

W-2 (Wisconsin Works)
An Analysis of Feasibility and Impact

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BACKGROUND

As of January 1999, Aid to Families with Dependent Children will no longer exist in Wisconsin. AFDC currently provides for approximately one quarter of a million very low-income people in Wisconsin, 70% of whom are children. The program Governor Thompson is proposing as a replacement is called *W-2 (Wisconsin Works)*. The key change under *W-2* is that cash assistance will no longer be an entitlement for families with needy children. Instead, low-income parents can choose to participate in the *W-2* system, which offers four employment options including private employment, subsidized private employment, community service jobs, and supervised transitional work.

Those persons unable to find private employment would participate in one of three time-limited employment programs. The community service and supervised transitional employment would provide the head of household with a monthly subsidy, roughly equivalent to previous welfare payments, which the person would “work off” doing 40 hours of community service or supervised transitional labor. Because these programs would be considered service for the subsidy, participants would not be covered by minimum wage requirements and would not be eligible for the Earned Income Tax Credit which provides economic assistance to the working poor.

Given the fundamental change in policy direction that ending AFDC signifies it is important to understand the basis for the 60 year-old program *W-2* proposes to replace.

Aid to Dependent Children was established by the Social Security Act of 1935 as a cash grant program to enable States to aid needy children without fathers. Renamed Aid to Families with Dependent Children (AFDC), the program provides cash welfare payments for (1) needy children who have been deprived of parental support or care because their father or mother is absent from the home continuously, is incapacitated, is deceased or is unemployed, and (2) certain others in the household of such child.¹

The debate about welfare reform has been hampered by a reliance on misconceptions about AFDC. Reasoned public policy decision-making must integrate factual information with the values of the society to ensure that policy changes are supported by the public and do not cause undue harm to those least able to speak on their own behalf: children.

INTRODUCTION

Governor Thompson calls W-2 “a dramatic break with the past” but the impact of this “break” has not been evaluated. **The fundamental policy change at the heart of W-2 is that the state will remove itself from any direct obligation to provide for needy children.** Under W-2, the state’s only role will be to help parents to help themselves; and, if a parent can’t or won’t, to remove the child from the home. The primary determinant to success under W-2 is presumed to be the effort of the adult participants. The W-2 plan makes a number of assumptions about:

- the reasons for AFDC dependency,
- labor market conditions,
- family support systems, and
- the potential for economic self-sufficiency among entry-level workers.

These assumptions were not examined in a comprehensive and empirical manner.

Because W-2 is a significant shift in social policy and will have serious consequences for the more than 76,000 households receiving AFDC in Wisconsin, the Institute for Wisconsin’s Future (IWF) has conducted a study of the feasibility and potential impact of the W-2 proposal. This study is designed to address four major issues:

- 1) The capacity of the state’s economic system to absorb substantial numbers of new job seekers;
- 2) The compatibility of existing educational levels among AFDC recipients with the educational requirements of available jobs;
- 3) The availability of support systems necessary for parents’ participation in the work force; and
- 4) The impact of an influx of low-wage workers on the state economy.

To examine these issues, IWF collected data from four Wisconsin counties which represent urban and rural areas of different sizes. However, since 59% of all Wisconsin welfare recipients live in Milwaukee County, this community was targeted for more detailed analysis. Data for additional Wisconsin counties can be found in Appendix 1.

FINDINGS

Labor Market Conditions

- 1. Statewide, there are less than half the jobs necessary to employ the total number of current AFDC recipients and unemployed persons.**

An examination of employment projections generated by Wisconsin's Department of Industry, Labor, and Human Relations (DILHR) demonstrates that there is an insufficient number of job openings to meet the employment needs of those heads of households currently receiving public assistance. There are currently 69,039 adult recipients of AFDC who would have 24 months to find unsubsidized employment under the W-2 plan. These new entrants to the workforce would be competing for private sector jobs with the unemployed population, currently 125,639 people. Together, this constitutes nearly 195,000 people in need of employment in the state. The average annual job openings for the state, as projected by DILHR through the year 2005, is 85,464.

TABLE 1. Four-county labor market assessment of job availability versus placements needed.

	Milwaukee	Rock	Marinette	Eau Claire	Wisconsin
Job Openings²	20,035	2,877	829	1,624	85,464
AFDC adult³	32,013	2,363	491	1,297	69,039
Unemployed⁴	18,913	3,227	1,342	3,967	125,639
Total Jobseekers	50,926	5,590	1,833	4,295	194,678
Job Gap	39,891	2,773	1,004	2,671	109,214

Job Service Experience

To better understand the circumstances faced by AFDC recipients entering the job market, it is instructive to examine the experience of Job Service clients in Wisconsin. A striking example from Marinette County shows that in July 1995 there were 57.8 applicants for every clerical job opening on file with the local Job Service office⁵. More specifically relevant is the role Job Service plays in the employment of welfare recipients.

“During this program year the State administered a variety of employment and training programs for those receiving AFDC. During the year Job Service was the dominant provider of such services through a series of contracts with the Wisconsin DHSS and county social services departments providing services in 63 counties and tribal units. Services provided included enrollment, job search, case management and a limited amount of training and supportive services.”⁶

Chart A. Number of AFDC recipients placed by Job Service⁷

State Total	1988	1989
Program Participants	33,594	36,476
Clients Placed	13,758	15,764
Percent of Clients Not Placed	59%	56%

Chart B. Job Service applicant to openings ratio, July 1995⁸

COUNTY	RATIO OF APPLICANTS/JOBS
Milwaukee	10.8 to 1
Marinette	11.1 to 1
Rock	21.5 to 1
Eau Claire	15.1 to 1

The point here is not to criticize Job Service, but to note that if the “dominant provider” of employment services to welfare recipients has had less than a 50% success rate in placing AFDC recipients in jobs, and the total number of placements statewide was approximately 16,000 for the entire year, then the challenge of now placing 70,000 recipients as quickly as possible should not be taken lightly.

2. Without funded training programs, there will continue to be a serious mismatch between the skill levels of AFDC recipients and the skills required for most openings.

The state job shortage is further exacerbated when jobs requiring education beyond high school are eliminated from the total pool of available jobs. According to a recent survey of job openings done by the Employment and Training Institute of UW-Milwaukee, 61% of the full-time openings in the metro Milwaukee area “required education, training or occupation-specific experience beyond high school.”⁹

The availability of entry level jobs is critical, as these are the types of jobs needed by welfare recipients, who typically have less formal education, less recent labor market experience, and fewer job skills than the currently employed.

In Wisconsin, approximately 40 % of AFDC recipients have not finished high school and only 12% have post-secondary education (**See Chart D. below**). This discrepancy will reduce the number of jobs available to the AFDC mothers attempting to enter the labor market and leave employers with a continuing shortage of skilled workers.

Chart C. Educational Status of AFDC Recipients¹⁰

EDUCATION LEVEL	AFDC RECIPIENTS
AFDC recipients with less than a high school education	38.6% of all recipients (26,649 persons)
Recipients with High School Diploma or GED Certificate	37.3% of all recipients (25,752 persons)
Recipients with post-secondary training or education	12.4% of all recipients (8,561 persons)
Educational levels unknown	11.8% of all recipients (8,009 persons)

When the number of AFDC recipients who would be entering the job market as entry-level workers is calculated and compared to the available number of entry-level job openings, there is a significant gap statewide. In the Wisconsin entry-level labor market, there are roughly 33,000 entry-level job openings and 52,000 job seekers. The full table showing the comparison of entry-level openings to entry-level recipients follows.

TABLE 2. Four-county and statewide comparison of entry level jobs available to low-skill workers entering the workforce under the W-2 program. *

	Milwaukee	Rock	Marinette	Eau Claire	Wisconsin
Entry-level Jobs¹¹	7,814	1,126	323	633	33,330
Entry-level AFDC applicants.¹²	24,297	1,793	373	984	52,401
Entry-level job gap	16,483	667	50	351	19,071

* This table does not include the current population of non-AFDC unemployed persons seeking jobs in these counties.

The Case of Milwaukee County

While it is important to understand what impact W-2 will have in each Wisconsin county, special attention must be given to the feasibility of W-2 in Milwaukee County, since it contains over half of the state’s AFDC recipients. If W-2 does not succeed in Milwaukee County, then Wisconsin Works won’t work. The labor market projections for Milwaukee County suggest that training programs will be crucial to ensure program success. Of the 32,000 adult recipients who would be entering the job market, about 24,000 have educational levels of high school or less. When this number of new entry-level workers is compared to the projected number of entry-level openings (8,000), the job gap is obvious. When the percentage of the 19,000 currently unemployed workers who would also be vying for the entry-level jobs is added, the situation is even worse.

Supportive Services

- 3. Crucial support systems for newly employed parents, including child care and public transportation, are not available to substantial numbers of persons in designated counties.**

Child Care Resources

The Wisconsin Council on Children and Families estimates that there are over 70,000 children under the age of five in the state of Wisconsin who will require daycare services if their mothers enter the workforce. This would require up to a 50% increase in the number of daycare slots available in Wisconsin. In Milwaukee County alone 30,000 children under the age of five could need care, a 136% increase over current capacity.

Under the state proposal, child care services are to be expanded by lowering standards for child care licensing. W-2 has come under significant criticism by state child advocacy groups who fear that “provisional care” by untrained, unmonitored caregivers could lead to a higher risk of abuse for young children, a reduction in wages for child care workers and a general lowering of child care standards. They see this proposal as a reversal of the progress that has been made over the years to professionalize child care and improve conditions for children being cared for out of the home.

The W-2 plan calls for participant co-payments toward child care costs. The amounts of payment have not been specified, but for low-wage workers even minimal child care payments could reduce family access to regulated care, forcing parents to base child care decisions on what is cheapest, not on what is best for their children.

Transportation Access

It has been well-publicized that there is a geography gap in the labor market. A Wisconsin Policy Research Institute report on employment and transportation issues for the metro-Milwaukee area states that 7 out of 10 new jobs created between 1970 and 1990 were located outside the city of Milwaukee.¹³ The Employment and Training Institute’s survey shows that just 26.5% of metro area job openings are located in the city of Milwaukee, 29.5% in Milwaukee County suburbs, and 43.2% in the WOW counties (Waukesha, Ozaukee and Washington Counties.)¹⁴ The majority of Milwaukee County’s potential AFDC workforce lives in the city of Milwaukee. Since less than 5% of all AFDC clients own cars, the average value of which is \$526,¹⁵ this group is dependent on public transportation not only to get to and from work, but to deliver and pick up children from daycare sites. According to officials from the Milwaukee County Transit Company, transportation from Milwaukee’s central city to outlying areas is fragmentary and time consuming. Daily bus rides to daycare facilities and suburban job sites

can take up to two hours each way and cost (with proposed fare increases) up to \$100 monthly. For a single parent, the addition of up to four hours of travel time on to an eight hour work day lessens the chances of a successful transition from welfare to employment.

The single bus route that is considered adequate to reach the northwest suburbs is the Fond du Lac Avenue route. There is only one bus route that goes west into Waukesha. This bus stops at Brookfield Square and connects to the Waukesha busline. This route is long and connections are difficult. There are no bus routes to the newly established Franklin Industrial Park. Menomonee Falls buses run from the suburbs into the downtown area in the morning and back in the evening; there are no day shift routes leaving the city that go to Menomonee Falls. The metro link bus service to the southwest side was canceled and no buses go from central Milwaukee to the cluster of nursing homes on Green Tree Road and Mill Road. In short, public transportation as currently constituted cannot meet more than a small portion of the transportation needs of this newly mandated workforce.

Impact on the State Economy

- 4) The influx of even a portion of current welfare recipients into the low-wage labor market will result in a substantial reduction in wages to those currently employed in low and moderate wage jobs.**

A basic economic tenet holds that, other things being equal, when labor supply increases, wages tend to be depressed by the larger number of workers competing for available jobs. The Economic Policy Institute of Washington, D.C. (EPI) has just published a report in which they estimate the impact of the welfare reform bill currently before the U.S. Senate. This proposal would place about one-fifth of adults currently on welfare in Wisconsin in jobs. These former welfare recipients would be competing for jobs primarily with those who are already low-wage workers. EPI estimates that low and moderate wage workers in Wisconsin — defined as those earning less than \$7.27 an hour — would see their wages fall 8% with even this limited influx of welfare recipients¹⁶. The W-2 proposal (with its much greater movement of new entrants into the work force) would obviously compound this effect.

This is especially true in Milwaukee County where 32,000 AFDC recipients would enter the workforce and where unemployment is high and wages are already lower than in outlying areas. Economics Professor Robert Drago of UW-Milwaukee has found that “workers residing outside the county of Milwaukee earn around \$6,000 more per year than workers living inside the county... and unemployment falls from over 18% to less than 3% as we move from the inner city to the suburbs outside Milwaukee County.”¹⁷

Workers in Milwaukee County can ill afford to suffer any more disadvantage in the form of wage depression. An astounding “83.2% of Milwaukee’s net employment growth between 1980 and 1990 was workers earning under \$20,000 annually,” according to Professor Marc Levine of the UW-Milwaukee Center for Economic Development.¹⁸

CONCLUSION

The W-2 proposal represents a change in the public assistance system on a scale and at a pace never before attempted. This proposal which replaces welfare with an employment program is based on a set of implicit assumptions that have not been clearly stated or verified by the administration. These assumptions include:

- that there are enough jobs to enable the current population of 70,000 AFDC adults to create a self-sufficient lifestyle for themselves and their 153,000 children.
- that current AFDC adults entering the workforce under W-2 have the education and skills necessary to be hired into the existing pool of jobs.
- that there are a sufficient number of qualified providers to care for the thousands of young children whose mothers will be entering full time jobs.
- that parents have access to transportation, not only to the parents’ job site but also to the children’s daycare facilities.
- that the influx of large numbers of new workers will not negatively impact the wage level for existing workers.

The data compiled in this study indicates that these assumptions are not correct.

There are not a sufficient number of jobs to meet the employment needs of AFDC recipients and the current population of unemployed persons in Wisconsin.

There is a serious mismatch between the skills of the AFDC population being directed into the marketplace and the skill requirements for over 60% of the available jobs.

There are not adequate numbers of day care facilities for the small children whose parents are supposed to be employed outside the home for forty hours each week.

AFDC recipients, especially in Milwaukee County, do not have sufficient means of transportation to reach outlying suburban areas where jobs are clustered.

The influx of entry-level workers into the economy will depress wages for the bottom one-third of the current working population, which in turn threatens their ability to maintain economic self-sufficiency.

As written, W-2 appears to ignore the economic and social conditions in which welfare reform is taking place. Given the findings of the study, it is recommended that policymakers delay passage of this proposal until sufficient provisions are included to address the primary barriers to successful implementation. Additional planning is required to address the significant need for training that will enable current AFDC recipients to obtain the skills needed to meet employer needs. The proposal must address the serious gap in childcare and transportation services requisite for sustained employment. And finally, the proposal must address, directly, the clear need for public and private job creation to ensure family supporting jobs for these thousands of parents required to achieve family self-sufficiency within 24 months.

The precarious position of the population affected, including more than 153,000 children who already face difficult conditions for growing into healthy and successful adults, suggests that a slower, more reasoned approach to welfare reform would better ensure the parents' successful transition to work. This approach must take into account the continued need to invest in Wisconsin's human resources and not resort to a quick-savings or punitive approach that leaves the state with ever higher numbers of families living in poverty.

NOTES

1. U.S. House of Representatives. (1994) Green Book: Background Material and Data on Programs within the Jurisdiction of the Committee on Ways and Means, page 324.
2. Openings: Average Annual Openings by County and Service Delivery Area. (Eau Claire, Marinette County and La Crosse projections are based on their share of regional employment) WI Department of Industry, Labor and Human Relations. "Wisconsin Occupational Projections to 2000" 1989, the most recent publication of regional projections. State projections are based on the 1995 edition of "Wisconsin Occupational Projections to 2005."
3. AFDC Adult: 1994 monthly average AFDC adults. WI Department of Health and Social Services, 1995.
4. Unemployed: Civilian Labor Force Estimates, January 1995. WI Department of Industry, Labor and Human Relations.
5. WI Department of Industry, Labor and Human Relations. (1995) Table 2A: "Job Service Applicants and Openings by Major Occupational Group." By county, July 1995.
6. WI Department of Industry, Labor and Human Relations. (1990) "Job Service Wisconsin Annual Report," page 7.
7. Ibid, and 1989 Annual Report, page 13.
8. WI Department of Industry, Labor and Human Relations. (1995) Table 2A: "Job Service Applicants and Openings by Major Occupational Group." By county, July 1995.
9. Employment and Training Institute and Social Science Research Facility at UW-Milwaukee. (1995) "Survey of Job Openings in the Milwaukee Metro Area," page 7.
10. U.S. Department of Health and Human Services. (1991) "Characteristics and Financial Circumstances of AFDC Recipients," Table 29: "AFDC Adult Recipients by Years of Education."
11. Entry-level jobs here represent 39% of total openings, based on ETI's findings that 61% of jobs in their survey required some post-secondary training.

Since the Milwaukee metropolitan region may not be representative of the state as a whole in terms of job opening requirements, another calculation was done based on the education or training levels needed to fill the jobs with the most projected openings in Wisconsin for the next ten years (WI Department of Industry, Labor and Human Relations. (1993) "Wisconsin Occupational Projections to 2000," Table 4.4: "Occupations with the Most Job Openings Wisconsin 1990 to 2005.")

Of the occupations listed in DILHR’s projection, a slightly lower number of 51% require education or training beyond high school. The following table represents the number of low-skilled openings for each of the counties and the state now using 49% of total openings as the calculation for entry level jobs. In only one county, Marinette, does the difference in methods make a difference. In all other counties shown and for the state, the number of low-skill job openings is insufficient to absorb the number of AFDC recipients who would be entering the labor market under W-2, let alone the number of currently unemployed persons, not all of whom would fall into the low-skilled category.

Alternate TABLE 2. Four-county and statewide comparison of entry level jobs available to low-skill workers entering the workforce under the W-2 program

	Milwaukee	Rock	Marinette	Eau Claire	State
Entry-Level Jobs	9,817	1,410	406	796	41,877
Entry-level AFDC apps	24,297	1,793	373	984	52,401
Entry-level Job gap	14,480	383	none	188	10,524

12. 75.9% of AFDC Adults (those with a high school diploma or less). Figures on educational levels are from US DHHS, see note 10 above.
13. Wisconsin Policy Research Institute. (1993) “Getting Milwaukee To Work: Antipoverty Strategy Where Rubber Meets Road,” page 1.
14. ETI, page 23.
15. U.S. Department of Health and Human Services. (1993) “Characteristics and Financial Circumstances of AFDC Recipients,” Table 43: “AFDC Families with Countable Assets by Type and Value.”
16. Lawrence Mishel and John Schmitt, EPI Briefing Paper; Oct. 1995.
17. Robert Drago. (1994) “Jobs, Skills, Location and Discrimination: An Analysis of Milwaukee’s Inner City and Metro Area,” page iii.
18. Marc Levine. (1994) “The Crisis of Low Wages in Milwaukee: Wage Polarization in the Metropolitan Labor Market, 1970-1990,” page 12.

APPENDIX 1

Labor market assessment of job availability versus placements needed

	Racine Kenosha Walworth	Winnebago Fond du Lac Green Lake	La Crosse	North West counties*
Job Openings²	6,114	5,149	2,287	2,831
AFDC Adults³	5,295	2,047	1,417	2,463
Unemployed⁴	9,214	6,307	2,560	7,118
Total Jobseekers	14,509	8,354	3,977	9,581
Job Gap	8,395	3,205	1,690	6,750

* North West Service Delivery Area for the Department of Industry, Labor and Human Relations includes: Ashland, Bayfield, Burnett, Douglas, Iron, Price, Rusk, Sawyer, Taylor, and Washburn counties, calculations made on regional level for this area.

Comparison of the number of entry-level jobs available to the number of low-skill workers entering workforce under W-2 program.*

	Racine Kenosha Walworth	Winnebago Fond du Lac Green Lake	La Crosse	North West counties*
Entry-level Jobs¹¹	2,384	2,008	892	1,104
Entry-level AFDC applicants¹²	4,019	1,554	1,075	1,869
Entry-level job gap	1,635	0	183	765

* This table does not include the current population of non-AFDC unemployed persons seeking jobs in these counties.