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Chairman Davis, Ranking Member Doggett, and members of the Subcommittee, thank you for inviting me to testify on this important topic.

My name is Douglas Besharov, and I am a professor at the University of Maryland School of Public Policy, where I teach courses on poverty alleviation and program evaluation. I also direct our Welfare Reform Academy (WRA) and our Center for International Policy Exchanges (CIPE). Of particular relevance to this hearing, at the university, I lead a project called “Learning from Abroad,” which is designed to glean policy ideas from other nations. Our web site is www.umdcipe.org.

Today, I want to emphasize that, even in this time of high unemployment, TANF and, actually, all major income-support and social welfare programs—including Unemployment Insurance (UI), the Supplemental Nutrition Assistance Program (SNAP/food stamps), and disability programs (Social Security Disability Insurance [SSDI] and Supplemental Security Income [SSI])—have important roles to play in encouraging people to stay connected to the labor force, by which I mean working, seeking work, or seriously increasing their job-related skills.

Prolonged high unemployment

We are in the midst of what most informed observers expect will be a prolonged period of high unemployment. According to the U.S. Bureau of Labor Statistics, from a low of about 4 percent in 2000, the unemployment rate rose during the 2001–2003 downturn to about 6 percent, after which it fell but remained disappointingly high at between 4.5 to 5.0 percent. When the recession hit, unemployment rose from 4.9 percent in April 2008 to a high of 10.1 percent in October 2009. It remained between 9.5 and 9.9 percent through 2010, and has only recently declined to around 9 percent.¹

On September 1, the U.S. Office of Management and Budget (OMB), released its “Mid-Session Review,” making ten-year projections for the U.S. unemployment rate. OMB projects that the unemployment rate will decline from its current 9.1 percent to a 2017 annual average of 5.3 percent, with the annual rate declining slowly to 8.3 percent in 2012, 6.9 percent in 2014, 5.7 percent in 2016, and 5.2 percent in 2018, where it will remain through 2021.² Many fear that these are overly optimistic projections.

Furthermore, unemployment spells are now longer than at any time since the U.S. started measuring them in 1948. Long-term unemployment has increased sharply, with the share of unemployed who are jobless for more than twenty-six weeks having more than doubled, from about 17 percent in December 2007 to about 43 percent in July 2011.³

No wonder another million or so Americans are discouraged and no longer looking for work. Add them to the unemployed and the over eight million underemployed (those involuntarily working part-time), and, since mid-2009 to August 2011, in any given month, between 16 and 17 percent of the U.S. labor force (including those who are marginally attached to the labor force) are directly suffering because of the economic slowdown.⁴

As many observers have noted, high levels of long-term unemployment threaten to exacerbate and accelerate this trend toward nonwork—especially among older and minority workers. On May 5 of this year, Paul Krugman wrote in *The New York Times*: “The longer this

¹Bureau of Labor Statistics, “Historical Data for the ‘A’ Tables of the Employment Situation Release: Table A-1: Employment Status of the Civilian population by Sex and Age,” <http://www.bls.gov/webapps/legacy/cpsatab1.htm> (accessed September 1, 2011).

²U.S. Office of Management and Budget, *Budget of the U.S. Government Fiscal Year 2012: Mid-Session Review* (Washington, DC: U.S. Office of Management and Budget, September 2011), <http://www.whitehouse.gov/sites/default/files/omb/budget/fy2012/assets/12msr.pdf> (accessed September 2, 2011).

³Bureau of Labor Statistics, “Historical Data for the ‘A’ Tables of the Employment Situation Release: Table A-12: Unemployed Persons by Duration of Unemployment,” <http://www.bls.gov/webapps/legacy/cpsatab12.htm> (accessed September 6, 2011).

⁴Bureau of Labor Statistics, “Table A-15. Alternative Measures of Labor Underutilization,” <http://www.bls.gov/news.release/empsit.t15.htm> (accessed September 5, 2011).

goes on, the more workers will find it impossible ever to return to employment.”⁵

The TANF caseload

During this period, the increase in state TANF caseloads has been significant, but not as much as many would have supposed, myself included. Between December 2007 and December 2009, the total number of families with children receiving cash assistance increased by just 13 percent.⁶ (See figure 1.) Over the next fifteen months (through March 2011), the total TANF caseload rose another percentage point, to about 14 percent higher. For the earlier period, according to the Center on Budget and Policy Priorities (CBPP):

There was wide variation in states’ responsiveness. In 22 states, TANF caseloads responded little or not at all to the recession; 16 states had caseload increases of less than 10 percent, and six states had caseload declines. At the same time, caseloads increased by more than 20 percent in 15 states, and by 11 to 20 percent in 13 states.⁷

As this subcommittee knows too well, all TANF statistics must be taken with a grain of salt. States have many ways to provide income assistance that is the equivalent of cash welfare but that is not counted in caseload figures, for example, by providing short-term or emergency benefits (what TANF regulations call “nonrecurrent short term benefits”).⁸

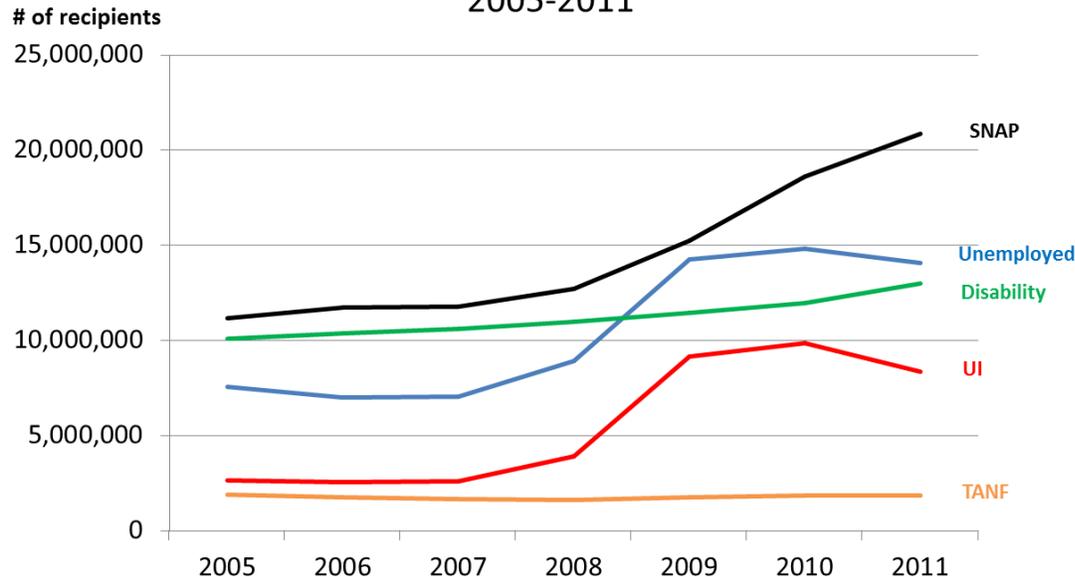
⁵Paul Krugman, “Fears and Failures,” *New York Times*, May 5, 2011, <http://www.nytimes.com/2011/05/06/opinion/06krugman.html> (accessed September 1, 2011).

⁶Author’s calculations from U.S. Department of Health and Human Services, Administration for Children and Families, Office of Family Assistance, “TANF: Total Number of Families Fiscal and Calendar Year 2007,” http://www.acf.hhs.gov/programs/ofa/data-reports/caseload/2007/2007_family_tan.htm (accessed September 2, 2011); and U.S. Department of Health and Human Services, Administration for Children and Families, Office of Family Assistance, “TANF: Total Number of Families Fiscal and Calendar Year 2009,” http://www.acf.hhs.gov/programs/ofa/data-reports/caseload/2009/2009_family_tan.htm (accessed September 2, 2011). See also LaDonna Pavetti, and Liz Schott, *TANF’s Inadequate Response to Recession Highlights Weakness of Block-Grant Structure Proponents Wrong to See It as Model for Medicaid, SNAP, or Other Low-Income Programs* (Washington, DC: Center on Budget and Policy Priorities, July 2011), <http://www.cbpp.org/files/7-14-11tanf.pdf> (accessed September 2, 2011).

⁷LaDonna Pavetti, and Liz Schott, *TANF’s Inadequate Response to Recession Highlights Weakness of Block-Grant Structure Proponents Wrong to See It as Model for Medicaid, SNAP, or Other Low-Income Programs* (Washington, DC: Center on Budget and Policy Priorities, July 2011), <http://www.cbpp.org/files/7-14-11tanf.pdf> (accessed September 2, 2011). Footnote omitted: LaDonna Pavetti, Danilo Trisi, and Liz Schott, *TANF Responded Unevenly to Increase in Need During Downturn* (Washington, DC: Center on Budget and Policy Priorities, January 2011), <http://www.cbpp.org/files/1-25-11tanf.pdf> (accessed September 2, 2011).

⁸These are supposed to be short-term benefits or emergency benefits that are nonrecurrent (that is, not more frequently than once in every twelve month period).

Figure 1
Unemployment and Enrollment in Select
Cash and Noncash Government Programs
2005-2011



Note: All data are more recent year available

Nevertheless, the underlying fact remains, this 13 percent increase in the national TANF caseload is small in the face of a doubling of the number of unemployed persons in the same period (see figure 1), a large increase in SNAP/food stamp recipients, as well as a significant increase in the official poverty rate. Many people were surprised, myself included, that the TANF increase was not greater. The same CBPP publication (quoted above), for example, complained that: “Nationally, TANF has been only modestly responsive to the downturn.”⁹

In retrospect, however, there are a number of explanations for why the TANF caseloads have not risen more. Now widely accepted, the only major disagreement among experts concerns the relative importance of each.

- *First, there is not a one-to-one relationship between increases in unemployment or poverty and TANF reciprocity.* Between 2007 and 2009, the official poverty rate rose from 12.5 percent to 14.3 percent (its highest level since 1994). The number of poor families rose from 7.6 million to 8.8 million, and the total number of people in poverty

⁹LaDonna Pavetti, and Liz Schott, *TANF’s Inadequate Response to Recession Highlights Weakness of Block-Grant Structure Proponents Wrong to See It as Model for Medicaid, SNAP, or Other Low-Income Programs* (Washington, DC: Center on Budget and Policy Priorities, July 2011), <http://www.cbpp.org/files/7-14-11tanf.pdf> (accessed September 2, 2011).

increased by about 6.3 million to about 43.6 million.¹⁰ But many unemployed people have family incomes above poverty (usually because a spouse is working). And even if not, the official poverty line is substantially above TANF income eligibility in all states except Wisconsin.

Hence, a better indicator of increases in TANF eligibility are increases in “deep poverty,” the Census Bureau term for those with incomes below half the poverty line. Half of the poverty line corresponds to an annual income of \$9,155 for a family of three. Nationally, TANF income eligibility in the average state is about \$10,000.¹¹ Between 2007 and 2009, deep poverty increased from 5.2 percent to 6.3 percent, which is the highest level on since 1975, when the Census Bureau began publishing data on the subject. (The nineteen million people in deep poverty made up 43.7 percent of all poor people, also the highest share recorded.)¹² This included an increase of about 500,000 families in deep poverty (from about 3.1 million to about 3.6 million).¹³ In contrast, over that same time period, the average number of families receiving TANF only increased by about 100,000 (from about 1.67 million to about 1.77 million).¹⁴ Thus, there is evidence that *perhaps* two or three hundred thousand families had incomes below \$9,000 and hence were probably income-eligible, but did not go on welfare.

¹⁰Carmen DeNavas-Walt, Bernadette D. Proctor, and Jessica Smith, *Income, Poverty, and Health Insurance Coverage in the United States: 2007* (Suitland, MD: U.S. Census Bureau, September 2008), <http://www.census.gov/prod/2008pubs/p60-235.pdf> (accessed September 5, 2011); and Carmen DeNavas-Walt, Bernadette D. Proctor, and Jessica Smith, *Income, Poverty, and Health Insurance Coverage in the United States: 2009* (Suitland, MD: U.S. Census Bureau, September 2010), <http://www.census.gov/prod/2010pubs/p60-238.pdf> (accessed September 5, 2011).

¹¹Gretchen Rowe, Mary Murphy, and Ei Yin Mon, *Welfare Rules Databook: State TANF Policies as of July 2009* (Washington, DC: Urban Institute, August 2010), <http://anfdata.urban.org/databooks/Databook%202009%20FINAL.pdf> (accessed September 5, 2011).

¹²LaDonna Pavetti, Danilo Trisi, and Liz Schott, *TANF Responded Unevenly to Increase in Need During Downturn* (Washington, DC: Center on Budget and Policy Priorities, January 2011), <http://www.cbpp.org/files/1-25-11tanf.pdf> (accessed September 2, 2011).

¹³Carmen DeNavas-Walt, Bernadette D. Proctor, and Jessica Smith, *Income, Poverty, and Health Insurance Coverage in the United States: 2007* (Suitland, MD: U.S. Census Bureau, September 2008), <http://www.census.gov/prod/2008pubs/p60-235.pdf> (accessed September 5, 2011); and Carmen DeNavas-Walt, Bernadette D. Proctor, and Jessica Smith, *Income, Poverty, and Health Insurance Coverage in the United States: 2009* (Suitland, MD: U.S. Census Bureau, September 2010), <http://www.census.gov/prod/2010pubs/p60-238.pdf> (accessed September 5, 2011).

¹⁴U.S. Department of Health and Human Services, Administration for Children and Families, Office of Family Assistance, “TANF: Total Number of Families Fiscal and Calendar Year 2007,” http://www.acf.hhs.gov/programs/ofa/data-reports/caseload/2007/2007_family_tan.htm (accessed September 2, 2011); and U.S. Department of Health and Human Services, Administration for Children and Families, Office of Family Assistance, “TANF: Total Number of Families Fiscal and Calendar Year 2009,” http://www.acf.hhs.gov/programs/ofa/data-reports/caseload/2009/2009_family_tan.htm (accessed September 2, 2011).

- *Second, more than past recessions, this downturn has tended to hit the middle class, and men in particular, harder than women in entry-level positions (who would be most likely to go on welfare).* More than 60 percent of those who lost jobs between December 2007 and July 2011 and about 72 percent of those who lost jobs in the earlier period of December 2007 and July 2009 were men.¹⁵ Whether married with children or not, men tend not to go on welfare—partly because they have assets that disqualify them and partly because many have spouses who are working. Moreover, many of the lost jobs were higher paying jobs in, for example, construction and manufacturing. So, single mothers, those most likely to go on welfare when unemployed, have not been the only ones hit hard in this downturn.
- *Third, up to now, at least, unemployment benefits, SNAP/food stamps, Medicaid, and disability payments have provided a more attractive safety net that does not carry the stigma of being on welfare (nor job search requirements, time limits, and asset tests).* I summarize these expansions below.
- *Fourth, the work-related participation requirements and the lifetime limits on benefits of TANF discourage many from applying.* In some respects, of course, this is their purpose. Moreover, unanswered is why, if their financial need is so great, potential recipients do not seek aid because of the participation requirements attached to TANF.¹⁶ Social or personal barriers may make participation more difficult for some, but this is not a full explanation of the TANF caseload’s failure to rise.
- *Fifth, anecdotal evidence indicates that some states seem to be discouraging people from applying for welfare, and, instead, are encouraging them to make due with food stamps (fully federally funded) and Medicaid (partially federally funded), and, to a lesser extent, trying to get applicants and recipients into the SSI disability program (also fully federally funded).* But this appears to be merely the reverse side, and a much smaller part, of a

¹⁵Bureau of Labor Statistics, “Table B-5. Employment of Women on Nonfarm Payrolls by Industry Sector, Seasonally Adjusted,” <http://www.bls.gov/webapps/legacy/cesbtab5.htm> (accessed September 2, 2011).

¹⁶Arloc Sherman, *Safety Net Effective at Fighting Poverty but has Weakened for the Poorest* (Washington, DC: Center on Budget and Policy Priorities, July 2009), <http://www.cbpp.org/files/7-6-09pov.pdf> (accessed September 5, 2011) stating:

The reasons for this sharp drop in receipt of TANF cash assistance vary across states. They include a range of policies and administrative practices that led many poor families to leave the program even when they did not have a job, to be discouraged from applying at all, or to fail to successfully complete the application process. Many families lost assistance because of strict welfare-to-work rules and policies that terminated assistance to families that could not meet program requirements. While requirements to attend orientation sessions or seek work before applying for aid may seem reasonable, some families in the midst of a serious crisis and those with mental health or other health issues may be unable to comply with them. Research has consistently shown that families that lose assistance due to sanctions often have significant mental health or other health issues and other barriers to employment that may inhibit their ability to meet various requirements.

substantially expanded social safety net, as I will now describe.

The expanded safety net

Because of its central importance, let me outline the substantial growth in government assistance in recent years. The expansion of safety net coverage has been truly noteworthy—driven by a long-running loosening of eligibility rules¹⁷ made even more generous by the stimulus bill (The American Recovery and Reinvestment Act of 2009 [ARRA]).

For example, the maximum period for receiving UI benefits has been expanded to an unprecedented ninety-nine weeks. The maximum period for times of low unemployment is twenty-six weeks. In states with unemployment rates of 8 percent or higher, the benefit period is extended to forty-six weeks. In 2008, however, Congress temporarily increased the maximum benefit period by thirty-four weeks for all states and by an additional nineteen weeks for states with unemployment rates of 8.5 percent or higher. Thus, in states with unemployment rates of 8.5 percent or higher (twenty-three states as of July 2011), the maximum benefit period is now ninety-nine weeks.¹⁸

Extending the maximum benefit period has meant that a greater share of the unemployed have received UI benefits. In 2006, before the recession, in the average month, about 37 percent of the unemployed (about 2.6 million Americans) received unemployment benefits. In 2010, that figure was about 66 percent of the unemployed (about 9.9 million Americans). For the first half of 2011, about 59 percent (about 8.3 million Americans).¹⁹ (*Of course, unless the benefit period is extended further, this figure is likely to fall.*)

Even when the unemployed have exhausted their UI benefits, they can continue receiving various forms of government assistance, usually in noncash form:

- SNAP/food stamps, an average of about \$285 a month per household, for households

¹⁷See, for example, Douglas J. Besharov and Douglas M. Call, *The Expansion of WIC Eligibility and Enrollment: Good Intentions, Uncontrolled Local Discretion, and Compliant Federal Officials* (College Park, MD: Welfare Reform Academy, March 2009), http://welfareacademy.org/pubs/foodassist/The_expansion_of_WIC_eligibility_and_enrollment_09_0305A.pdf (accessed September 5, 2011).

¹⁸Hannah Shw and Chad Stone, *Introduction to Unemployment Insurance* (Washington, DC: Center for Budget and Policy Priorities, April 2010), <http://www.cbpp.org/files/12-19-02ui.pdf> (accessed November 15, 2010).

¹⁹Author's calculations from Bureau of Labor Statistics, "Labor Force Statistics from the Current Population Survey," <http://data.bls.gov/cgi-bin/surveymost?ln> (accessed September 5, 2011); and Bureau of Labor Statistics, "Weeks Claimed in All Programs (Expanded)," <http://www.ows.doleta.gov/unemploy/> (accessed September 5, 2011);

with gross incomes below 130 percent of poverty.²⁰ Between December 2007 and June 2011, the number of families receiving SNAP benefits increased from about 12.3 million to about 21.4 million and the number of individuals increased from about 27.4 million to about 45.1 million.²¹ (See figure 1.)

- Medicaid health care coverage for low-income families with children, with income-eligibility for children set at the poverty line or a multiple thereof (depending on the state and the age of the child). Income eligibility for parents is often lower. Between December 2007 and June 2010, the number of Medicaid recipients increased from 42.7 million to 50.3 million.²²
- Disability payments for adults (about \$1070 per month for SSDI recipients and \$495 for SSI recipients)²³ and for children (about \$320 for SSDI recipients and about \$300 for SSI recipients).²⁴ Between December 2007 and July 2011, the number of children receiving SSDI increased by about 12 percent, from 1.7 million to about 1.9 million and the number receiving SSI increased by about 18 percent, from 1.1 million to 1.3 million. During the same period, the number of adults receiving SSDI increased by about 18 percent, from 7.1 million to 8.4 million and the number receiving SSI increased by about 23 percent, from 4.2 million to 4.7 million.²⁵ (See figure 2.)

²⁰Net income eligibility for food stamps is 100 percent of the poverty line. U.S. Department of Agriculture, Food and Nutrition Service, “Supplemental Nutrition Assistance Program,” <http://www.fns.usda.gov/pd/34SNAPmonthly.htm> (accessed September 1, 2011).

²¹U.S. Department of Agriculture, Food and Nutrition Service, “Supplemental Nutrition Assistance Program,” <http://www.fns.usda.gov/pd/34SNAPmonthly.htm> (accessed September 5, 2011).

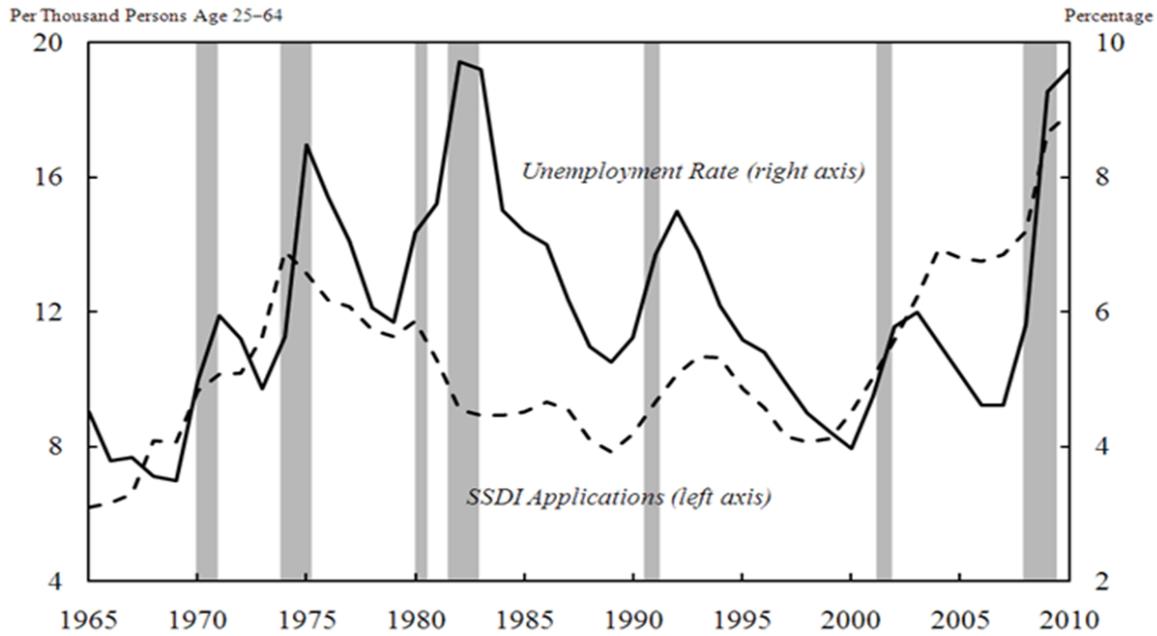
²²Kaiser Family Foundation, *Medicaid Enrollment: June 2010 Data Snapshot* (Menlo Park, CA: Kaiser Family Foundation, February 2011), <http://www.kff.org/medicaid/upload/8050-03.pdf> (accessed September 5, 2011).

²³U.S. Social Security Administration, Office of the Chief Actuary, “Number of Social Security Recipients: Disabled Worker,” <http://www.ssa.gov/cgi-bin/currentpay.cgi> (accessed September 5, 2011); and U.S. Social Security Administration, Office of Retirement and Disability Policy, “Table 7: Average Monthly Payment, by Eligibility Category, Age, and Source of Payment, July 2010–July 2011 (in Dollars)” http://www.ssa.gov/policy/docs/statcomps/ssi_monthly/2011-07/table02.html (accessed September 5, 2011).

²⁴U.S. Social Security Administration, Office of the Chief Actuary, “Number of Social Security Recipients: Child of Disabled Worker,” <http://www.ssa.gov/cgi-bin/currentpay.cgi> (accessed September 5, 2011); and U.S. Social Security Administration, Office of Retirement and Disability Policy, “Table 7: Average Monthly Payment, by Eligibility Category, Age, and Source of Payment, July 2010–July 2011 (in Dollars)” http://www.ssa.gov/policy/docs/statcomps/ssi_monthly/2011-07/table02.html (accessed September 5, 2011).

²⁵U.S. Social Security Administration, Office of the Chief Actuary, “Number of Social Security Recipients: Child of Disabled Worker,” <http://www.ssa.gov/cgi-bin/currentpay.cgi> (accessed September 5, 2011); U.S. Social Security Administration, Office of the Chief Actuary, “Number of Social Security Recipients: Disabled Worker,” <http://www.ssa.gov/cgi-bin/currentpay.cgi> (accessed September 5, 2011); U.S. Social Security Administration, Office of Retirement and Disability Policy, “Table 2: Recipients, by Eligibility Category and Age, July 2007–July 2008,” http://www.ssa.gov/policy/docs/statcomps/ssi_monthly/2008-07/table02.html (accessed September 5, 2011);

Figure 2
SSDI Applications and the Unemployment Rate
1965-2010



Source: Richard V. Burkhauser and Mary C. Daly, *The Declining Work and Welfare of People with Disabilities: What Went Wrong and a Strategy for Change* (Washington, DC: AEI Press, 2011), figure 3-4.

And, although I do not want to exaggerate their impact, a number of tax also credits provide some help to families, including those that are available when one or both parents are not working.

The Earned Income Tax Credit (EITC) also can help two-earner families avoid TANF and poverty. If one earner loses employment, the family may be able to qualify for the EITC. Income eligibility and the maximum credit for the EITC is dependent on the number of children. The amount of the EITC is determined by the income of the family and the number of children in the family. In 2008, the maximum credit was \$2,917 for families with one child and earned income between about \$8,550 and \$15,700, and \$4,824 for families with two or more children and earned income between about \$12,000 and \$15,700 (\$18,700 for two-parent families). Families were eligible for a portion of the credit if they had incomes as high as \$37,000 for one child and \$41,600 for two children. The American Recovery and Reinvestment Act of 2009

and U.S. Social Security Administration, Office of Retirement and Disability Policy, "Table 2: Recipients, by Eligibility Category and Age, July 2010–July 2011," http://www.ssa.gov/policy/docs/statcomps/ssi_monthly/2011-07/table02.html (accessed September 5, 2011).

(ARRA) expanded the income range for the maximum credit by \$2,000 for two-parent families (up to \$20,700 for two-parent families). ARRA also created an additional credit schedule for families with three or more children and increased the maximum credit for these families to \$5,666 in 2010. These changes were initially set to expire in 2011, but were renewed for an additional two years by the Tax Relief and Job Creation Act of 2010.²⁶ In 2009, about 27 million families received a total of \$59 billion in the EITC, \$53 billion of which was refunded (an average of \$2,166 per family).²⁷

The Child Tax Credit also can help a family avoid TANF and poverty. It provides a \$1,000 tax credit per eligible child for married couples with incomes up to \$110,000 and single parents with income up to \$75,000. In 2009, 23 million families had their tax liability reduced by a total of \$28.4 billion.²⁸ Families who have a larger child tax credit than tax liability are eligible to receive the Additional Child Tax Credit.

The Additional Child Tax Credit is the refundable portion of the Child Tax Credit (passed as part of the Jobs and Growth Tax Relief Reconciliation Act of 2003). If the amount of the Child Tax Credit exceeds the amount of taxes that are due, then the taxpayer is eligible for the Additional Child Tax Credit. In the 2009 ARRA legislation, the eligibility threshold for the Additional Child Tax Credit was lowered from about \$12,000 in earned income to about \$3,000, increasing eligibility for the program. The amount of the credit is calculated by taking the smaller amount of either (1) the remainder of the Child Tax Credit minus the taxpayer's tax obligation or (2) The taxpayer's earned income minus \$3,000 multiplied by 15 percent. For example, a mother with two children with an earned income of \$4,000 and no tax obligation would only receive \$150 from the Additional Child Tax Credit ($[4000-3000] \times .15=150$) while a mother with two children with an earned income of \$15,000 and no tax obligation would receive \$1,800 ($[15000-3000] \times .15=1800$). In 2009, over 21 million households received \$27 billion from the Additional Child Tax Credit.

The effect of these expansions can be seen by comparing the Census Bureau's official poverty rates to the "alternative" poverty rates that take into account more forms of government assistance, including noncash benefits (such as SNAP and housing benefits) and various

²⁶See Bruce Meyer, "Chapter 5: The Effects of the Earned Income Tax Credit and Recent Reforms," in *Tax Policy and the Economy* 24 (Cambridge, MA: National Bureau of Economic Research, August 2010), <http://harrisschool.uchicago.edu/faculty/web-pages/EITC%20effects.pdf> (accessed September 6, 2011); and Internal Revenue Service, *1040 Instructions: 2008* (Washington, DC: Internal Revenue Service, 2009), http://www.financiallife.osu.edu/posts/documents/1040_instructions.pdf (accessed September 6, 2011).

²⁷U.S. Internal Revenue Service, "Table 2.5 Returns with Earned Income Credit, by Size of Adjusted Gross Income, Tax Year 2009," <http://www.irs.gov/pub/irs-soi/09in25ic.xls> (accessed September 5, 2011).

²⁸U.S. Internal Revenue Service, "Table 3.3 All Returns: Tax Liability, Tax Credits, and Tax Payments, by Size of Adjusted Gross Income, Tax Year 2009," <http://www.irs.gov/pub/irs-soi/09in33ar.xls> (accessed September 5, 2011).

refundable tax credits (such as the EITC and the Additional Child Tax Credit).²⁹ Between 2008 and 2009, the official poverty rate increased by more than a full percentage point (going from 13.2 percent to 14.3 percent), but the poverty rate under the alternative measure that counted these government payments hardly rose (going from 15.8 percent to 15.9 percent).³⁰ And the latter does not include income from state assistance programs such as state EITCs.

Why encourage work-related activities?

In this context, there has been a tendency to assume that there should be a relaxation of TANF's mandates for welfare-to-work activities (such as mandatory job search, work preparation, work experience, and other work-first activities). That certainly seems to be the message from the states. According to a recent HHS report to Congress, in March 2011, of 1,276,633 "work eligible individuals," only 300,983 (23.6 percent) are participating for a sufficient number of hours to be counted as participating; 668,181 (52 percent) had zero hours of participation.³¹

In some respects, this is understandable. In June 2011, for example, 4.5 Americans were unemployed for every available job. Many assume that it is foolhardy to ask those on welfare or applying for welfare to look for a job.

There is another reason for state reluctance to mount vigorous work-related programs under TANF. The states are desperate to find money to fund their ongoing programs. Instead of using TANF funds for work-related activities, the block grant nature of TANF has allowed states to use it as a source of funds to supplement and often substitute state funds with federal funds.³² Two examples will do: (1) State child care expenditures were over \$500 million higher in 2008 and over \$400 million higher in 2009 than in 2007; and (2) State spending on refundable tax

²⁹The alternative poverty rates also take into account changes to the poverty threshold that have the effect of increasing the threshold. See U.S. Census Bureau, "Poverty Measures—Experimental," <http://www.census.gov/hhes/povmeas/about/index.html> (accessed September 7, 2011).

³⁰Arloc Sherman, *Despite Deep Recession and High Unemployment, Government Efforts — Including the Recovery Act — Prevented Poverty from Rising in 2009, New Census Data Show* (Washington, DC: Center on Budget and Policy Priorities, January 2011), <http://www.cbpp.org/files/1-5-11pov.pdf> (accessed September 1, 2011).

³¹U.S. Department of Health and Human Services, *Engagement in Additional Work Activities and Expenditures for Other Benefits and Services, March 2011: A TANF Report to Congress* (Washington, DC: U.S. Department of Health and Human Services, 2011).

³²See LaDonna Pavetti, and Liz Schott, *TANF's Inadequate Response to Recession Highlights Weakness of Block-Grant Structure Proponents Wrong to See It as Model for Medicaid, SNAP, or Other Low-Income Programs* (Washington, DC: Center on Budget and Policy Priorities, July 2011), <http://www.cbpp.org/files/7-14-11tanf.pdf> (accessed September 2, 2011); and Mark Greenberg and Hedieh Rahmanou, *TANF Spending in 2003* (Washington, DCL Center for Law and Social Policy, February 2005), <http://www.clasp.org/admin/site/publications/files/0207.pdf> (accessed September 5, 2011).

credits was \$163 million higher in 2008 and almost \$700 million higher in 2009 than in 2007.³³ Neither of these or most other state expenditures provided direct aid to TANF recipients. (Unlike other federal programs, the TANF block grant does not have a provision that prohibits supplantation, although, to be fair, such provisions are not completely effective.)

I think that the failure to maintain TANF participation efforts is a mistake. First of all, the situation for entry-level jobs seems substantially less bleak than for higher paying jobs. Second, even though job searchers will have more difficulty now than they would have had in the heyday of welfare reform, it is important that we not lose past progress in making welfare a work-oriented program. Third, as unemployment benefits expire, we should expect more people to accept lesser paying jobs, but we should also expect more families to seek TANF benefits.

As I said in my opening, even in this time of high unemployment, TANF and, actually, all major income-support and social welfare programs—including Unemployment Insurance (UI), the Supplemental Nutrition Assistance Program (SNAP/food stamps), and disability programs (Social Security Disability Insurance [SSDI] and Supplemental Security Income [SSI])—should encourage recipients of government assistance to stay connected to the labor force, by which I mean working, seeking work, or seriously increasing their job-related skills.

I do not want to underestimate the current financial suffering, but *at the same time that we have high unemployment and large numbers of discouraged workers, there are more than three million jobs available.* (According to the U.S. Bureau of Labor Statistics, about 3.1 million jobs were available in June 2011.)³⁴

How could there be so many openings, given the large number of unemployed Americans? Some of these vacancies are the inevitable “friction” of a turbulent labor market: as people leave jobs, it takes time for them to be filled.³⁵ But the sheer number suggests that other factors are at work.

“Labor activation” in Europe

As I mentioned above, I lead a project at the University of Maryland which is designed to glean policy ideas from other nations and one of our current projects is titled “Labor Activation

³³U.S. Department of Health and Human Services, Administration for Children and Families, “Fiscal Year 2007 TANF Financial Data,” http://www.acf.hhs.gov/programs/ofs/data/2007/tanf_2007.html (accessed September 6, 2011); and U.S. Department of Health and Human Services, Administration for Children and Families, “Fiscal Year 2009 TANF Financial Data,” http://www.acf.hhs.gov/programs/ofs/data/2009/tanf_2009.html (accessed September 6, 2011).

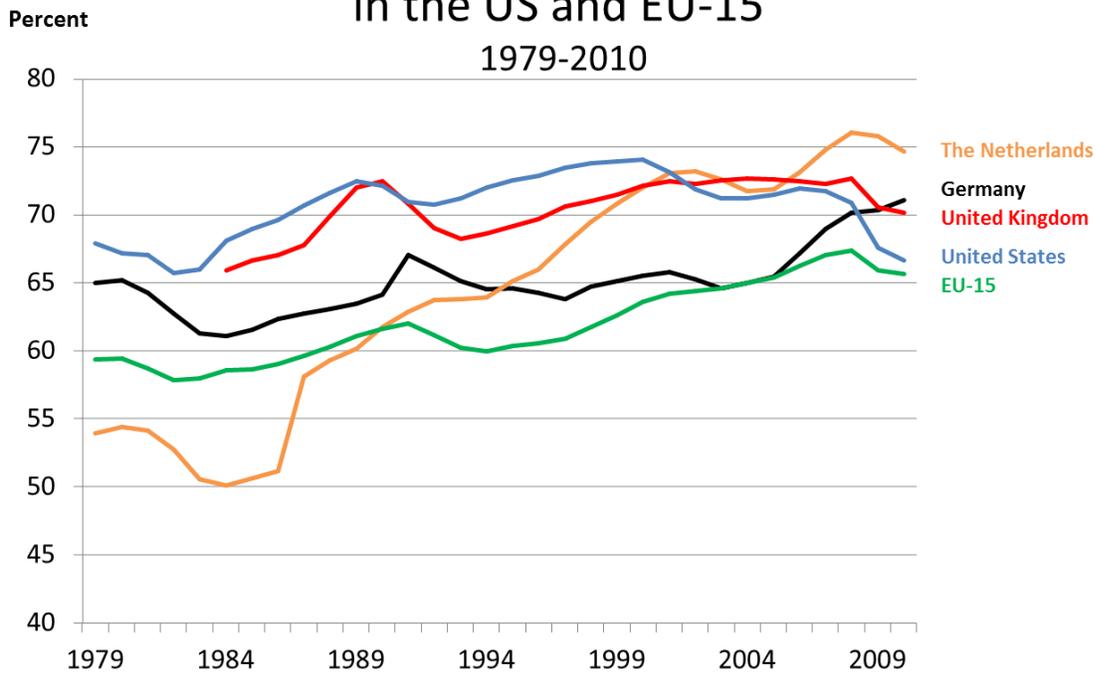
³⁴Bureau of Labor Statistics, “Job Openings and Labor Turnover Survey,” <http://data.bls.gov/timeseries/JTS0000000JOL> (accessed September 5, 2011).

³⁵See, for example, William T. Dickens, “Has the Recession Increased the NAIRU?” (working paper, Brookings Institution, Washington, DC, September 2010).

in Times of High Unemployment.” As we have researched this topic, we have found important lessons from European labor force policies.

Even before our current economic difficulties, *nonwork* in the U.S. was growing at an uncomfortable rate—especially in comparison to European countries. For example, between 1997 and 2007, nonwork in the U.S. working-age population increased from about 26 percent to 28 percent while nonwork in the EU-15 decreased from about 39 percent to 33 percent. The recession only exacerbated the U.S. trend, so that, by 2010, the difference between the U.S. and the EU-15 became negligible (34 percent vs. 35 percent). Some European countries registered more substantial declines than the EU-15 trend. For example, between 1997 and 2010, Germany’s work rate went from about 36 percent to about 29 percent, the Netherlands’ from about 32 percent to about 25 percent.³⁶ (See figure 3.)

Figure 3:
Employment/Population Ratios
in the US and EU-15
1979-2010



Source: Douglas J. Besharov’s calculations from Organisation of Economic Co-operation and Development, “OECD.Stat Extracts,” <http://stats.oecd.org/Index.aspx> (accessed September 1, 2011).

Let me say this more directly. At least for now, the years of American gloating are over. Although the comparison is subject to important demographic and social qualifications, labor force participation in Europe as a whole is now about the same as it is in the U.S., and it is much

³⁶Author’s calculations from Organisation of Economic Co-operation and Development, “OECD.Stat Extracts,” <http://stats.oecd.org/Index.aspx> (accessed September 1, 2011).

higher in countries such as Germany and the Netherlands.

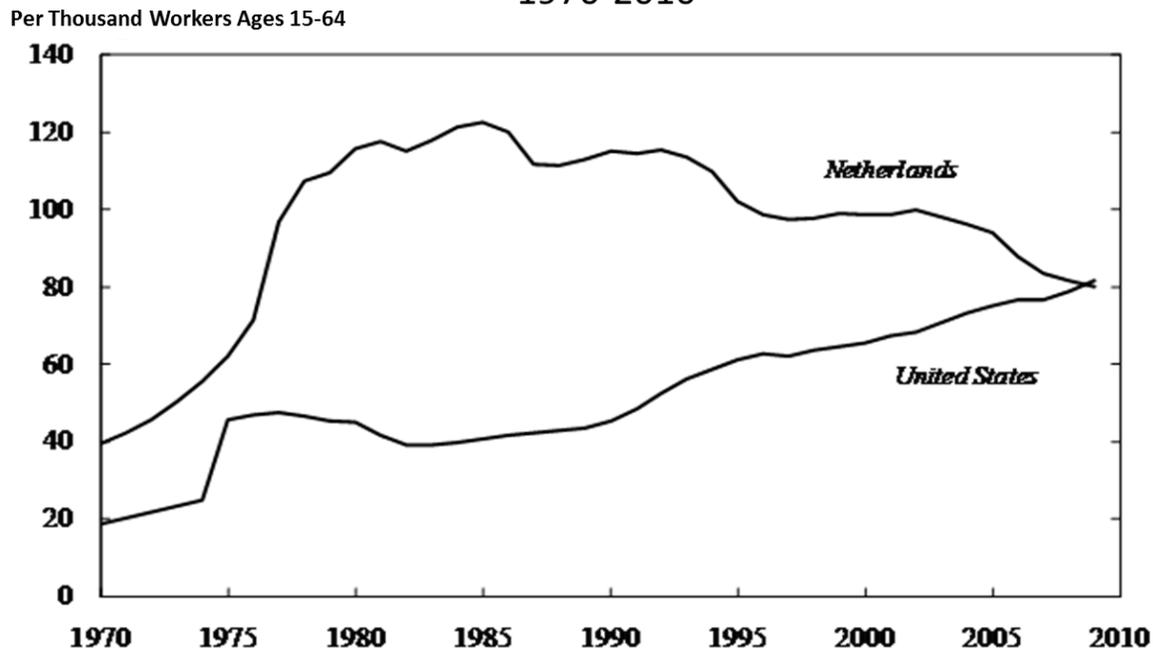
It is no accident that, over the long-term, European participation in the labor force is rising while ours is falling. Starting long before the current downturn, many European countries started modifying their social assistance programs in an effort to “activate” those receiving unemployment, social assistance, and disability payments.³⁷ Some countries have moved far beyond the U.S. in adding what they call “labor activation” policies. These changes are both substantive (such as eligibility, and the terms, conditions, and amounts of assistance) and administrative (such as consolidating, decentralizing, and privatizing services).

Dramatic evidence of this shift can be seen in the comparison of the rates of disability reciprocity between the U.S. and the Netherlands. Beginning in the mid-1990s and continuing through the mid-2000s, the Netherlands made a series of changes to its disability policy to encourage work. This included an assessment of the severity and permanency of the disability and the provision of larger benefits for the partially disabled who work compared to those who do not. The result has been a substantial decline in the number of disability beneficiaries per 1,000 workers.³⁸ (See figure 4.)

³⁷Neil Gilbert, *Transformation of the Welfare State: The Silent Surrender of Public Responsibility* (Oxford University Press, 2002).

³⁸Philip De Jong, *Recent Changes in Dutch Disability Policy* (The Hague, Aarts Public Economics, September 2008), <http://www.ape.nl/include/downloadFile.asp?id=75> (accessed September 6, 2011).

Figure 4
US and Dutch Disability Beneficiaries
1970-2010



Source: Richard V. Burkhauser and Mary C. Daly, *The Declining Work and Welfare of People with Disabilities: What Went Wrong and a Strategy for Change* (Washington, DC: AEI Press, 2011), figure 5-1.

And, as I have suggested, the U.S. has done just the opposite. So, the derision we used to express toward European labor market policies is no longer fair, and, I believe, we can learn from what they are doing. Many European policies and programs are worthy of consideration by the U.S. as responses to the immediate economic crisis, and some also deserve consideration as long-term solutions to chronic nonwork. Now is the time to begin the long and controversial process of making U.S. social assistance programs more pro-work, as have many of our European counterparts.

No one country, of course, can serve as an exact model for the U.S. The economic, social, and political differences across countries are too great. Nevertheless, six broad developments in unemployment, social assistance, and disability programs bear consideration. (They will be the focus of our upcoming conference at the Organisation for Economic Co-operation and Development in November.) I hope that you will consider them in your deliberations.

- *Tightened eligibility rules to improve program targeting.* In an effort to improve the targeting of programs on the most deserving or needful, some countries have modified how they define and measure eligibility. The UK, for example, tightened its rules for determining eligibility for disability benefits. Of 1.2 million new disability claimants

evaluated under the tighter eligibility rules, 75 percent either were found to be fit for work or dropped their disability claim before finishing the assessment.³⁹

- *Mandated job search and other work-first activities.* In an effort to encourage recipients to look for work and to raise the “opportunity cost” of being on assistance, some countries have mandated various “activation” activities. In recent years, countries as different as Australia, Denmark, Germany, the Netherlands, and the UK have tightened their rules and procedures that encourage work rather than benefit receipt—almost always including a benefit reduction or termination for noncompliance.
- *Time limited benefits (or step-downs in benefit amounts).* In an effort to prod current recipients to look for or accept work, some countries reduce or terminate benefits after a set period of time (sometimes transformed into lower, means-tested social assistance payments). In countries such as Denmark (unemployment insurance), Germany (unemployment insurance), and the Netherlands (disability), after a period of time, benefits have been restructured to be lower or modified as an incentive for recipients to take a less-preferred job.
- *Consolidated programs.* In an effort to increase program efficiency (and thereby save money) but also to focus and maximize the impact of program rules, some countries have combined the operations and activation rules of their unemployment and social assistance and/or disability programs. Australia consolidated the administration of unemployment, social assistance, disability, pension, and other social benefits under one agency. Germany consolidated its unemployment and social assistance programs, with one-stop centers for both (later held unconstitutional by the German courts for unrelated reasons). Norway also consolidated its unemployment insurance, social assistance, disability payments, and old-age pensions programs into one agency. And the UK created a “Universal Credit” that combines tax credits, social assistance, disability benefits, and housing credits into a single benefit stream.
- *Incentivized financing and reimbursement systems.* In an effort to encourage employers to internalize the costs of unemployment and disability payments (and thus take actions to prevent both) and to encourage government agencies to target benefit payments to the truly needful (and thus reduce the number of recipients), some countries are deliberately embedding financial incentives in the way they tax employers to pay for benefits and in the way they reimburse local programs for benefits distributed. For example, the Netherlands has made employers responsible for the first two years of disability

³⁹Department for Work and Pensions, *Employment and Support Allowance: Work Capability Assessment by Health Condition and Functional Impairment* (London: Department for Work and Pensions, April 2011), http://research.dwp.gov.uk/asd/workingage/esa_wca/esa_wca_27042011.pdf (accessed September 1, 2011).

payments.⁴⁰ In addition, the Netherlands uses social assistance block grants to the municipalities based on the national government's estimate of how many social assistance recipients there should be in each municipality (taking into account economic and demographic factors). The municipality is allowed to keep any excess funds it does not spend on social assistance, but must use municipality funds to cover any excess spending on social assistance.

- *Decentralized responsibility and authority.* In an effort to encourage local accountability and innovation, some countries have devolved to the regional or local level the operations of their unemployment and social assistance and/or disability programs. Italy devolved the administration of its activation programs to the regions; Germany gave municipalities joint responsibility with the national government in administering unemployment benefits to the long-term unemployed; and the Netherlands devolved the provision of social assistance and related active labor market policies to the municipalities.
- *Outsourced/Privatized “activation” services.* In an effort to increase programmatic flexibility and accountability by escaping the strictures of government employment/agencies, some countries are outsourcing various activation services, either in whole or in part. Australia now contracts out labor activation services for recipients of social assistance and unemployment benefits to for-profit and non-profit vendors. Germany now provides vouchers for activation services to recipients of unemployment benefits and municipalities are able to contract out activation services instead of providing them. The Netherlands now does the same, and the government department that was responsible for providing such services was privatized and allowed to compete against other for-profit providers. (It subsequently failed). The UK, in a reform effort with its origins in the Labour Government, contracts out the provision of activation services for the recipients of unemployment, social assistance, and disability benefits to for-profit and non-profits firms.

Skills mismatch

Many economists think that the more than three million unfilled jobs is more jobs than we should expect in the current economy (even considering the increase in government assistance), and that it reflects a “skills mismatch” between the available jobs and the unemployed. They point out that the job sectors that are growing demand different skills than those that have been shedding jobs, creating what some think is a “skills mismatch” between the unemployed and available jobs.

Of those available jobs, only about 9 percent were in the hardest hit industries: construction (2 percent) and manufacturing (7 percent). The majority of available jobs were in service industries: business or professional services (21 percent); health or education (19

⁴⁰ACCESS Netherlands, *Social Security* (The Hague: ACCESS Netherlands, April 2010), http://www.access-nl.org/our_services/pdf/booklets/social_security.pdf (accessed September 5, 2011).

percent); trade, transportation, and utilities (16 percent); and government (10 percent).⁴¹ This means that, to be hired for these jobs, many of the unemployed will need to develop new job-related skills. Thus, in *Where are All the Good Jobs Going?: What National and Local Job Quality and Dynamics Mean for U.S. Workers*, Harry Holzer, a professor of public policy at Georgetown University, and his coauthors write:

Relatively high-quality jobs continue to be generated in the U.S., but not in the same sectors as before, and they require higher levels of education and skill than those of more traditional industries in the past Since good jobs increasingly require good skills, and since good jobs are important for the prospects of displaced workers as well as others, improving the skills of the disadvantaged and the displaced should be done with an eye towards improving their access to good jobs.⁴²

Estimates are that as much as 25 percent of the increase in unemployment can be attributed to the skills mismatch.⁴³ If this mismatch reflects permanent changes in the U.S. economy, as many believe, then, if we are to return to the low unemployment rates of the 1990s, we will have to retool major segments of our labor force—through job training and education. (In fact, many consider periods of time of high-employment as a time to improve job skills for longer-term employment.)⁴⁴

Not all economists agree about the existence of a skills mismatch, however. Paul Krugman, for example, has argued that the unemployment rate has remained high because of repressed aggregate demand and that when aggregate demand increases, the unemployment rate

⁴¹Bureau of Labor Statistics, “Table 1. Job Openings Levels and Rates by Industry and Region, Seasonally Adjusted,” <http://www.bls.gov/news.release/jolts.t01.htm> (accessed September 1, 2011).

⁴²Harry P. Holzer, Julia I. Lane, David B. Rosenblum, and Frederik Andersson, *Where are All the Good Jobs Going?: What National and Local Job Quality and Dynamics Mean for U.S. Workers* (New York: Russell Sage Foundation, 2011), 207.

⁴³Jin Zhu Chen, Prakash Kannan, Prakash Loungani and Bharat Trehan, *New Evidence on Cyclical and Structural Sources of Unemployment* (Washington, DC: International Monetary Fund, May 2011), <http://www.imf.org/external/pubs/ft/wp/2011/wp11106.pdf> (accessed September 1, 2011); see also Aysugel Sahin, Joseph Song, Giorgio Topa, and Giovanni L. Violante, *Mismatch in the Labor Market: Evidence from the U.K. and the U.S.* (Bonn: IZA, November 2010), http://www.iza.org/en/papers/6647_15032011.pdf (accessed September 1, 2011).

⁴⁴See Harry P. Holzer, Julia I. Lane, David B. Rosenblum, and Frederik Andersson, *Where are All the Good Jobs Going?: What National and Local Job Quality and Dynamics Mean for U.S. Workers* (New York: Russell Sage Foundation, 2011); Narayana Kocherlakota, “Inside the FOMC,” (speech, Marquette, Michigan, August 27, 2010), http://www.minneapolisfed.org/news_events/pres/speech_display.cfm?id=4525 (accessed September 1, 2011), and Peter Coy, “Help Wanted: Why That Sign’s Bad,” *Businessweek*, April 30, 2009, http://www.businessweek.com/magazine/content/09_19/b4130040117561.htm (accessed September 1, 2011).

will decline to pre-recession levels.⁴⁵ Michael Elsby, Bart Hobijn, and Aysugel Sahin, of the Federal Reserve Bank of San Francisco, analyzed the Job Opening and Labor Turnover Survey (JOLTS) and found that the unemployed/vacancy ratio had not increased across different industries, suggesting that the problem was aggregate demand not a skills mismatch. They qualify their conclusion, however, by noting that “it may be the case that skill mismatch nevertheless exists, but that it occurs within industry classifications.”⁴⁶

On balance, I think the weight of the evidence supports the existence of a skills mismatch that is contributing to the unemployment problem.

This is not the place to discuss all the needed changes in job training programs, especially since many are under the jurisdiction of other congressional committees. Hence, I will just report the recommendations I made in April 2011 to the Subcommittee on Labor, Health & Human Services, Education, and Related Agencies of the House Committee on Appropriations, concerning the Workforce Investment Act (WIA):

I believe that this justifies a major rethinking of the program, and would recommend the following:

1. Combine at least some of the forty-seven or so federal job training programs. (Also rethink WIA’s relationship with Pell Grants, student loans, etc., as well as with Unemployment Insurance and Temporary Assistance for Needy Families programs.)
2. Give states greater flexibility in the WIA services that they provide, and how they do so.
3. Require cost-sharing on the part of states and communities to encourage responsible planning of services. (Given the financial situation of the states, this might have to be phased in in some way.)
4. Allow trainees more say in how they are trained (through greater use of ITAs) and means-test the benefit (on a sliding scale) so that trainees become more responsible consumers.

⁴⁵See, for example, Paul Krugman, “Structure of Excuses,” *New York Times*, September 26, 2010, <http://www.nytimes.com/2010/09/27/opinion/27krugman.html> (accessed September 1, 2011); and Rob Valletta and Katherine Kuang, *Is Structural Unemployment on the Rise?* (San Francisco: Federal Reserve Bank of San Francisco, November 2010), <http://www.frbsf.org/publications/economics/letter/2010/el2010-34.html> (accessed September 1, 2011).

⁴⁶Michael Elsby, Bart Hobijn, and Aysugel Sahin, *The Labor Market in the Great Recession* (San Francisco: Federal Reserve Bank of San Francisco, 2010), 24, <http://www.frbsf.org/publications/economics/papers/2010/wp10-07bk.pdf> (accessed September 1, 2011); see, also, William T. Dickens, “Has the Recession Increased the NAIRU?” (working paper, Brookings Institution, Washington, DC, September 2010).

5. Most important, initiate a true search for approaches to training and training management that work: Impose true performance measures and use the results, not to penalize states, but as a means of discovering approaches that seem to work better than others. Then, encourage other states (or local programs) to try them under conditions where they can be rigorously evaluated.

WIA's performance measures, and those of JTPA before it, have been widely criticized, and I recognize how difficult it will be to develop a system that accurately monitors program activities. But that does not make them any less indispensable to a building a better program.⁴⁷

Conclusion

As I have discussed, jobs are available, and the pressing need is to connect the unemployed to those jobs, and, when necessary, train them to be capable of filling those jobs. To summarize, I think we face a growing separation of Americans from the labor force caused by: (1) the growth of government assistance programs that allow more people to make due without a job, and (2) a skills mismatch between the unemployed and available jobs.

If my analysis is correct, then, *as unemployment benefits expire, we should expect more people to accept lesser paying jobs, but we should also expect more families to seek TANF benefits.*

The Congress should help the states prepare for this development. That means helping states shape welfare-to-work programs that can accommodate families that need different services than the (largely) poorly educated, single mothers with little work experience who were subject to welfare reform programs from the 1990s. This includes:

Greater coordination with Unemployment Insurance, SNAP, and TANF, so that expectations across the three programs are aligned (especially concerning job search and job acceptance), and so that transitions from unemployment benefits to TANF benefits encourage job acceptance.

More refined approaches to job training (that go beyond basic job search and work preparation services) for this more highly educated group.

I am not suggesting that more federal money be spent, because I do not think that will be a solution. Instead, our programs need to be operated more wisely.

⁴⁷Douglas J. Besharov, *Testimony before the Subcommittee on Labor, Health & Human Services, Education, and Related Agencies, Committee on Appropriations, U.S. House of Representatives* (College Park, MD: Welfare Reform Academy, April 2011), http://www.welfareacademy.org/pubs/jobtraining/Besharov_WIA_Testimony_0407_2011.pdf (accessed September 5, 2011).

The model for what I am suggesting is found in a number of European countries. For example, in the early-to-mid-2000s, Germany instituted a series of reforms of its unemployment and social assistance programs, the “Hartz” reforms, that created a two-step and two-tiered program for unemployment and social assistance benefits: the unemployed initially receive Unemployment Benefits I (UB I) for up to one year only with the benefits replacing about 67 percent of previous net income; the able-bodied, low-income and those who have been unemployed for more than a year receive Unemployment Benefits II (UB II). These benefits are means-tested and provide a standardized amount of benefits that are much lower than UB I (some estimates put it at 40 percent lower).⁴⁸ In addition, UB II recipients are subject to a 30 percent reduction in benefits if they do not take “acceptable work” that is offered to them (which may include community service or job training).

Whether or not this is the time to consider major changes to TANF and other social assistance programs, I would suggest that the Congress mandate work-related service demonstrations along the lines I have described (and within the funding already available to HHS).

Thank you.

⁴⁸Werner Eichhorst, Maria Grienberger-Zingerle, and Regina Konl-Siedl, “Activating Labor Market and Social Policies in Germany: From Status Protection to Basic Income Support,” *German Policy Studies* 6, no. 1 (2010): 65–106.

APPENDIX

Labour Activation in a Time of High Unemployment

Key Developments in the OECD

September 4, 2011

Douglas J. Besharov
Douglas M. Call

In recent years, various OECD countries modified their financial assistance programs in an effort to “activate” those receiving unemployment, disability, and social assistance. These changes are both substantive (such as eligibility, and the terms, conditions, and amounts of assistance) and administrative (such as consolidating, decentralizing, and privatizing services).

The countries that have been most active in these reforms are Australia, Denmark, Germany, the Netherlands, the United Kingdom, and, to a lesser extent, Italy and Norway. Key aspects of these changes are summarized below.

Tightened eligibility rules. In an effort to improve the targeting of programs on the most deserving or needful, some countries have modified how they define and measure eligibility.

United Kingdom. As part of broader reforms to unemployment, disability, and social assistance programs, in 2008, the UK replaced the disability assessment used since 1991 (the Personal Capability Assessment) with a new assessment (the Work Capability Assessment) that reduces the number of exemptions to work and assesses the extent to which the individual’s disability prevents them from working.⁴⁹

⁴⁹Child Action Poverty Group, “The Work Capability Assessment,” <http://www.cpag.org.uk/cro/wrb/wrb204/wca.htm> (accessed July 16, 2011); and Department of Work and Pensions, *Work Capability Assessment: Internal Review* (London: Department of Work and Pensions, 2009), <http://www.dwp.gov.uk/docs/work-capability-assessment-review.pdf> (accessed July 16, 2011).

New claimants have been subject to the Work Capability Assessment since its inception in 2008. In addition, the UK instituted a reassessment of claimants who began receiving disability benefits under the Personal Capability Assessment. A reassessment pilot program was undertaken in 2010 in two cities in the UK. About 32 percent of recipients who were reassessed were found fit to work.⁵⁰ After the pilot program, limited reassessments began nationwide in February 2011, and reassessments were expanded to about 11,000 claimants a week beginning in May. Recipients of Incapacity Benefit and Income Support are being reassessed first, followed by recipients of Severe Disablement Allowance.⁵¹ The percent of reassessed recipients who have been found fit to work since the nationwide roll-out of reassessments began has not yet been released.

Of 1.2 million new claimants between October 2008 and August 2010, 75 percent either were found to be fit for work or dropped their disability claim before finishing the evaluation.⁵² (There are, however, no comparable data from prior years to indicate whether this constitutes a significant change.)

Mandated job search and other work-first activities. In an effort to encourage recipients to look for work and to raise the “opportunity cost” of being on assistance, some countries have mandated various “activation” activities.

Australia. Between 1998 and 2009, Australia instituted a series of reforms to its unemployment and social assistance program. Both groups receive benefits under the Newstart Allowance, and since 2009, all recipients are assigned to one of four activation “streams” in the new Job Services Australia program.

Stream 1 is for the least disadvantaged and stream 4 is for the most disadvantaged. All recipients (excepting parents with dependent children under six) are required to meet an “activity test” indicating that they are searching for employment and willing to take “suitable” employment⁵³ or

⁵⁰Department for Work and Pensions, *Interim Results of Work Capability Assessments for IB Reassessment Trial Areas* (London, Department for Work and Pensions, April 2011), http://research.dwp.gov.uk/asd/asd1/adhoc_analysis/2011/ib_reassessment.pdf (accessed July 13, 2011).

⁵¹Newcastle City Council, *Being Reassessed If You Get Incapacity Benefits*,” <http://www.newcastle.gov.uk/wwwfileroot/socialservices/welfarerights/IBReassessmentjune11.pdf> (accessed July 13, 2011).

⁵²Department for Work and Pensions, *Employment and Support Allowance: Work Capability Assessment by Health Condition and Functional Impairment* (London: Department for Work and Pensions, April 2011), http://research.dwp.gov.uk/asd/workingage/esa_wca/esa_wca_27042011.pdf (accessed July 13, 2011).

⁵³“Suitable” employment “must take into account other circumstances, including (but not limited to) whether the:

- location of either the workplace or the child care venue makes the total travel time to work unreasonable
- cost of travel to and from work is unreasonable;
- parent will be financially better off as a result of undertaking the work; and/or

participate in an activation program. Recipients who refuse to participate in employment or an activity lose their benefits until they comply.⁵⁴ Recipients who have not found employment after twelve months in a stream “can be allocated to a higher stream or, more frequently, enter the work experience phase where they continue until they cease claiming benefit.”⁵⁵

JSA activation services are provided through a network of private vendors (for-profit and non-profit), described below.

Denmark. Between 1994 and 2006, Denmark reformed its unemployment insurance and social assistance programs. Recipients of both UI and social assistance are now required to participate in an activation program within a defined time period after initial receipt of benefits (depending on the age of the recipient, at thirteen weeks for recipients under age thirty and at nine months for recipients older than thirty). Activation programs include job counseling, job training, and subsidized employment.⁵⁶

UI recipients must remain in their initial placement for six months and must take any “acceptable” employment offer.⁵⁷ For each consecutive six-month period, recipients must participate in another activation program for at least four weeks. In addition, every three months, recipients must interview with staff at the Public Employment Service (PES) regarding their job search activities.⁵⁸ Failure to attend the PES interviews, enroll in an activation program,

- work is unsuitable on the basis of moral, cultural, or religious grounds.

Suitable work must comply with occupational health and safety standards and must also pay wages that meet legal requirements.” Participation Review Taskforce, *Participation Review Taskforce Report* (Canberra: Department of Education, Employment, and Workplace Relations, August 2008), 10.

⁵⁴See Centrelink, “Activity Tests and Participation Requirements for Job Seekers,” [http://www.centrelink.gov.au/internet/internet.nsf/filestores/lw054_1007/\\$file/lw054_1007en.pdf](http://www.centrelink.gov.au/internet/internet.nsf/filestores/lw054_1007/$file/lw054_1007en.pdf) (accessed May 27, 2011); and Herwig Immervoll, “Minimum-Income Benefits in OECD Countries,” (conference paper, Measuring Poverty, Income Inequality, and Social Exclusion, Paris, March 16–17, 2009), http://www.umdcipe.org/conferences/oecdumd/conf_papers/Papers/Minimum-Income%20Benefits%20in%20OECD%20Countries--Policies%20and%20Challenges.pdf (accessed May 27, 2011).

⁵⁵Dan Finn, *Job Services Australia: Design and Implementation Lessons for the British Context* (London: Department of Work and Pensions, 2011), 15, <http://research.dwp.gov.uk/asd/asd5/rports2011-2012/rrep752.pdf> (accessed July 5, 2011).

⁵⁶Torben M. Andersen, “A Flexicurity Labour Market in the Great Recession: The Case of Denmark,” (paper presented at CPB-ROA conference on Flexibility of the Labour Market, The Hague, January 2011), http://www.cpb.nl/sites/default/files/paper_flex_andersen_0.pdf (accessed July 5, 2011).

⁵⁷Torben M. Andersen, “A Flexicurity Labour Market in the Great Recession: The Case of Denmark,” (paper presented at CPB-ROA conference on Flexibility of the Labour Market, The Hague, January 2011), http://www.cpb.nl/sites/default/files/paper-flex-andersen_0.pdf (accessed July 5, 2011).

⁵⁸Organisation for Economic Co-operation and Development, “Denmark: 2009” in *Benefits and Wages: OECD Indicators* (Paris, Organisation for Economic Co-operation and Development, 2009), <http://www.oecd.org/dataoecd/10/16/47346737.pdf> (accessed July 15, 2011).

interview for a job, or accept a job offer can result in a suspension of benefits for up to three weeks. Continued failure to comply can result in a suspension of benefits until the recipient accumulates “300 hours of paid work within a 10 week period.”⁵⁹

As an incentive to provide such activation services, the national government reimburses municipalities for 66 percent of such services compared to only 33 percent for “passive” social assistance spending.⁶⁰

The Netherlands. In 2004, the Netherlands reformed its social assistance program. Under the new Work and Social Assistance Act (WWB), social assistance recipients are required to register as “job seekers,” take any “acceptable” employment that is offered, and participate in any activation program required by the municipality. Recipients who do not comply are subject to a benefit sanction. Municipalities are not required by the national government to mandate activation services, but more than 80 percent do so,⁶¹ probably because they get to keep any savings from a reduction in caseloads and have to pay for any increase.

United Kingdom. In 2008, the UK made major changes to its disability system, replacing its Incapacity Benefits with an Employment and Support Allowance (ESA). ESA required that new claimants be assessed using the Work Capability Assessment (described above) to determine if their disability limited their ability to be employed. Claimants who were deemed able to work were assigned to one of two groups: The Work-Related Activity Group (WRAG) and the Support Group. Claimants in the WRAG were required to participate in Pathways to Work. Claimants attended six mandatory “job-focused interviews” where they created a plan for returning to work, reported on progress made toward obtaining employment, and received assistance in preparing to return to work.⁶²

⁵⁹Michael Svarer, “The Effect of Sanctions on Exit from Unemployment: Evidence from Denmark,” *Economica* (2011): 1–25, <http://onlinelibrary.wiley.com/doi/10.1111/j.1468-0335.2010.00851.x/pdf> (accessed July 15, 2011).

⁶⁰See Stig Martin Norgaard, “From Welfare to Work: The Danish Case” (presentation, Association for Public Policy Analysis and Management annual conference, Los Angeles, CA, November 2008); and Peter Abrahamson, “The Active Turn in Danish Welfare Policy: Employment and Social Protection in Denmark,” *SER Social* 11, no. 25 (July/December 2009): 274–301.

⁶¹See European Social Network, *Social and Employment Activation* (Brussels: European Social Network, 2006); European Commission, “Work and Social Assistance Act (WWB)–Netherlands,” <http://www.uk.ecorys.com/idele/themes/activation/studies/wwb.pdf> (accessed July 6, 2011); Marieke Blommesteijn and Luuk Mallee, *Minimum Income Scheme: Work and Social Assistance Act* (Brussels: European Commission, April 2009); and Wim van Oorschot, “The Dutch Welfare State: Recent Trends and Challenges in Historical Perspective,” *European Journal of Social Security* 8, no. 1 (2006): 57–76, <http://spitswww.uvt.nl/~worschot/wvo/ArtikelenOnline/DutchWSejss.pdf> (accessed May 27, 2011).

⁶²Department for Work and Pensions, *Support to Incapacity Benefits Claimants Through Pathways to Work* (London: Department for Work and Pensions, May 2010).

In 2010, the Work Programme was adopted, adding mandatory activation activities to both the Employment and Support Allowance (for the disabled) and the Job Seekers Allowance (for the unemployed). Participation is mandatory for the long-term unemployed (recipients ages 18–24 who have received benefits for nine months and recipients ages twenty-five and above who have received benefits for twelve months) and disability recipients who are deemed eligible for work.⁶³

In addition, a separate program, “Mandatory Work Activity,” was established to provide a four-week work experience program for unemployment insurance recipients⁶⁴ who are not yet required to participate in the Work Programme but who are deemed to not be committed to looking for employment.⁶⁵ Failure to participate in the Work Programme or Mandatory Work Activity can lead to a loss in benefits.⁶⁶

At the same time, the government created a national bidding system (“Invitation to Tender”) for private vendors (non-profit and for-profit) to provide Work Programme and “Mandatory Work Activity” services.⁶⁷ (See below under “Privatize ‘activation’ services.”)

Time limited benefits (or step-downs of benefit amounts). In an effort to prod current recipients to look for or accept work, some countries reduce or terminate benefits after a set period of time (sometimes transformed into lower, means-tested social assistance payments).

Denmark. Between 1994 and 2010, Denmark instituted a series of reforms that reduced the number of years that recipients could spend receiving unemployment insurance from seven years to two years.⁶⁸ After the two years, UI recipients are moved to social assistance and receive lower benefits.

⁶³Her Majesty’s Treasury, *Spending Review: 2010* (London: Her Majesty’s Treasury, October 2010), http://cdn.hm-treasury.gov.uk/sr2010_completereport.pdf (accessed July 5, 2011).

⁶⁴“Job Seeker’s Allowance.”

⁶⁵Department for Work and Pensions, *Mandatory Work Activity – Equality Impact Assessment* (London: Department for Work and Pensions, March 2011), <http://www.dwp.gov.uk/docs/eia-mandatory-work-activity.pdf> (accessed July 14, 2011).

⁶⁶Newcastle City Council, “Welfare to Work Plans and Changes,” http://www.newcastle.gov.uk/core.nsf/a/wr_bbi_welfaretoWork#Mandatory (accessed July 14, 2011).

⁶⁷UK Parliament, Work and Pensions Committee, *Work Programme: Providers and Contracting Arrangements* (London: UK Parliament, 2011), <http://www.publications.parliament.uk/pa/cm201012/cmselect/cmworpen/718/71806.htm#note47> (accessed July 15, 2011).

⁶⁸European Commission, *Assessment of the 2011 National Reform Programme and Convergence Programme for Denmark* (Brussels: European Commission, 2011), http://ec.europa.eu/europe2020/pdf/recommendations_2011/swp_denmark_en.pdf (accessed July 15, 2011).

In its social assistance program, after six months, the benefits of some groups of recipients are reduced: married couples by about 5 percent, and recipients under age twenty-five by the equivalent amount of education grants provided by the Danish government to those attending college.⁶⁹

The Netherlands. In the mid-2000s, the Netherlands instituted a series of reforms to its disability system to focus on the severity and the permanency of the disability. Recipients who have lost more than 80 percent of their earnings capacity (and there is no potential for recovery) are awarded a “full and permanent” disability benefit (“IVA benefit”) that replaces 75 percent of gross earnings up to the cap of 44,400 euros.

If the disability is either less than 80 percent of earnings capacity or there is potential for recovery, however, recipients receive a partial disability benefit (“WGA benefit”), which has two parts:

(1) A wage-related benefit that is determined upon application for disability benefits and replaces 70 percent of the pre-disability wage.⁷⁰ The duration of the wage-related benefits varies from four to thirty-six months based on the recipient’s previous years in the work force and age.

(2) A follow-up benefit that applies after the time limits are reached. To determine the benefit level, social insurance doctors and vocational experts assess the extent of the disability of the recipient and determines the residual earnings capacity of the recipient i.e. how much they are still able to earn. If disability recipients do not work enough to meet their residual capacity, they are penalized and receive a lower benefit than if they had met their residual capacity. According to Philip De Jong, at the University of Amsterdam, “It shows what the purpose of the WGA-scheme is: work pays, and working more, pays more.”⁷¹

Germany. In the early-to-mid-2000s, Germany instituted a series of reforms of its unemployment and social assistance programs, the “Hartz” reforms, that created a two-step and two-tiered program for unemployment and social assistance benefits: the unemployed initially receive Unemployment Benefits I (UB I) for up to one year only with the benefits replacing about 67 percent of previous net income; the able-bodied, low-income and those who have been unemployed for more than a year receive Unemployment Benefits II (UB II). These benefits are

⁶⁹Peter Abrahamson, “The Active Turn in Danish Welfare Policy: Employment and Social Protection in Denmark,” *SER Social* 11, no. 25 (July/December 2009): 274–301; and Organisation for Economic Co-operation and Development, “Denmark: 2009” in *Benefits and Wages: OECD Indicators* (Paris, Organisation for Economic Co-operation and Development, 2009), <http://www.oecd.org/dataoecd/10/16/47346737.pdf> (accessed July 15, 2011).

⁷⁰Capped at 44,400 euros.

⁷¹Philip De Jong, *Recent Changes in Dutch Disability Policy* (The Hague, Aarts Public Economics, September 2008), <http://www.ape.nl/include/downloadFile.asp?id=75> (accessed May 20, 2011), 12.

means-tested and provide a standardized amount of benefits that are much lower than UB I (some estimates put it at 40 percent lower).⁷²

In addition, UB II recipients are subject to a 30 percent reduction in benefits if they do not take “acceptable work” that is offered them (which may include community service or job training). According to Werner Eichhorst at the Institute for the Study of Labor, however, “Actual activation of the long-term unemployed is less strict than expected so far.”⁷³

Consolidated programs. In an effort to increase program efficiency (and thereby save money) but also to focus and maximize the impact of program rules, some countries have combined the operations and activation rules of their unemployment and social assistance and/or disability programs.

Australia. In 1996, Australia consolidated the administration and provision of unemployment insurance benefits, social assistance to lone mothers, disability payments, pensions, and other social benefits into one agency called Centrelink. Centrelink operates one-stop shops throughout the country, which determine eligibility for benefits and link recipients to providers of activation programs.⁷⁴

Germany. As mentioned above the Hartz reforms merged the social assistance program for low-income individuals and the unemployment benefit program into one program. (The reforms also included tax cuts, child care provision, and an increase in funding for the creation of temporary jobs.)

In addition, Germany created one-stop centers that were jointly operated by the national government and local governments. This was in an effort to reduce the fragmentation of services as unemployment benefits had been provided through the national government and social assistance provided through the local governments.⁷⁵ The German Constitutional Court ruled this provision unconstitutional (on the unrelated ground that the joint job centers violate the right of local self-governance) but an effort is being made to revise the constitution to allow for these

⁷²Werner Eichhorst, Maria Grienberger-Zingerle, and Regina Konl-Siedl, “Activating Labor Market and Social Policies in Germany: From Status Protection to Basic Income Support,” *German Policy Studies* 6, no. 1 (2010): 65–106.

⁷³Werner Eichhorst, *The Gradual Transformation of Continental European Labor Markets: France and Germany Compared* (Bonn: IZA, March 2007).

⁷⁴John Halligan, *The Centrelink Experiment: Innovation in Service Delivery* (Canberra: Australian National University, 2008), http://epress.anu.edu.au/anzsog/centrelink/pdf/whole_book.pdf (accessed July 6, 2011).

⁷⁵Willem Adema, Donald Gray, and Sigrun Kahl, *Social Assistance in Germany* (Paris: Organisation for Economic Co-operation and Development, January 2003), <http://www.oecd-ilibrary.org/docserver/download/fulltext/51gsjhvj7pzn.pdf?expires=1309964577&id=id&acname=guest&checksum=3F7D3C8D53BDC1D8065F2CF6B60DE4C4> (accessed July 6, 2011).

centers.⁷⁶

Norway. In 2006, Norway consolidated the administration of its unemployment insurance, social assistance, disability payments, and old-age pension programs into one agency, the Norwegian Labor and Welfare Administration (NAV). The purpose was to create an easy interface for recipients of more than one kind of benefit. Although the funding streams remain separate, all streams are housed within the same agency. The national government and local municipalities created joint NAV offices to streamline administration and provision of services. NAV was developed due to an overlap in services, and also because a significant share of the population receiving benefits received benefits from more than one stream. Condensing to one agency made application and service provision easier.⁷⁷

United Kingdom. As part of its 2010 package of reforms to its unemployment, disability, and social assistance programs, the UK created the “Universal Credit,” which combines tax credits, social assistance (including benefits for the low-income unemployed), disability benefits, and housing credits into a single benefit. The purpose was to create a single phase-out rate for benefits, reduce the high marginal tax rate for workers, and to eliminate the duplication and complexity of previously existing benefit programs. The government estimates that combining these programs will create a marginal tax rate of 65 percent.⁷⁸

Decentralized responsibility and authority. In an effort to encourage local accountability and innovation, some countries have devolved to the regional or local level the operations of their unemployment and social assistance and/or disability programs.

Italy. Historically, social assistance in Italy has been a responsibility of municipalities. Reforms in 1977 transferred the responsibility of social assistance to the regions. Because there are no national requirements for social assistance, there is wide variation in how the regions administer social assistance and in the amount and duration of benefits. In 1997, the administration of activation programs was also devolved to the regions. Participation in these activation programs, however, is voluntary and does not appear to be widespread.⁷⁹

⁷⁶Hilmar Schneider and Klaus F. Zimmerman, *Agenda 2020: Strategies to Achieve Full Employment in Germany* (Bonn: IZA, March 2010), <http://www.politiquessociales.net/IMG/pdf/pp15.pdf> (accessed July 15, 2011).

⁷⁷Nicola Duell, Shruti Singh, and Peter Tergeist, *Activation Policies in Norway* (Paris: OECD, 2009), <http://dx.doi.org/10.1787/226388712174> (accessed May 27, 2011).

⁷⁸Department for Work and Pensions, *Universal Credit: Welfare That Works* (London: Department for Work and Pensions, 2010), <http://www.dwp.gov.uk/docs/universal-credit-full-document.pdf> (accessed May 20, 2011) and Department for Work and Pensions, *21st Century Welfare* (London: Department for Work and Pensions, 2010), <http://www.dwp.gov.uk/docs/21st-century-welfare.pdf> (accessed July 5, 2011).

⁷⁹European Commission, Directorate-General Employment, Social Affairs, and Equal Opportunities, *Flexicurity in the Italian Labor Market: Evaluation of Implemented Policy Measures* (Brussels: European Commission, 2008), <http://www.ees-italy.org/sites/default/files/Synthesis-Report.pdf> (accessed July 18, 2011); and Yuri Kazepov, Marco Arlotti, Eduardo Barberis, Barbara da Roit, and Stefania Sabatinelli, *Rescaling*

The Netherlands. In 2004, the Netherlands passed the Act on Work and Assistance (WWB) which devolved the provision of social assistance and active labor market policies to the municipalities. Funding provided to municipalities for social assistance is determined by an econometric model that takes into account the past number of recipients and, in larger municipalities, other demographic and regional labor market factors to estimate how many social assistance claimants the municipality *should* have. If the number of claimants exceeds the estimated number, then the municipality has to pay the difference out of municipal funds. If the number is fewer, then the municipality is allowed to keep the excess.⁸⁰ In addition, the national government reduced the requirements for how the municipalities could spend their social assistance budget, giving them greater freedom to innovate.⁸¹

Germany. Prior to the Hartz reforms described above, German municipalities were responsible for the provision of social assistance, housing, and heating benefits; and the national government was responsible for the unemployment and disability programs. After the passage of the Hartz reforms in the early-to-mid-2000s, municipalities retained responsibility for social assistance, now called Unemployment Benefits II (UB II). But they were also given joint responsibility with the Federal Employment Agency for administering benefits and activation programs for the long-term unemployed receiving UB II. (This joint effort was declared unconstitutional by the German Constitutional Court as mentioned above.) In addition, the German government is running a demonstration wherein sixty-nine municipalities are fully responsible for providing benefits and services to both social assistance and long-term unemployed recipients.⁸²

Incentivized financing and reimbursement systems. In an effort to encourage employers to internalize the costs of unemployment and disability payments (and thus take actions to prevent both) and to encourage government agencies to target benefit payments to the truly needful (and thus reduce the number of recipients), some countries are deliberately embedding financial incentives in the way they tax employers to pay for benefits and in the way they reimburse local programs for benefits distributed.

Social Welfare Policies in Italy (Urbino: European Centre for Social Welfare Policy and Research, 2006), <http://www.euro.centre.org/rescalingDocuments/files/Italy.pdf> (accessed July 18, 2011).

⁸⁰Peter Tergeist and David Grubb, *Activation Strategies and the Performance of Employment Services in Germany, the Netherlands and the United Kingdom* (Paris: Organisation for Economic Co-Operation and Development, December 2006), <http://www.oecd.org/dataoecd/32/22/37848464.pdf> (accessed July 6, 2011).

⁸¹Elleke Davidse, "The New Work and Social Assistance (WWB): System Change and Initial Results," (paper presented at The New Work and Social Assistance Act (WWB): The Peer Review conference at The Hague, Netherlands, June 4–5, 2007), http://pdf.mutual-learning-employment.net/pdf/NL07/Discussion%20paper_official_NL07.pdf (accessed July 6, 2011).

⁸²Rik van Berkel, "The Provision of Income Protection and Activation Services for the Unemployed in 'Active' Welfare States. An International Comparison," *Journal of Social Policy* 39, no. 1 (2009): 17–34.

The Netherlands. Employers are now responsible for the first two years of disability payments.⁸³

In addition, the Netherlands uses social assistance block grants to the municipalities based on the national government's estimate of how many social assistance recipients there should be in each municipality (taking into account economic and demographic factors). The municipality is allowed to keep any excess funds it does not spend on social assistance, but must use municipality funds to cover any excess spending on social assistance.

Outsourced “activation” services. In an effort to increase programmatic flexibility and accountability by escaping the strictures of government employment/agencies, some countries are outsourcing (contracting out) various activation services, either in whole or in part.

Australia. In 1998, Australia replaced the Commonwealth Employment Service, a centralized government-run department that provided employment services to those receiving unemployment benefits and social assistance, with a new system of contracted-out activation services for those receiving unemployment benefits and social assistance to private vendors (for-profit and non-profit) called the Jobs Network.

Since 1999, a “star” ranking system has been used to assess how well the vendors meet output and outcome objectives. The star system is used by both recipients (to identify high-performing vendors) and the government (to reward high-performing vendors with a greater market share in the relevant area).⁸⁴ Vendors with the highest stars are not required to rebid on contracts and have their contracts automatically renewed.

After a series of additional reforms in the 2000s, in 2009, Australia replaced the Job Network with Job Services Australia which created a classification system for recipients based on “the barriers to work they face.”⁸⁵ Each classification has defined services that providers must provide to recipients, including preparing Employment Pathway Plans, assistance in preparing resumes, placement in activation programs, and placement in work experience programs.⁸⁶ Payments are made to vendors based on outcomes, either the “full outcome” of former recipients being employed either thirteen or twenty-six weeks, or “pathway outcomes” of part-time employment and income support reduction. Vendors receive higher payments for more difficult-to-serve

⁸³ACCESS Netherlands, *Social Security* (The Hague: ACCESS Netherlands, April 2010), http://www.access-nl.org/our_services/pdf/booklets/social_security.pdf (accessed September 5, 2011).

⁸⁴Dan Finn, *Job Services Australia: Design and Implementation Lessons for the British Context* (London: Department of Work and Pensions, 2011), <http://research.dwp.gov.uk/asd/asd5/rports2011-2012/rrep752.pdf>.

⁸⁵Lauren M. Cumming, *Payment-by-Outcome in Welfare to Work* (London: 2020 Public Services Trust at the RSA, 2011), 53, http://www.serco.com/Images/W2W%20case%20study_tcm3-37266.pdf (accessed May 27, 2011).

⁸⁶Department of Education, Employment, and Workplace Relations, “Job Services Australia,” <http://www.deewr.gov.au/Employment/JSA/Resources/Pages/Home.aspx#3> (accessed July 18, 2011).

recipients who achieve long-term, sustained employment.⁸⁷

The Netherlands. In 2004, as described above, the Netherlands devolved the responsibility of providing activation services for social assistance recipients to the municipalities. The national government maintained the responsibility of providing activation services to the unemployed and the disabled, but contracted out activation services to for-profit providers. As part of the reform, municipalities were instructed to contract out up to 70 percent of activation services for social assistance recipients to for-profit providers.⁸⁸

This was done because of the perceived “expense, inflexibility and poorer results” of services provided through the national government.⁸⁹ The national department that had been responsible for providing activation services to the unemployed and disabled was privatized and allowed to compete against other for-profit providers for contracts. (It subsequently failed.)

Germany. The Hartz reforms of early-to-mid-2000s shifted the provision of activation services for the unemployed and social assistance recipients from the public sector to the private sector. The reforms created vouchers for recipients of UB I and UB II (described above) searching for employment. If the public agency is unable to place a recipient in an activation program, the recipient may choose a private placement vendor. The private vendor receives payment from the government when the recipient receives employment. In addition, local municipalities are now able to contract out activation services to private vendors instead of providing activation services (although such contracting out is not mandatory).⁹⁰

United Kingdom. In 2010, as part of its reforms to its unemployment, disability, and social assistance programs, the UK created a national bidding system (“Invitation to Tender”) for private vendors (non-profit and for-profit) to provide Work Programme services in eleven regions of the country.⁹¹ Forty contracts were awarded in April 2011, with two or three vendors

⁸⁷Dan Finn, *Job Services Australia: Design and Implementation Lessons for the British Context* (London: Department of Work and Pensions, 2011), <http://research.dwp.gov.uk/asd/asd5/rports2011-2012/rrep752.pdf>.

⁸⁸Dan Finn, *The British ‘Welfare Market’: Lessons from Contracting Out Welfare to Work Programmes in Australia and the Netherlands* (York: Joseph Rowntree Foundation, November 2008), <http://www.jrf.org.uk/sites/files/jrf/2306-welfare-unemployment-services.pdf> (accessed July 6, 2011).

⁸⁹Dan Finn, *The British ‘Welfare Market’: Lessons from Contracting Out Welfare to Work Programmes in Australia and the Netherlands* (York: Joseph Rowntree Foundation, November 2008), 26, <http://www.jrf.org.uk/sites/files/jrf/2306-welfare-unemployment-services.pdf> (accessed July 6, 2011).

⁹⁰Lena Jacobi and Jochen Kluge, *Before and After the Hartz Reforms: The Performance of Active Labour Market Policy in Germany* (Bonn: IZA, 2006), <http://ftp.iza.org/dp2100.pdf> (accessed July 18, 2011).

⁹¹UK Parliament, Work and Pensions Committee, *Work Programme: Providers and Contracting Arrangements* (London: UK Parliament, 2011), <http://www.publications.parliament.uk/pa/cm201012/cmselect/cmworpen/718/71806.htm#note47> (accessed July 15, 2011).

in each region, based on their size, financial strength, and ability to deliver services (including working with smaller local sub-contractors). The firms awarded the most contracts are A4E and Ingeus UK.⁹²

The firms receive differing levels of compensation depending on the type of client they serve and the duration of the client's employment. For example, contractors will receive the highest compensation for clients who have been on disability for longer than a year and who remain employed for more than two years after receiving services.⁹³

⁹²Department of Work and Pensions, *The Work Programme Prospectus* (London: Department of Work and Pensions, November 2010), <http://www.dwp.gov.uk/docs/work-prog-prospectus-v2.pdf> (accessed July 14, 2011); and Department of Work and Pensions, *Work Programme Prime Providers* (London: Department of Work and Pensions, April 2011), <http://www.dwp.gov.uk/docs/work-programme-prime-providers.pdf> (accessed July 14, 2011); and UK Parliament, Work and Pensions Committee, *Work Programme: Providers and Contracting Arrangements* (London: UK Parliament, 2011), <http://www.publications.parliament.uk/pa/cm201012/cmselect/cmworpen/718/71806.htm#note47> (accessed July 15, 2011).

⁹³Department of Work and Pensions, *The Work Programme Prospectus* (London: Department of Work and Pensions, November 2010), <http://www.dwp.gov.uk/docs/work-prog-prospectus-v2.pdf> (accessed May 20, 2011).