epinet.org.

poverty line. In 1998, 29 percent of all workers were in jobs paying poverty-level wages, a larger share than in the past.¹⁸⁾

These declines in wages are due to both the increasing internationalization of the U.S. economy as firms move their production facilities (and jobs for low-skill workers) across international borders and technological changes in the U.S. economy that require a more skilled workforce.¹⁹⁾

These trends are not unique to the United States, and have become apparent in Korea in more recent years. The impact of Korea's labor market crisis in the late 1990s has disproportionately affected low-skilled and low-wage workers: about one million jobs for technicians and unskilled workers were lost, with production workers and laborers losing jobs at higher rates than others.²⁰⁾ Workers with the lowest levels of education and lower-incomes made up an increasing share of the total unemployed population.²¹⁾

There are two basic options for improving low wages to achieve a minimal level of income. The first option is to regulate the market and impose a minimum wage that is high enough to meet the basic needs of working families. The second is to supplement low-wages through government programs -- an earnings subsidy like the EITC or a wage rate subsidy. A minimum wage is an important policy tool to prevent exploitation of and increase the earnings of low-income workers. As a policy matter, one should employ both options. Because of employment effects on low-wage workers and to ease the transition from school to work for

18) Ibid.

19) Rebecca M. Blank 1997

20) Gary S. Fields 1999

21) Ibid.

first-time job seekers, the minimum wage should not be increased to such a level that wages from full time employment at the minimum wage yields an adequate income. Instead, there should be a minimum wage and the earnings of low-income workers (particularly those with dependents) should be enhanced through wage supplements. Wage rate subsidy programs were not adopted in the United States because of their considerable administrative burden. Wage rate subsidy programs provide an increase in the wage rate the total value of the subsidy is the hours of work multiplied by the amount of the subsidy. It is more administratively complex because hours of work and the wage rate must be ascertained, not just earnings.

Work support programs play a crucial role in helping low-income working families make ends meet. The two primary programs that provide assistance to working poor families are the Earned Income Tax Credit (EITC) and the food stamp program. A family of four with one person earning the federal minimum wage (currently \$5.15 per hour) who is employed full-time and full-year has income close to the poverty line only if that family also receives both the EITC and the food stamp benefits to which it is entitled. The poverty line in the United States is one measure of the minimum amount of income required to meet basic needs in a household food, shelter, and clothes. As Figure 3-20 illustrates, for that family, the minimum wage job (less withholding for the employee share of payroll taxes) brings in \$9,512 of income, the EITC adds \$4,008, and the cash value of food stamps adds \$3,696. These three sources of income equal \$17,216, or 95 percent of the poverty line for a family of four, which is estimated to be \$18,094 in 2001. Without food stamps, the family's income would equal only

75 percent of the poverty line; without food stamps or the EITC, the family's income would equal only 52 percent of the poverty line.

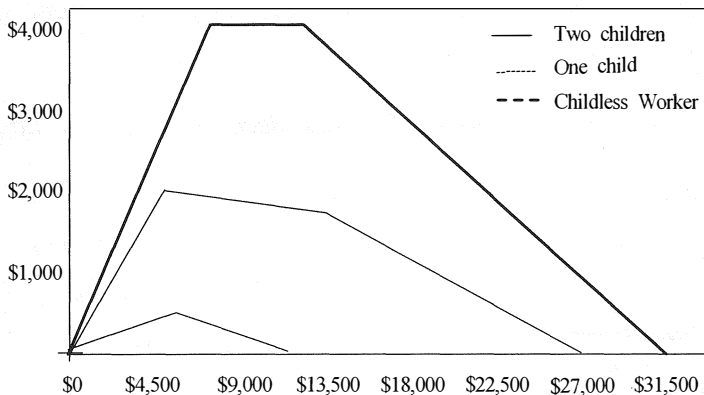
Figure 3-19. Helping Working Families Reach the Poverty Line, 2001

95%		Estimated Poverty Line for Family of Four \$18,094
Food Stamps \$3,696	75%	
EITC + child credit \$4,038	EITC + child credit \$4,038	
Full-time Minimum Wage Job*(less withholding) \$9,512	Full-time Minimum Wage Job*(less withholding) \$9,512	

* Assumes 2,000 hours per year of work, and no work or child care expenses

The support programs that provided additional assistance to poor families were changed in the 1990s. These policies were expanded as part of an effort to make work pay. As a single parent with no earnings begins to work, that parent's earnings increase, her TANF and food stamp benefits decline, and her work-related expenses such as child care, transportation, and work-related clothing increase. To make work pay, government benefits must be structured in a way that ensures that when families become employed and increase their earnings, they are economically better off after benefit reductions and increased expenses are taken into account.

Figure 3-20. EITC Credit in 2000



- The **Earned Income Tax Credit (EITC)** is the most important safety net program for supporting low-income workers, and was substantially expanded in 1990 and again in 1993. The EITC provides a refundable tax credit to low-wage workers with children. The largest credit is available to taxpayers with more than one child --- they may claim a credit in calendar year 2001 of 40 percent of earnings up to \$10,020, resulting in a maximum credit of \$4,008. The maximum credit is available for those with earnings between \$10,020 and \$13,090. At \$13,090 of earnings the credit begins to phase down at a rate of 21.06 percent of earnings above \$13,090. The credit is phased down to \$0 at \$32,121 of earnings. Families with one child receive a somewhat smaller credit, and childless workers also are eligible for a much smaller EITC.
- The **food stamp program** provides in-kind nutrition assistance to low-income families. Historically, food stamp benefits were provided as paper coupons that

could be spent for food at authorized grocery stores. Today, however, over forty states deliver some or all food stamp benefits through electronic benefit transfer (EBT) systems that work with cards very much like ATM cards. Food stamps generally are limited to families whose gross incomes are no more than 130 percent of the federal poverty line (\$1,848 per month for a family of four) *and* whose net incomes are no more than 100 percent of the federal poverty line (\$1,421 per month for a family of four). Food stamps is both a work support and an income support program. a household's food stamp benefit depends on the number of people in the household, the household's gross income, and deductions for expenses (such as housing costs that exceed half of the household's income) that can significantly affect a household's ability to purchase a nutritionally adequate diet. The maximum a family of four can receive is \$434 per month, but the overwhelming majority of food stamp households receive less than the maximum and are expected to spend some of their own incomes to supplement their food stamp allotments. The average food stamp benefit during the first half of fiscal year 2001 is less than \$75 per person per month, or 81 cents per person per meal.²²⁾

- Development (HUD) operates three major federally-funded programs that provide **housing assistance** to low-income families: public housing and Section 8 certificates or vouchers which provide recipients with subsidies to rent housing in the private market, and Section 8 project-based programs, which are rental units in

22) David Super 2001

buildings that are owned and operated by private owners who have received a subsidy from the federal government.²³⁾ Families receiving housing assistance typically pay 30 percent of their income in rent. The government typically covers the difference between the tenant contribution and the full rental cost. As a result, families required rent payments generally rise with an increase in income and fall with a decrease in income. There are many more families eligible for assistance than there are families provided assistance, and waiting lists for housing assistance are very long in many jurisdictions.

- consolidated into a single Child Care and Development Block Grant and increased available resources for child care. The maximum income eligibility levels were raised, but states were not longer required to guarantee child care to cash assistance recipients who need child care in order to work or enter education or training, or to families in their first year of leaving cash assistance due to employment or earnings.
- Access to **health care** was expanded for low-income children through the creation of the Children's Health Insurance Program (CHIP). Another policy change that has been gradually implemented since the late 1980s and has had significant implications for making work pay was the delinking of TANF and Medicaid. Under current law, eligibility for Medicaid is based on income. In contrast, historically, eligibility for Medicaid depended on receiving cash assistance. This policy discouraged welfare

23) Barbara Sard and Jennifer Daskal 1998

recipients from working because by becoming employed, welfare recipients would have to give up Medicaid coverage, and risk not being able to pay medical bills and not receiving needed medical treatment for their children.²⁴⁾

The Earned Income Tax Credit

The strengthening of work support programs --- and especially the expansion of the EITC in 1993 has been the most important recent innovation in American social policy that should be considered for adoption in Korea. The EITC has had a number of positive effects: lifting many children out of poverty, allowing low-income families to make an investment in upward mobility or asset-building purposes, and encouraging low-income families to work.

An analysis of Census data shows that in 1999, the EITC lifted 4.7 million people out of poverty, including 2.6 million children. These data show that the EITC now lifts more children out of poverty than all other means-tested benefit programs (including food stamps and housing subsidies) combined.²⁵⁾ In addition to lifting families from poverty, recent academic research that has examined how families expand their EITC payments finds that a substantial proportion of families use at least a portion of

24) See Aaron S. Yelowitz, "The Medicaid Notch, Labor Supply, and Welfare Participation: Evidence from Eligibility Expansions", *The Quarterly Journal of Economics* v. 110 (Nov. 1995), p. 909-39, and Robert Moffitt and Barbara Wolfe, "Medicaid, Welfare Dependency, and Work: Is There a Causal Link?" *Health Care Financing Review* v. 15(Fall 1993), pp.123-33.

25) Center on Budget and Policy Priorities 1999

their EITC for upward mobility or asset-building purposes, such as for acquiring or repairing a car to commute to work or to search for and accept a better job, making capital repairs on a home (such as fixing a leaking roof), or paying for tuition for training or education.²⁶⁾

The substantial expansion of the Earned Income Tax Credit in the 1990s played a significant role in inducing single mothers --- the demographic group that makes up the vast majority of welfare recipients --- to work. One of the two leading studies of this issue examined the large increase between 1984 and 1996 in the proportion of single mothers who work. It found that the EITC expansions implemented in this period were responsible for inducing more than half of this increase in employment. The study found that the EITC expansions had a stronger effect in increasing work than welfare policy changes did.²⁷⁾ The other leading study examined a shorter time-period, from 1992 to 1996. It found that both welfare policy changes and EITC expansions had large effects in increasing the employment of single mothers during this period, with welfare changes being the largest factor and EITC expansions the second largest.²⁸⁾

The EITC also has substantial political appeal. There is substantial support for making work pay. Most people would agree that families with a full-time, full-year minimum wage worker should have enough income to avoid poverty, and the EITC is a critical component in allowing low-income working families to do just that. For many low-income working families, however, the EITC alone will

26) Timothy M. Smeeding, Katherin E. Ross, Michael O'Connor, and Michael Simon 1999

27) Bruce D. Meyer and Dan T. Rosenbaum 1999

28) David T. Ellwood 1999

not be enough to lift them out of poverty. Most families receive an EITC once per year when they file their tax returns. The EITC does not provide periodic support to meet ongoing expenses for low-income families. In addition to supplementing low wages with an EITC, the government should provide assistance with rent, food, and child care for those who need it. These benefits could be supplied on a monthly basis either in the form of a cash earnings supplement, or in the form of a voucher for in-kind services.

V. Welfare Reform in the United States and Its Impacts

Prior to 1996, the primary public assistance program in the United States was an income transfer program called Aid to Families with Dependent Children (AFDC). Through the AFDC program, states provided payments for needy children who were deprived of parental support or care because their father or mother was absent from the home continuously, incapacitated, deceased, or unemployed. Payments also were permitted for the child's needy caretaker relative (usually the grandmother). Federal law set outer income and resource limits for AFDC eligibility, and the size of benefits was determined by each individual state. In 1997 the median benefit for a three-person household was \$377 per month, an amount equivalent to 34 percent of the poverty line.²⁹⁾ States were required to provide aid to all persons who were in classes eligible under Federal law and whose income and resources were within State-set limits. Recipients of cash welfare assistance through the AFDC program were automatically also eligible for food assistance through the

29) US House of Representatives 2000

food stamp program and health care coverage through the Medicaid program.

When the federal government undertook welfare reform in the mid-1990s, some of the themes that were prominent in the welfare debates included:³⁰⁾

- the perception that AFDC did too little to encourage and require employment. Some critics argued that the program fostered family break-up and out-of-wedlock birth, and had created a culture of dependency responsible for an array of other social problems.
- broad agreement that both parents should support their children. The vast majority of cash welfare recipients in the United States are single-parent (and primarily single-mother) households. For custodial parents, this typically meant an emphasis on work and cooperation with child support enforcement. For non-custodial parents (mostly fathers), this meant a set of initiatives to strengthen the effectiveness of the child support system.
- the perception that out-of-wedlock birth was presenting an increasingly serious social problem, and that the federal government should exert a strong leadership role in seeking to reduce the incidence of out-of-wedlock birth.
- the perception much of the innovation and creativity in social policy was emerging from state experimentation rather than federal programs, and that federal law should

30) These bullets draw heavily on Mark Greenberg, Jodie Levin-Epstein, Rutledge Hutson, Theodora Ooms, Rachel Schumacher, Vicki Turetsky, and David Engstrom, *Welfare Reauthorization: An Early Guide to the Issues*, Center for Law and Social Policy, July, 2000.

be restructured to give more power and authority to states in the shaping and implementation of policy.

The key ways that the welfare reform legislation, Temporary Assistance for Needy Families (TANF), differs from AFDC include:³¹⁾

- **Funding.** TANF law provides a fixed family assistance grant for each State, plus some extra funds. AFDC law provided unlimited matching funds for AFDC benefits.
- **Time limit for benefits.** TANF sets a five-year limit on federally funded aid, with a 20 percent hardship exemption. AFDC had no time limit.
- **Work requirements.** TANF requires that 50 percent of the caseload be engaged in work activities in most cases for 30 hours per week. States are penalized if that requirement is not met. AFDC did not have such a work requirement.
- **Sanctions.** States were required to impose sanctions on families who refused to work or who did not cooperate with child support enforcement officials.
- Two basic program features of AFDC were retained by TANF. States decide how needy families must be to receive aid, and States establish maximum benefit levels.

In addition to promoting work, the other goal of the 1996 welfare legislation was cutting spending. According to Congressional Budget Office estimates at the time of enactment, the bill would reduce outlays by \$55 billion

31) US House of Representatives 2000

between fiscal years 1997 and 2002. The primary savings in the bill were reductions in food stamp spending (about \$27.4 billion)³²⁾ and welfare benefits for legal immigrants. The reductions affecting legal immigrants who were present in the country before welfare reform was enacted and were elderly or disabled at that time have, for the most part, been reversed through a series of legislative acts. However, nearly all of the reductions that apply to immigrants arriving in this country after enactment of the welfare bill continue to apply. According to U.S. Department of Agriculture, the agency that administers the food stamp program, hundreds of thousands of low-income immigrants no longer receive food stamps as a result of these restrictions. President Bush recently proposed a revision of some of these food stamp restrictions.

While the immigrant restrictions target non-citizens, many U.S. citizen children have been affected as well, because 80 percent of children with immigrant parents are themselves citizens. Nearly one in ten U.S. families includes at least one citizen child and at least one non-citizen parent. Even though citizen children living in immigrant families and some immigrant parents remain eligible for benefits, confusion about eligibility and concerns about the immigration consequences of receiving benefits have caused a substantial decline in participation among these groups.

The food stamp cuts enacted during welfare reform also had a significant impact on the working poor. The two provisions that saved the most money disproportionately affected families that received smaller food stamp benefits.³³⁾

32) This includes about \$3.7 billion of savings from denial of food stamp eligibility to legal resident aliens.

33) The two provisions that saved the most money were cutting the thrifty

Since working poor families tend to have higher incomes than families receiving primarily welfare assistance, they received smaller food stamp benefits, and consequently were most affected. These reductions could be a factor contributing to the food stamp caseload declines especially among the working poor because the transaction costs of securing food stamps may nearly equal the benefit.

food plan by three percent and reductions in the standard deduction. The impact on the working poor from just the thrifty food plan cut can best be illustrated by the following. For a family that receives the maximum allotment, the benefit reduction equals three percent. For a family that receives a benefit equal to half of the maximum allotment, the benefit cut from this change equals 6 percent. For a family that receives a benefit equal to one quarter of the maximum allotment, the benefit cut equals 12 percent.

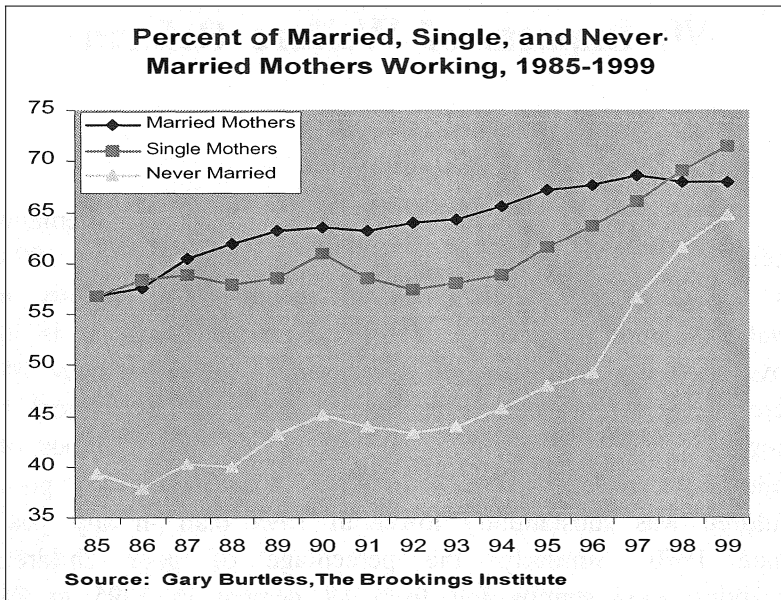
VI. Impacts of Welfare Reform

In the United States, many have pointed to the dramatic decline in caseloads of 60 percent since their peak in 1994 as the definitive indicator of its success. Today, only a relatively small proportion of the U.S. population that is in poverty receives cash welfare assistance. In 1999, only 38 percent of poor children received TANF cash assistance, a drop of 34 percent since 1995. The ratio of the number of children receiving cash assistance to the number of poor children was substantially lower in 1999 than in any year since 1970. Similarly, the percentage of poor children receiving food stamps fell from 88 percent in 1995 to 72 percent in 1999. In any safety net program, the size of the caseload, or more specifically its reduction, is an inadequate measure of success.

A more definitive measure of the success of welfare reform has been the significant increase in work effort among single mothers. Single mothers are working more and earning more. In 1992, about one third of single mothers with young children were working. By 1999, the share had grown to more than half. Official child poverty rates have declined, and under a comprehensive measure of poverty that includes government benefits and taxes, the child poverty

rate fell to 12.9 percent in 1999, the all-time low since this measure became available in 1979.

Figure 3-21. Percent of Married, Single, and Never-Married Mothers Working, 1985-1999



Not all these changes can be ascribed to the new welfare law. A strong economy and public policies that make work pay including the Earned Income Tax Credit and increased spending on child care also must be credited. Welfare reform coincided with the longest-running economic expansion in U.S. history a time when hourly wage rates for the lowest-paid workers began to rise after falling for two consecutive decades, and unemployment rates fell as low as 3.9 percent. One would expect earnings to increase and child poverty to decline significantly under these conditions.

Yet there is agreement that some families are floundering.³⁴⁾ The average disposable incomes of the poorest fifth of single mothers living only with their children and no other adults (about one million families) fell 8 percent between 1995 and 1999, after adjusting for inflation, despite increased earnings.³⁵⁾ The impacts of the weakening of the United States economy on the well-being and employment opportunities of current and former welfare recipients are not yet clear, but are likely to be significant.

Tables 3-19 and 3-20 illustrate earnings and disposable income both before and after welfare reform for various types of families with children. Disposable income adds to wages all other forms of private income -- child support and income from assets -- plus government benefits less federal taxes less work expenses. However, child care expenses and subsidies are excluded because no information is obtained about those expenses by the Census Bureau. Families are divided into three mutually exclusive and exhaustive categories -- single mother families living with their children and no other adults, single mother families living with other relatives or living with a male but not married to him, and all other families with children. In 1995, there were 17.0 million individuals living in lone single mother families and 10.7 million individuals and 110.9 million individuals in the other two types of families respectively. By 1999, the number of individuals in lone single mother families had declined to 16.1 million, the number of individuals in other single mother families had declined to 10.5 million while the number of individuals in the third category of families had

34) Ron Haskins 2001

35) Center on Budget and Policy Priorities tabulations

increased to 114.0 million individuals.

Table 3-19. Income to Poverty Threshold for Different Family Types by Percentile

Percentile	Single Mother Families		No Other Adults	
	1995	1999	Difference	% Difference
5	0.423 ¹⁾	0.39	-0.03	-5.9%
11	0.62	0.57	-0.05	-8.0%
14	0.68	0.66	-0.02	-2.7%
17	0.73	0.73	0.01	0.7%
20	0.77	0.81	0.03	4.5%

Number of families worse off in 1999 compared to 1995: 725,000.

Worse off is defined as a statistically significant difference of 1.7 percent of poverty.

Other Single Mother Families				
Percentile	1995	1999	Difference	% Difference
5	0.45	0.48	0.03	7.3%
8	0.57	0.64	0.07	12.0%
11	0.64	0.74	0.10	15.3%
14	0.70	0.82	0.12	17.1%
17	0.77	0.90	0.12	15.8%
20	0.84	0.98	0.13	15.7%

Number of families worse off in 1999 compared to 1995: 72,000 (in percentiles 2 and 3; not shown).

Worse off is defined as a statistically significant difference of 1.9 percent of poverty.

Other Families with Children				
Percentile	1995	1999	Difference	% Difference
5	0.85	0.92	0.07	8.8%
8	1.00	1.08	0.08	7.9%
11	1.13	1.21	0.08	6.9%
14	1.25	1.33	0.09	7.6%
17	1.33	1.44	0.11	8.0%
20	1.41	1.54	0.13	9.3%

Note: Families are mutually exclusive and exhaustive. Includes all families with children.

- 1) 0.42 means that in 1995 for single mother families with no other adults, income was 42% of the poverty threshold at the fifth percentile of families when families are arrayed by income to poverty threshold ratio.

All of these families are arrayed by the ratio of disposable income to poverty and the results are shown in Table 3-19. For lone single mother families at the fifth percentile, disposable income declined from 42 percent of the poverty threshold in 1995 to 39 percent in 1999, a decline of 6 percent. Among other families with children at the fifth percentile, income increased from 85 percent of the poverty threshold in 1995 to 92 percent in 1999.

As can be seen from Table 3-19, there is a group of approximately 725,000 lone single mother families that are worse off today than they were before welfare reform. Given the very strong economy, and the increases in the EITC, why should there be any significant number of families that are worse off? The primary reason is that the earnings gains by the mothers have been offset by the decline in food stamps and cash assistance. Other types of families with children (with the exception of two percentiles in other single mother families) all had disposable income gains. The Census data provides snapshots of the population at points in time; one cannot longitudinally follow the same families in this dataset. Some families may lose income while other families gain income, but as can be seen from Table 3-19, the net result of all of these income changes are only income gains among other families with children. Among lone single mother families, there were a substantial number of families who lost income between 1995 (pre-welfare reform) and 1999 (the last year for which data exists), despite a strong economy.

Table 3-20. Changes in Earnings and Average Disposable Income: By Family Type (1999 Dollars)

Single Mother Families with No Other Adults					Percent Changes	
		1993	1995	1999	93-95	95-99
Poorest Fifth	Earnings	1,199	1,354	2,173	12.9%	60.5%
	Disposable Income	7,714	8,532	7,835	10.6%	-8.2%
Second Fifth	Earnings	2,629	3,913	7,437	48.8%	90.1%
	Disposable Income	12,929	14,438	15,494	11.7%	7.3%
Single Mother Families with Other Adults					Percent Changes	
		1993	1995	1999	93-95	95-99
Poorest Fifth	Earnings	3,081	4,451	7,226	44.5%	62.3%
	Disposable Income	10,187	11,729	12,515	16.3%	6.7%
Second Fifth	Earnings	8,762	12,506	18,550	42.7%	48.3%
	Disposable Income	19,113	21,059	24,214	10.2%	15.0%
Single Mother Families with Children					Percent Changes	
		1993	1995	1999	93-95	95-99
Poorest Fifth	Earnings	9,338	10,632	13,198	13.9%	24.1%
	Disposable Income	13,325	14,941	16,607	12.1%	11.1%
Second Fifth	Earnings	20,771	22,794	25,289	9.7%	10.9%
	Disposable Income	22,318	23,687	25,857	6.1%	9.2%

Table 3-20 summarizes these earnings and disposable income trends for the various types of families with children for 1993, 1995, and 1999. For the two years prior to the enactment of welfare reform in 1996, earnings and disposable income increased significantly. For lone single mother families, however, despite earnings gains disposable income fell by \$697 between 1995 and 1999. These were the families primarily affected by welfare reform. For other families, there were both significant earnings and income gains.

While only a small part can be attributed to welfare reform, child living arrangements in the United States have also changed between 1995 and 2000. An analysis of the

Census Bureau's Current Population Survey shows that between 1995 and 2000, the proportion of children younger than 18 living with a single mother declined from 19.9 percent to 18.4 percent a statistically significant drop of 1.5 percentage points, or 8 percent.³⁶⁾ In contrast, the proportion of children living with two married parents remained essentially unchanged during this period.³⁷⁾ Both trends represent a significant change from the previous decade (1985-1990), when the proportion of children living with a single mother remained at essentially the same level and the share of children living with two married parents declined. The new data reverse steady trends over the last 25 years toward single mother families and away from two-parent families. Among lower income families, there was a significant increase in the percentage of children living with two married adults, particularly among black and Hispanic families.

36) Allen Dupree and Wendell Primus 2001

37) Ibid.

Table 3-21. Changes in Child Living Arrangements by Income

	1985	1990	1995	2000	1985-1990	1995-2000
Overall						
Married Parents	74.3%	73.1%	69.5%	70.1%	-1.2%	0.6%
Single Mother	18.8%	18.9%	19.9%	18.4%	0.1%	-1.5%
Cohabiting Mother	1.5%	1.9%	2.6%	3.0%	0.4%	0.4%
Lower Income (Bottom 39 Percent)						
Married Parents	55.1%	52.9%	48.3%	50.5%	-2.2%	2.2%
Single Mother	35.0%	35.3%	36.6%	32.7%	0.3%	-3.9%
Cohabiting Mother	3.0%	3.7%	4.8%	6.0%	0.7%	1.2%
Higher Income (Top 61 Percent)						
Married Parents	87.1%	86.4%	83.8%	83.7%	-0.7%	-0.1%
Single Mother	8.6%	8.5%	9.5%	9.5%	-0.1%	0.0%
Cohabiting Mother	0.5%	0.7%	1.2%	1.1%	0.2%	-0.1%

Income Gains are Critical to Enhance Child Well-Being

Welfare reform in the United States has worked for some families but not for others. As Tables 3-19 and 3-20 above demonstrated, welfare reform in combination with a strong economy and work supports like the EITC, has resulted in growing family incomes except for the poorest 14 percent of lone single mother families. Two recent reports which reexamined many previous welfare reform interventions in a number of different states which were all carefully evaluated using a randomized control and experimental groups found that income gains were critical to improving child well-being.

In the first study, the importance of increasing financial well-being for families that do work was emphasized by

comparing the results of five separate studies covering 11 different welfare programs which fell into one of three categories: some programs mandated work without providing financial incentives, some which provided financial incentives for work but no mandate, and some programs had both a mandate and financial incentives. This study found that mandating parental employment did not by itself improve the lives of the parents' children.³⁸⁾ Only in programs where the parents increased their employment and their income were positive effects in areas such as school achievement, behavior problems, and health and safety noted for elementary school-aged children.

Another study that synthesized the findings of 16 welfare-to-work programs, including the 11 cited in the previous study, found a more specific trend: every welfare-to-work program that lifted participants' average income by 5 percent or more had mostly good effects on children, while every program that reduced income by 5 percent or more had mostly bad effects on children.³⁹⁾ These effects on children varied by age. The positive results were concentrated on the middle years of childhood. None of the programs --- even those that raised families' incomes --- helped adolescents. Experts say that helping older children may require additional services (such as after-school activities), more flexible program rules, more income support, or a combination of these.⁴⁰⁾ This study emphasizes that the programs that raised family income were all *pro-work*. That is, the programs that lifted income did not do so simply by providing more government benefits for everyone. Instead,

38) Dan Bloom and Charles Michalopoulos 2001

39) Arloc Sherman 2001

40) Arloc Sherman 2001

they created a more supportive environment for families that work. Supports included cash supplements for working families, job training, and considerable child care assistance. Program staff and written materials also emphasized the value and benefits of work.

Lessons for Korea from Welfare Reform in the United States

Politically, welfare reform in the United States is perceived as being enormously successful. Caseloads are down and the message conveyed through the press to the American public is how hard the clients are working and the barriers to employment that they are overcoming. As a result, opinion polls show that Americans are now willing to spend additional dollars to support the poor, particularly the working poor.

There are several important implications of welfare reform in the United States for South Korea.

- Through sanction policy and tough work requirements, dependency on public assistance programs can be limited.
- The public assistance caseload in the United States exhibited many and varying barriers to employment. A multi-faceted service strategy integrated closely with cash and other assistance programs is an essential ingredient to increasing employment.
- By focusing on poverty reduction not caseload reduction, and by making cash and in-kind assistance more accessible to the working poor, more income gains could be achieved among families and fewer families would experience income losses.

Dependency on Public Assistance Can Be Limited

Earnings supplements, child care and other assistance (for rent or food) should be a matter of entitlement for low-wage workers. The combination of wages and these work supports achieve a minimal level of income. The receipt of benefits is conditional solely upon earnings. In contrast to the work support program, public assistance programs in the United States are conditional entitlements. Qualifying individuals are entitled to benefits so long as they comply with program requirements. The public assistance programs seek to improve the capacities as well as the living standards of clients. In addition to the work supports offered to low-wage workers, the public assistance programs include job training and work-readiness programs, counseling, and mental health and substance abuse treatment programs. Clients are required to meet program requirements such as participation in training, work, and job search programs in order to continue to receive benefits.

In some states, individualized employability plans or contracts are developed between the government and the client that outline what is expected from both parties. These plans are usually based upon assessments of what the client needs to secure and retain employment. The government agrees to provide the needed services, the client agrees to cooperate, show up for the required job search, training, substance abuse counseling or whatever other service may be needed. The client understands that public assistance grants will be reduced if the plan is not followed and appointments and progress are not made towards employment.

In addition, in most states, the client also understands that there is a definite time limit so that if she is not successful in finding a job, she will lose all cash assistance. While the evidence is clear that many more never married women (and many with substantial barriers) have joined the labor force, researchers have been unable to determine (and may never be able to definitively assess) to what extent the strong economy, the increased availability of child care and increases in the Earned Income Tax Credit versus various welfare policies (time limits, sanctions, changed expectations about work, and work supports) are each responsible for the increased attachment to the work force among former welfare recipients. In reality, each is partially responsible for the increase and the combination and interaction among these factors may have resulted in a situation where the whole is greater than the sum of the parts.

Over the last 10 years, sanction policy has become an integral part of welfare policy. The GAO study implies that by the end of 1999, nearly 370,000 families had lost welfare benefits due to a full-family sanction and remained off aid. In addition, about 4 percent to 5 percent of the public assistance caseload experienced a partial sanction in each month. Relatively fewer families have hit their state or federal time limit. I would urge that you selectively adopt U.S. policy here.

There have been a flurry of recent academic studies attempting to parse out what elements of the welfare reforms contributed to the employment gains. Given that many of these reforms were adopted simultaneously, the studies contradict each other.⁴¹⁾

41) Neeraj Kaushal and Robert Kaestner, *From Welfare to Work: Has Welfare*

Sanctions⁴²⁾

As a part of the welfare reform laws passed in 1996, federal law requires all states to sanction families that refuse to comply with work activities or with child support requirements without good cause, either by reducing or terminating benefits. Some states also impose sanctions in their TANF programs for failure to comply with other requirements such as ensuring that children are immunized and attending school. States have considerable latitude regarding how sanctions are designed and applied. For example, benefits may be reduced or eliminated altogether; the benefit loss may apply to the parent's benefit or to the children's benefits as well; and the benefit reduction or elimination may be temporary or permanent. The following principles should guide the design and administration of sanctions:

The goal of sanctions must be to cause families to engage in productive activities that will help parents overcome their employment barriers if they have any and become employed. If sanctions are a part of public assistance policy in the United States there is a political assumption that they are they must be carefully designed.

Reform Worked?, Journal of Policy Analysis and Management, Vol. 20, No. 4. Jeffrey Groger, *The Effects of Time Limits and Other Policy Changes on Welfare Use, Work, and Income Among Female-Headed Families*, National Bureau of Economic Research, March 2001. June E. O'Neill and M. Anne Hill, *Gaining Ground? Measuring the Impact of Welfare Reform on Welfare and Work*, Center for Civic Innovation, July 2001.

- 42) This section draws heavily on Heidi Goldberg, *A Compliance-Oriented Approach to Sanctions in State and County TANF Programs*, Center on Budget and Policy Priorities, February 2001

This is especially true because research indicates that sanctioned families, when compared to other families receiving welfare, have greater barriers to employment and are more likely to have multiple barriers. They tend to have lower education levels, more limited work experience, and a greater incidence of domestic violence, disabilities, and other physical and mental health problems. They also are more likely than other families receiving welfare to have several of these barriers at once.

Program administrators must ensure that clients understand why they are being sanctioned and what they can do to avoid being sanctioned. The employment barriers described above may affect the ability of the parents to understand and comply with program requirements and thus may be the cause of the family's sanction. One way to implement this policy is through a pre-sanction review. A pre-sanction review can serve as an opportunity to evaluate the circumstances of a noncompliant family and provide more intensive services to help the family come into compliance. Addressing these issues before a sanction is imposed will make compliance more likely and could prevent the family from experiencing a deeper crisis resulting from the loss of income. Once a sanction has been imposed, it is important that a family knows how to cure it and have their benefits restored. This information should be provided orally by caseworkers and in clear written notices from the agency. Sanction notices often are difficult to understand, especially for families with limited English proficiency, low education or literacy levels, low intelligence, or learning disabilities.

Families should not face sanctions that eliminate their entire public assistance benefit the first time that

they fail to comply with a program requirement. Instead, sanctions should be structured in a way that the initial sanction is mild and the sanctions escalate if the family continues to avoid coming into compliance and curing the sanction.

Even when a family has been sanctioned, the goal of program administrations should continue to be helping families to engage in productive activities that will help parents overcome their employment barriers if they have any and become employed. Unaddressed needs or barriers are likely to continue to prevent compliance both during the sanction period and even after a sanction has been lifted. For example, if a parent does not have transportation to the required work activity, compliance is unlikely until the transportation problem is addressed. Follow-up services also can prevent escalation of sanctions to more severe penalties.

The moment that a sanctioned family comes into compliance, that family's sanctioned should be lifted and benefits should be restored immediately. When a family comes into compliance the sanction's purpose has been achieved, and the family's benefits should be restored immediately.

Do NOT Adopt Time Limits for Public Assistance

The time limits that were adopted as a part of welfare reform in 1996 are unnecessary (in my opinion), have limited efficacy, and are not fair to families that are working. They are an element of the safety net program in the United States that should *not* be adopted in other countries.

Time limits were adopted out of concern for dependency on public assistance. However, work requirements and sanctions are probably sufficient measures to address the issue of dependency. In addition, time limits are not fair to families that are working but still not earning enough to support themselves without a small public assistance grant. Work participation requirements and earnings disregards encourage welfare recipients to make the transition to work by combining earnings from work with a wage supplement in the form of small cash assistance payments. Because of time limits, however, recipients who make this transition and receive these modest wage supplements risk hitting the time limit and being ineligible for benefits at a time when they may need them in the future. The government should provide wage supplements to families that are working but not earning enough to support themselves and remain eligible for welfare benefits on an unlimited basis.

A Service Strategy Needs to Be Closely Coordinated with Assistance Programs

Generally, if appropriate services and accommodations are in place, individuals with disabilities should be able to succeed in the workplace. However, to accomplish this goal, welfare programs both their policies and procedures will have to address the reality that individuals who are disabled or have medical conditions may need additional help and may need assistance for longer periods of time.

Governments and others concerned about assisting low-income individuals with disabilities to be able to work

and support their families should consider the following questions:

- Careful consideration should be given to the nature of the individualized assessment that the government agency uses. Is it designed to capture both strengths and barriers? Is it sufficiently refined to sort out whether a person has a learning disability or a low IQ? Is it administered by a person with the expertise to identify limitations and who is authorized to seek additional, outside assessments and diagnostic testing?
- Once an individual's needs are identified, are the government's programs designed to appropriately address those needs? What additional steps are needed to ensure that the state's procedures do not frustrate the well-intentioned parent whose disabilities make it more difficult to comply with complex rules and procedures?
- What steps is the government taking to identify and recruit employers whose jobs are well-suited to individuals with different disabilities, what steps have been taken to match the individuals with these jobs, and what steps are being taken to help employers understand the important role that accommodations can serve in ensuring that a person who is disabled will succeed in the workplace?
- Is the Korea thinking broadly about who best can provide the range of services and supports often intensive in nature and of a longer duration than other parents require for parents with disabilities?

There may be some individuals with disabilities for whom remunerative work at levels that allow one to support

a family will not be possible or will not be possible in the near future. These families may face multiple barriers to employment and lack a connection to the labor force, but their disabilities are not severe enough for them to be considered permanently disabled. To address the needs of these families, the government should provide a higher cash assistance period after a given period of time (about two years) in addition to providing services to address their employment barriers.

Accessibility of Benefits

If these work support programs are to be successful, they need to be accessible to working poor families. In the United States, the low participation rate of working poor families in work support programs such as food stamps has become a key issue. By minimizing the administrative hassles of participation, government agencies can expect to improve working poor families' access to the benefits they need.

One way to reduce administrative hassles would be to create specific work support offices, where families would be able to get food stamps, child care, housing subsidies, and health insurance from one place. Application forms should be short and simple, and joint applications should be used wherever possible. Families should be able to complete a substantial portion of the application process by mail, telephone, and internet. Once eligibility for a given benefit is established, the family should be certified to receive that benefit for a duration of six to twelve months.

The work support offices would provide income

assistance only to families with employed individuals and some voluntary services to assist workers in obtaining a higher paying job. It could provide services, but not income assistance, to the unemployed. Income assistance could take the form of cash (EITC) or non-cash assistance (food and housing vouchers). In the United States, housing and food vouchers have more political popularity but they constrain to some extent consumption choices for low-income families. It is primarily a political judgement whether these benefits should be paid in cash or through food and housing vouchers.

In South Korean these work support centers could be an expansion of the 20 existing self-help assistance centers. The self-help centers currently act as a one-stop service center, providing job counseling, job training, job assistance, public works opportunities, and assistance to start up new businesses.⁴³⁾

43) Chau Pak Kwan 2000

VIII. Parental Responsibility and the Government's Role in Supporting Children

An overarching goal of the safety net in the United States is to hold parents responsible for supporting their children. This section describes the role of parents and the government in supporting the cost of raising children. Most people agree that the government should make some contribution to the costs of raising children, although the portion of the costs that the government should assume varies according to circumstances. Some government support services should be universal. When families are poor or children are disabled, this support would be more significant.

When children do not live with both of their parents, these questions become even more complicated. In the United States, a large proportion of children spend at least a portion of their lives living without both of their biological parents. As children get older, the proportion who do not live with both biological parents increases dramatically. At birth, about 17 percent of all children, or approximately half of the children born out-of-wedlock, do not live with both biological parents.⁴⁴⁾ By the time children graduate from high

school, approximately 50 percent to 60 percent of all children do not live with both biological parents because of divorce or termination of cohabiting relationships. In Korea, the proportion of children living in single parent households is substantially smaller: in 1995, some 89 percent of families with children were married-couple families, and only 11 percent of families with children were headed by single parents.⁴⁵⁾

In the United States and Korea, a disproportionate number of single parent families are poor. [CAN YOU CHECK TO SEE IF THIS IS TRUE?] In the United States, children with a non-custodial parent are nearly four times as likely to be poor as children who live with both of their biological parents.⁴⁶⁾ In addition, only 21 percent of them live in families with incomes that exceed 300 percent of the poverty threshold, while nearly half (49 percent) of children who live with both parents do.⁴⁷⁾

All parents have a responsibility to provide for their children regardless of whether they are custodial or non-custodial parents, and the government should enforce

44) Approximately 32 to 33 percent of children are born out-of-wedlock. The number of these children whose biological parents are cohabiting parents is unknown. The Survey of Fragile Families, which covers low-income families, found that at the time of birth, approximately 50 percent of nonmarital births live with cohabiting biological parents. Assuming that the cohabitation rate is the same at higher income levels, this implies that approximately 17 percent of all children born out-of-wedlock do not live with both biological parents at birth.

45) Tabulations from the 1995 Population and Housing Census, Korea National Statistical Office. These calculations exclude a small number of four-generation households because data breaking these families into single- and two-parent households was not available.

46) Elaine Sorensen and Chava Zibman 2000

47) Ibid.

that responsibility. When parents are low-income, in addition to enforcing that responsibility the government should provide services to help parents meet those obligations. This section describes four policies: a universal child allowance, support for children whose parents can no longer care for them, child support enforcement, and providing earnings subsidies like the EITC to separated families.

Child Allowance

One concept is the creation of a child allowance an annual credit that is available to support the care of all children, regardless of their family's income or living arrangements. The purpose of such an allowance would be to share in the costs of rearing children and to equalize the financial burdens borne by those who have children and those who do not.⁴⁸⁾ The credit would equal \$1,000 per child the size of the recently enhanced child tax credit in the United States once it is fully phased in. Unlike the tax credit, however, the child allowance would be paid to families on a quarterly basis. In the United States, a child allowance is provided through the income tax system except for children in the very poorest and the very richest households. This child allowance would be child-centered: the credit would follow the child and provide income support to the adults raising him or her, regardless of whether it is a married couple, a single parent, or another

48) The Clearinghouse on International Developments in Child, Youth and Family Policies at Columbia University, <http://www.childpolicyintl.org/familychildallowances.html>.

relative of the child

Support for Children Whose Parents Can No Longer Care for Them

Unfortunately, there are some children whose parents can no longer care for them. As mentioned earlier, some of these children are provided assistance through the Social Insurance system (children of deceased or severely disabled parents). Sometimes parents are unable to care for their children because the children themselves are extremely difficult to care for and are in need of specialized care. These children are typically institutionalized or placed in foster care. Sometimes parents can no longer care for the children because the parents become dysfunctional and no longer have the capacity to care for their children. In the United States, these children sometimes come to the attention of authorities because the children become victims of abuse or neglect; more often, though, relatives or others take over the care and maintenance of these children and the government is unaware. In many instances, however, these children are from lower-income families and are cared for by relatives who need assistance in raising these children. Special provisions need to be made to see that these children are properly taken care of. The foster care system in the United States provides for these children.

Child Support Enforcement

Parents who do not live with their children have an

obligation to provide financial support to them. In the United States, federal legislation strengthening the child support system was passed in all but three years between 1981 and 1999. This legislation transformed each of the three key components of child support enforcement: paternity establishment, setting consistent child support orders, and obtaining child support payments. The legislation has made child support enforcement more effective: preliminary numbers indicate that between fiscal year 1995 and fiscal year 1999, paternity establishment increased by 60 percent to 1.5 million paternities established and child support collections increased by 46 percent from \$10.8 billion to \$15.8 billion.⁴⁹⁾

The current child support program has many tools at its disposal to enforce NCPs' responsibility to pay child support. In recent years, the program's enforcement activities have been strengthened at both the state and federal levels. The enforcement tools have become increasingly automated as well. Federal legislation passed in 1988 requires automatic withholding of child support obligations from the paychecks of non-custodial parents. To make wage withholding as effective as possible, legislation enacted in 1996 established the National Directory of New Hires which allows the child support office to closely track NCPs' employment. This directory contains information about all newly hired employees which the child support enforcement office then checks against a list of NCPs with outstanding child support orders. When a match is made, the child support office can issue a wage withholding order, so that the current support owed by the NCP is automatically deducted from his wages

49) Department of Health and Human Services 2000

before he receives a paycheck.

Once non-custodial parents fail to pay child support and amass child support debts, states are authorized to take a number of additional steps. States can seize assets held in financial institutions and intercept periodic or lump sum payments from public sources such as unemployment compensation or lottery payments. They can place liens against real or personal property and suspend driver's, professional, occupational, and recreational licenses. Other enforcement techniques include withholding state and federal tax refunds payable to a parent who is delinquent in support payments and performing quarterly data matches with financial institutions to track down assets of delinquent NCPs.⁵⁰⁾ States also can order NCPs to engage in work activities and use civil contempt procedures to incarcerate NCPs who do not comply with court orders to pay child support.⁵¹⁾

Child support is an important source of income for children who receive it. In 1996, children who had a non-custodial parent and whose families received child support received, on average, 16 percent of their family income from child support. The average amount of child support received by these families was \$3,795.⁵²⁾ However, 1997, two-thirds of children with a support order received financial assistance from their non-custodial parent.⁵³⁾ There are many reasons why low-income non-custodial parents fail

50) For a complete list, see U.S. House of Representatives, Committee on Ways and Means, *1998 Green Book*, Washington: U.S. Government Printing Office, 1998, pages 552 to 553.

51) Irwin Garfinkel 2001

52) Elaine Sorensen and Chava Zibman 2000

53) Ibid.

to pay child support. One basic reason why many low-income NCPs do not pay child support regularly is that they are unemployed or under-employed, and have only a limited income from which to pay child support.

One way that government programs can help non-custodial parents take more responsibility for their children is to provide employment services for them, and use the penalties in the child support system as leverage to encourage NCPs to participate. These employment services are intended to increase the earnings and job stability of low-income NCPs, which should help these NCPs meet their child support obligations on a more regular basis. These employment services could include job search activities, job readiness (soft skills) training, on-the-job training, publicly-funded jobs, and job retention services to help NCPs stay employed.

Earnings Subsidies for Separated Low-Income Parents

Currently receipt of the EITC in the United States is predicated on earnings and the presence of children. Childless workers receive a small EITC in 2001 its maximum value is \$353, an amount that is less than one-tenth of the maximum credit for a parent with two children, and the credit phases out when earnings reach \$10,500. The size of this credit is appropriate for childless workers; however, non-custodial parents who are paying child support are contributing to the cost of raising their children, and thus I believe that low-income NCPs should be eligible for a separate earnings subsidy similar to the EITC

that is contingent on the payment of child support. (Custodial parents and two-parent families would continue to be eligible for the existing EITC.)

A tax credit for low-income non-custodial parents who pay child support would provide an important benefit to these parents. Currently when they pay their child support orders in full, these low-income NCPs retain a relatively low proportion of their gross earnings as disposable income. This tax credit would encourage low-income NCPs to work and to pay child support without reducing the amount of child support that low-income custodial mothers receive.

The structure of this credit could vary. For illustrative purposes, the maximum size for the NCP tax credit at any given income level could be half of the size of the EITC for a family with the same number of children. To verify the payment of child support, the state child support agency would provide the NCP and the federal IRS or state department of revenue with an information form which would show two numbers: the total current child support due in the previous calendar year, and the total current child support collected during the previous calendar year. NCPs that paid the entire amount would receive the maximum credit for their income level. If an NCP paid less than the total amount of child support that he owed, the credit could be split between the custodial and noncustodial parents based on the portion that he did pay.

VIII. Administrative Issues

Let me conclude by sharing a few observations concerning the administration of a safety net.

Reporting Requirements

An important key to the success a productive welfare plan will be how it is implemented and administered. Employers must be required to report the earnings of all employees on a regular basis, at least each quarter. Ideally, this should be accomplished on one form or electronically, not on several forms as in the United States. These reported wages form the basis of eligibility for the social insurance programs as well as the earnings supplements. Workers need to understand that they lose important protections if their wages are not properly reported. There should be significant penalties for non-compliance with these reporting requirements. Reporting of income from the self-employed can be a large compliance issue.

Benefit Structure

The structure of benefits for safety net programs will vary. There several key issues that need to be weighed in determining the form and size of benefits that are made available. The concept of the "iron triangle" in poverty policy means that it is impossible for programs simultaneously to be generous (have a large guarantee level), be well targeted (limited only to those in need and therefore less costly from a government budget viewpoint), and have low effective tax rates. Achieving two of the goals always requires compromising on the third.

Requiring a household to report on each month or very frequently will result in complete information on which to base benefits. This approach, however, places a substantial burden on households to remember each month's circumstances and retain and submit and required pay stubs and other verification. When an individual, household, or family is determined eligible for benefits, how often do they need to reapply or re-certify their eligibility? Longer certification periods may be less responsive to a household's monthly fluctuations in income and other circumstances, but the reduced burdens on working households make the option well worth the trade-off. To some extent, these benefits could be reconciled through the tax system.

Benefits can be based on an individual's, family's, or household's circumstances at a given time. Typically, social insurance programs, which are temporary wage-replacement programs, are based on an individual's job history and current circumstances. In contrast, public assistance programs are based on family or household units. The choice depends upon government's concern with preserving neutrality with regards to living arrangements.

IX. Conclusion

A social safety net must seek to protect citizens from poverty and destitution due to economic conditions, discrimination, accidents, disability, death and individual characteristics that hinder obtaining employment; ensure a basic minimum standard of living; to provide a strong work incentive; to encourage parental responsibility and reflect the culture and values of a nation. To that end, Korea can better implement former President Dae-jung's notion of productive welfare by drawing on the lessons learned in the United States to develop a system with three broad categories of support: a social insurance safety net which Korea already has, a work support system that reinforces work and provides a liveable income and a public assistance program that promotes self-sufficiency. Low wage workers should be entitled to work support such that they are able to maintain a decent standard of living for themselves and their children. Those individuals with serious barriers to employment should be conditionally entitled to benefits and other services provided they satisfy certain requirements. All clients of safety net programs should be treated with dignity and as valued members of society.

One of the primary lessons Korea can take away from the U.S. experience is that the provision of a basic minimum national benefit level need not result in significant increases in dependency and bloated welfare roles. Through a strong emphasis on work -- both work requirements enforced through well-designed and implemented sanction policies and rewarding work by low marginal tax rates -- welfare rolls can be held in check. Individuals who are not in the labor force and who need public assistance have a multiple and varied pattern of employment barriers. These need to be addressed if the client is to succeed in the workplace. A well-run program which provides a relatively small number of transitional publically funded jobs can assist in this process.

The provision of work supports through programs such as the Earned Income Tax Credit are political popular, are critical to making work pay and to moving a family out of poverty. However, the United States needs to do a better job of getting these benefits -- child care, EITC, food stamps -- to the working poor. This possibly could be done through work support offices which would seek to lower the administrative hassles these families face in receiving assistance. Parental responsibility is enhanced through the child support system which should be reformed to provide employment assistance and work supports as well.

Another lesson is that child well-being is only enhanced if the family's income is improved. In the United States, this implies that poverty reduction needs to given a higher priority and caseload reduction a lower priority. While some researchers would argue otherwise, I would argue that Korea not follow the United States in adopting time limits. Dependency can be limited without resorting to this policy.

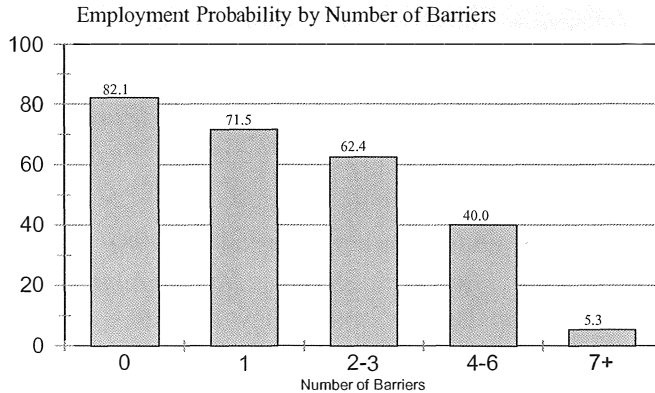
Finally, while I am not familiar with Korea's version of the Census Bureau, it is very important that a country measure its progress against poverty and evaluate its national programs on a regular basis, preferably annually. Gathering key demographic and income data by taking periodic snapshots of the population can assist policymakers in understanding whether the country is making progress in eradicating poverty. Household surveys linked to administrative data are key; the measurement of poverty requires developing a consistent measure of need and then examining the resources a family has in comparison to that need. If need exceeds resources, then the family is judged to be poor. Analyzing and publishing this data also will aid in the public's understanding of these policies.

Table 3-22. Prevalence of Employment Barriers

Barrier	% in Sample with Barrier	%Women Nationally with Barrier
Less than HS Education	31.4	12.7 ¹⁾
Low work experience(worked less than 20% of years since age 18)	15.4	-
Fewer than 4 job skills (out of possible 9)	21.1	-
Knows 5 or fewer work norms (out of a possible 9)	9.1	-
Perceived discrimination(reports 4 or more of a possible 17 types of prior discrimination)	13.9	-
Transportation problem(does not have access to a car and/or no driver's license)	47.1	7.6 ²⁾
Major depressive disorder	25.4	12.9 ³⁾
Post Traumatic Stress Disorder (PTSD)	14.6	-
Generalized anxiety disorder	7.3	4.3
Alcohol dependence	2.7	3.7
Drug dependence	3.3	1.9
Mother's health problem (self-reported fair/poor health and age-specific physical limitation)	19.4	-
Child health problem (has a health, learning, or emotional problem)	22.1	15.7 ⁴⁾
Domestic violence (severe abuse from a partner within past year)	14.9	3.2-3.4 ⁵⁾

- Note: 1) 1998 Current Population Survey: % of all women ages 18-54 who do not have a high school diploma or equivalent.
 2) 1990 Census: % of all women ages 18-54 who live in households with no vehicles available.
 3) 1994 National Co-morbidity Survey: % of all women ages 15-54 who meet criteria for clinical case on each of these disorders.
 4) 1994 National Longitudinal Survey of Youth: % of all mothers ages 29-37 with children who have one of six limitations.
 5) 1993 Commonwealth Fund Survey and 1985 National Family Violence Survey: % of all women ages 18 and over who report current severe physical abuse.

Figure 3-22. *Employment Probability by Number of Barriers*



Note: Probability given that respondent is single, Black, lives in an urban census tract, is 25-34 years old, has one child age 0-2 years old, has no children age 3-5, and has received welfare for 7 years. Predicted probabilities are based on regression coefficients.

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