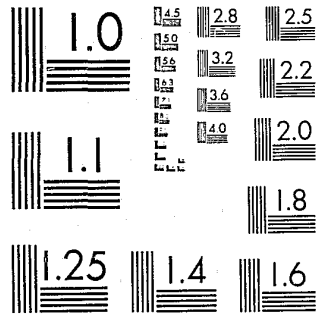


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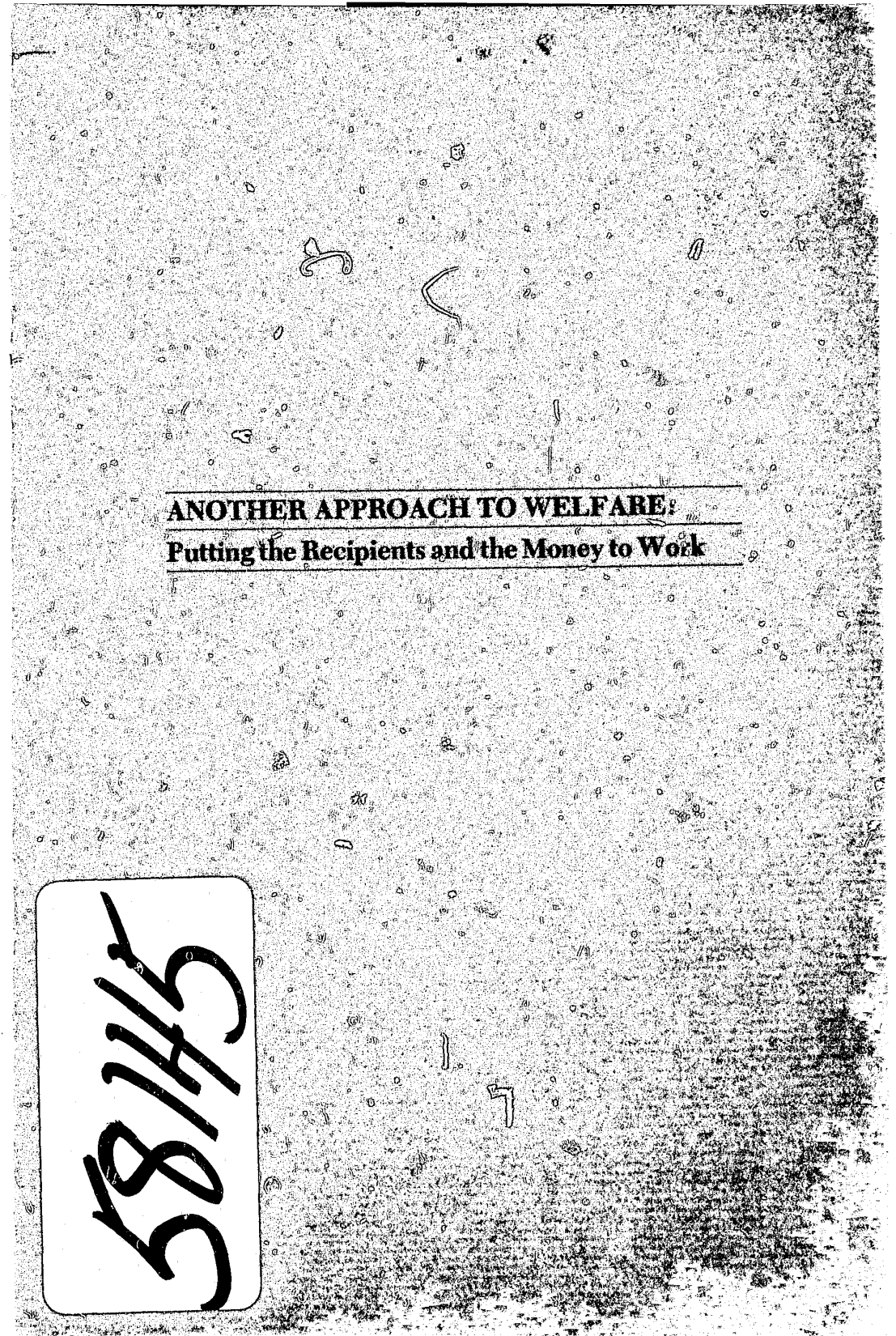
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National Institute of Law Enforcement and Criminal Justice  
Law Enforcement Assistance Administration  
United States Department of Justice  
Washington, D. C. 20531

DATE FILMED  
1/29/80



NCJRS

JUN 12 1979

ACQUISITIONS

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**ANOTHER APPROACH TO WELFARE:**

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**Putting the Recipients and the Money to Work**

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John B. is an ex-addict and ex-offender in New York City —the kind of person usually written off as “hard-core unemployable.”

Until last year, John’s heroin habit, his year in jail, and his two subsequent years on welfare seriously impaired his employability. Few companies want to risk hiring an ex-addict who is also an ex-convict, and jail and idleness undermined John’s work readiness and work habits. Once in a while he managed to get a menial job, but it would last only a few days. Consequently, his answer to a potential employer’s key question, “Where did you last work, and for how long?” virtually assured his rejection. John had little to look forward to except a life of unproductive dependency, and society might have expected to support him on welfare indefinitely.

Today, however, John has a job he likes repairing and maintaining public buildings. His weekly paycheck comes in part from funds he would have received had he stayed on welfare.

Through special arrangements with appropriate government agencies, John’s welfare grant has become an

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investment to pay part of his salary in a "supported work" job with the Wildcat Service Corporation, a non-profit organization operating in cooperation with federal, state, and city agencies. In this structured, closely supervised setting, John and others like him are gaining the experience, training, and confidence they need to get out of the welfare system and into the mainstream of our economy. In the process, they are doing valuable work.

With modifications in existing laws, the case of John B. need not remain an exception. There is an alternative that puts the welfare recipient and the money to work. This pamphlet outlines that alternative.

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## WELFARE: THE BACKGROUND

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### A 1935 Solution for a 1975 Problem

Americans who pay for welfare, and those who receive it, are trapped in a system that was created in the 1930's under different conditions and for a different constituency than we confront today.

When the Social Security Act of 1935 was passed, its public assistance programs were intended to meet a temporary need. It was assumed that, with the end of the Depression, the free market would provide jobs for those who could work, and unemployment, old-age, or disability insurance would provide an adequate income for those who could not.

Forty years later, we are working with essentially the same 1935 programs. But we now know that the problem of employability is more complicated. For many Americans, non-participation as productive members of the economy is not temporary, nor is it explainable by physical disability, on-the-job injury, old age, or plain laziness.

These non-participants include ex-offenders, out-of-school teenagers, present and former drug addicts, alcoholics, the mentally ill, the partially disabled, single parents with young children, and others who, for lack of

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skills, training, experience, and opportunity, can be classified as chronically unemployed. Because their situations are only slightly affected by changes in the economy, they have little hope of finding lasting employment. Increasingly, they have come to be seen as a permanent welfare population. Welfare payments maintain these people but do not move them toward self-sufficiency.

### How the Welfare System Works Today

Although New York City's welfare caseload is larger in volume than that of other localities, its welfare system is fairly typical of the way public assistance operates nationally.

There are three basic parts to the system of income maintenance established in 1935: social insurance, federal categorical assistance, and state-local assistance.

**Social insurance.** One leg of the tripod is composed of federal insurance funds—old-age insurance and disability insurance in one fund, unemployment insurance in another. Workers and their employers pay into these funds a proportion of each paycheck. Benefits are paid out of these funds whenever an insured person retires or is unemployed or disabled; and benefits are also paid to the survivors of an insured person following his or her death. These programs are almost universally approved and require only a small amount of public support other than payroll taxes.

**Categorical public assistance.** The second leg is called "categorical assistance" because only certain categories of persons are eligible. The aged, the blind, and the disabled are entitled to payments under a program called Supplemental Security Income. SSI is designed to help those who lack social insurance coverage or whose social insurance payments are inadequate. Through SSI, the federal government sets a national floor of \$158 per month for each eligible person; many states and cities add to this amount. In New York, state and city payments raise the

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SSI minimum to \$219 per month for persons who lack other income. But the program gives the client little incentive to seek employment: if he obtains a job, two-thirds of his earnings beyond the first \$65 a month will be deducted from the SSI payment.

In New York City, SSI rolls now number approximately 246,000 people, of whom 107,000 are aged, 3,000 blind, and 136,000 disabled. The total cost of SSI grants in the city is approximately \$425 million, of which the city pays about \$60 million.

The other kind of categorical assistance is called Aid to Families with Dependent Children (AFDC). This is the program most taxpayers have in mind when they think of "the crushing welfare burden." The eligible AFDC category is made up of families in which at least one child has been deprived of support by reason of a parent's death, incapacity, continued absence from home, or unemployment not covered by unemployment insurance. The purpose of AFDC is to aid the family unit—the dependent children and their parent or parents.

AFDC payments are based on the number of people in the family. In New York City, a mother with three children receives \$231 a month plus a rent allowance that averages \$150 a month but may go as high as \$300. Half comes from the federal government and the remainder from New York State and New York City.

The penalty for an AFDC parent who works is even stricter than for SSI: except for the first \$30, two-thirds of monthly net earnings will be deducted from the family's AFDC check. Many believe that this regulation builds in an incentive for a father earning low wages to desert his family, either in appearance or in fact. In so doing, he qualifies them for AFDC while contributing his own earnings on the side.

Some 850,000 people in New York City receive AFDC. In 1974, assistance payments cost \$941 million, with the city paying \$239 million out of its own tax funds.

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(The burden on New York City is exceptionally high; in most localities the federal and state governments pay a larger share.)

**Home relief.** People in need who are eligible neither for social insurance payments nor for SSI or AFDC are dependent on state and local relief programs. In New York, this third leg of the tripod is known as Home Relief or HR. The typical HR recipient lives alone and has no other means of support; many are alcoholics, drug users, and ex-offenders. In New York City, where about 140,000 people are covered by Home Relief, the payment to single persons is \$84 a month, plus a rent allowance averaging \$102 a month.

Like AFDC, Home Relief includes a requirement that recipients look for jobs and, like the other programs, sets strict limits on outside income.

Non-federal general assistance programs similar to HR are now provided by 26 other states, although few require the local government to contribute half of the cost, as does New York. In 1974, HR grants in New York City ran to \$139 million, with the city itself paying \$66 million of this total.

Three other programs supplement the ones described above. Medicare, a federal program, pays much of the health-care costs for persons over 65. Medicaid, a joint federal-state program, provides hospital and medical care for families enrolled in SSI, AFDC, or HR, and for other families whose income falls below a minimum level. The federal food stamp program enables low-income families to purchase food below the retail price.

### **An Approach that Keeps People Poor**

This, essentially, is the welfare system in New York and throughout the United States: the poor get money based on what category they fall into, on how poor they are, and on the requirement that they stay poor. This sounds reasonable and was well intentioned. But the sys-

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tem has given birth to a tangle of regulations and restrictions that create pressures to keep the poor from rising out of poverty.

As a result, the overwhelming portion of the welfare money spent on the poor—a total of \$11 billion nationally in income maintenance payments alone in 1974—continues to be used in a way that can have few long-range returns. In this sense, the welfare system is like a man with an oil leak in his car who keeps buying oil rather than paying a mechanic to fix the leak.

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## AN APPROACH TO CHANGE

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### The Wildcat Experiment

A new approach to the problem is that of the Wildcat Service Corporation, a program begun in New York City in 1972.

Wildcat was set up as a pilot project by the Vera Institute of Justice to use welfare funds, bolstered by experimental grants from government agencies, to put unemployed ex-offenders and ex-addicts in treatment to work on public service projects. The welfare funds, which would otherwise be used as income subsidy payments to the participants, are diverted to Wildcat and used as seed money salaries for new jobs. These diverted welfare payments cover almost half of the participants' salaries. The goal is to use these funds to provide not subsistence grants, but supported work for people previously written off as unemployable.

Supported work is based on the premise that people who have been viewed as unemployable because of histories of drug addiction or crime can build skills, self-confidence, and good work habits if they are placed on job settings where their problems are understood and offset by sensitive management and supportive peers.

Each employee at Wildcat works alongside others with similar problems—people who speak his language

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and share his struggles.

At Wildcat, good performance is rewarded by small salary increases, bonuses, and promotions that come more frequently than in normal job situations. Most employees begin at \$95 a week, but after just eight weeks they are eligible for their first raises, with subsequent raises based on attendance, punctuality, and performance. Monthly bonuses are another incentive. And promotion to a supervisory position is a realistic expectation for a beginning worker.

Chances of early failure at Wildcat are minimized by placing employees in small crews, each of which is supervised by a chief who is himself a former addict or ex-offender. Efforts are made to respond with flexibility rather than summary dismissal when personal problems affect attendance and work performance. Termination is almost always preceded by warnings, suspensions, and other intermediate disciplinary measures. Employees may take off a specified number of days for personal business, such as visits with parole officers or drug treatment counselors, and leaves of absence are available to help individuals cope with personal problems.

While Wildcat tries to meet the special needs of its employees, its ultimate goal is to move each participant on to a non-supported job. Each employee receives a day's wage for a day's work, as in any other job; and the standards for bonuses or salary increases become more stringent and move closer to conventional performance standards as the employee's time with Wildcat lengthens.

Whenever necessary and possible, training in skills required by the job is built into the work program. But one of Wildcat's key principles is that real work experience is at least as important for the chronically unemployed as is training.

Another key principle behind Wildcat is that only those who voluntarily participate in a supported work program can profit from it. Apart from legal and philo-

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sophical difficulties inherent in a program of mandatory work, Wildcat believes that as a practical matter, the skills, confidence, attitudes, and work habits that supported work tries to build cannot take hold in a coercive setting.

### Early Results of the Wildcat Experiment

Although Wildcat is only three years old, initial results are promising. Over 3,500 Wildcat employees have worked on public service projects that include refinishing the facade of the New York City Municipal Building; cleaning, plastering, and painting police precinct stations; preparing architectural plans for microfilming; renovating a firehouse; acting as interpreters for Spanish-speaking hospital patients; driving the elderly to and from hospitals and recreation centers; renovating burned-out tenements; planting trees in Brooklyn; and operating a messenger service for city agencies.

There have been predictable problems of attendance, punctuality, and misbehavior on the job, but of the 3,051 so-called "unemployables" who had entered the program by January 1, 1975, 2,100—or 69%—stayed with it for six months or more or were promoted to non-subsidized jobs. Altogether, 438 Wildcat graduates have moved to non-supported jobs, and of those for whom follow-up data are available, 86% have held these jobs for at least one year.

In a recession, when the labor market is slack, people cannot move out of Wildcat as rapidly as they might otherwise. But by staying with Wildcat until such moves are possible, they are gaining experience, acquiring skills, and chalking up work histories.

For a minority of Wildcat employees, a job in the open labor market may never be a realistic expectation. They may need the supportive environment that a program like Wildcat provides throughout their working lives. But for these people, too, a supported work career would seem preferable to a lifetime on welfare, for it en-

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ables them to earn a living, to provide services of real value to the community, and to enhance their sense of worth and self-esteem.

### Wildcat Financing: Making Welfare Work

Wildcat has financed its operations in large part with grants from New York City's Department of Employment, the National Institute of Drug Abuse, the Law Enforcement Assistance Administration, and the U.S. Department of Labor; and from fees paid by city agencies and other organizations for the services provided to them as customers of Wildcat. A Wildcat employee's salary check is made up of these funds combined with the welfare funds he would otherwise have received under the Supplemental Security Income (SSI) program. These welfare benefits are diverted by the Social Security Administration and sent directly to Wildcat on behalf of each employee who qualifies for SSI payments.

On the average, an unemployed single ex-addict receives SSI checks totaling \$2,400 per year. As a Wildcat employee, he is paid an average annual salary of \$6,000. His welfare payment provides 40 per cent of his salary, with the difference made up by charges to Wildcat customers of \$2,000 per man-year of work (33%), and by training funds and grants from government agencies amounting to \$1,600 per year (27%).

The diversion of these subsidies to an employer for use as salary supplements suggests possibilities for significant change in the welfare system.

The experiment so far shows that Wildcat is a public investment whose monetary benefits exceed its costs. If Wildcat did not exist, most of its employees would have been supported by welfare directly, and would have provided little or no service to the public.

A substantial number of these persons will move on to jobs in the open labor market, leaving the welfare rolls altogether, thus, in the long run, lightening the taxpayers'

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load. The public also benefits from taxes that Wildcat employees and Wildcat graduates pay on their salaries. Further, all citizens benefit if there is a reduction in crime when persons with histories of drug abuse and criminal activity are helped to stabilize their lives.

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## SOME POLICY IMPLICATIONS

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### Toward Greater Flexibility

Under present welfare laws, it is difficult to carry out programs like Wildcat. The original purpose of welfare and the traditional criteria for welfare eligibility argue against such diversion schemes. Welfare was conceived as a program for the poor—for people with no other sources of income.

If the welfare system were in fact providing relief only for those who are permanently disabled or temporarily on the sidelines in an otherwise full-participation economy, such income restrictions would be understandable and sensible. But we know that welfare also serves a far different group, while the outdated assumption that it does not permeates the rules and regulations of the entire system. As a result, the diversion of welfare payments that the Wildcat experiment entails can now be arranged only by complex, lengthy administrative appeals to several levels of government for special waivers of the rules.

Despite these considerable legal and administrative obstacles, Wildcat is now arranging for the diversion of New York State Home Relief funds for its ex-offender employees. Several other experiments that involve diversion of federal welfare payments to supported work salaries are now getting underway in various parts of the country under the auspices of the Manpower Demonstration Research Corporation, an organization funded by the Ford Foundation in cooperation with several agencies.\* But

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\*U.S. Department of Labor; Health, Education and Welfare; Housing and Urban Development; Justice; and the National Institute of Drug Abuse.

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these are rare exceptions to the rule, and formidable barriers to such experiments inhibit widespread adoption of the kinds of programs they are testing.

The experience of Wildcat and the widespread desire to curtail the growth of welfare costs suggest that federal and state welfare laws need to be changed. Both should incorporate more responsive mechanisms that would readily allow welfare funds to be diverted and pooled with other social service monies in an attack on the causes of chronic income deficiency. We may not be ready to change the entire welfare system—and supported work will certainly not meet the needs of every individual on welfare—but it seems time to encourage rather than impede experimentation.

### An Investment in the Future

Supported work thus far has concentrated on building work habits and histories rather than developing specific skills. But there is no reason why welfare and other public payments could not help finance development of skills or be used to address other manpower needs.

For example, some people face permanently shrunken markets for products no longer in demand and need retraining for other kinds of work. Perhaps unemployment insurance benefits, combined with other funds, could be used as a financial base to cover salaries while new skills are acquired. Veterans' benefits might also be used to support those who want the opportunity to be retrained. Or, for teenagers in trouble with the law, perhaps portions of the AFDC grants that support them could be diverted to help finance part-time jobs while they continue high school or complete vocational training.

Some of the elderly and some persons now classified as totally disabled, including some retarded and some mental patients, are in fact still able and willing to do useful work. The goal need not be to remove such persons from the welfare rolls, but to enable them to supplement

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their welfare payments while doing work which satisfies them and is useful to society. Welfare subsidies could be diverted to maintain these people in productive employment in sheltered workshops.

Another possibility might be to train and employ welfare clients as homemakers, practical nurses, and providers of transportation, shopping, escort, and other services for people who would otherwise be in nursing homes. A portion of the \$3.75 billion in Medicaid payments which now support the nursing home industry could be diverted to home care and day care, which from both a human and cost-benefit standpoint is more desirable than "storing" the elderly and the disabled in institutions.

The supported work approach to modifying the welfare system is based on a philosophy different from traditional notions of welfare reform, such as guaranteed annual income or federalization of welfare. The Wildcat use of welfare funds looks beyond a more equitable version of the present structure toward a system that prepares people voluntarily to move off welfare and into the labor market.

With imagination and willingness to test new approaches, change is possible. Legislation that would permit the experimental diversion of welfare funds would be a step in this direction.

The Wildcat experience suggests that it may be possible to make welfare subsidies an investment in the future—instead of a grudging payment for past failure.

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The Vera Institute of Justice, a non-profit organization, was established in New York City in 1961 with the aim of examining the criminal justice system and developing methods for improving it. A major source of Vera's funding is the Ford Foundation. Vera also receives grants from government agencies and philanthropic organizations to support the research and demonstration projects it undertakes. Information concerning Vera projects is available to the public on request. For further information, write to Vera Institute of Justice, 30 East 39th Street, New York, New York 10018.



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