HOW MUCH WILL A PUBLIC SERVICE EMPLOYMENT PROGRAM REDUCE WELFARE COSTS?

Sar Levitan and Frank Gallo have recently proposed that a new public service employment (PSE) program be established to reduce the current high rate of unemployment, a rate which is not expected to fall much until 1993. They estimate that at an annual cost per job of about $12,700, including administrative costs, 500,000 full-time jobs can be created for a total annual cost of $6.4 billion; this number of jobs would, however, reduce the unemployment rate by less than half of one percent. They also note that at their historical peak employment programs never created more than 1,000,000 jobs. Of these, perhaps about 160,000 went to those receiving AFDC.

The federal costs of PSE programs can be offset by savings in federal programs that aid low income families, particularly Food Stamps and AFDC. Many families with unemployed workers receive food stamps (in 1985, about 400,000 households reported both unemployment insurance and food stamp receipt); for many such families a PSE job will reduce or eliminate their food stamp use. Also, to the extent PSE jobs go to AFDC recipients, expenditures on AFDC and Food Stamps for this population can be expected to decline. It should be noted, however, that PSE jobs that are targeted to AFDC recipients may not contribute to reducing the unemployment rate significantly, since most AFDC recipients are probably not counted among the unemployed.

Using our recent research on the work behavior and earnings of welfare recipients, we estimate the AFDC and Food Stamp savings that would result from the participation of welfare recipients in a PSE program. We provide estimates for two different sizes of programs, one in which 500,000 jobs go to AFDC recipients and one in which 250,000 jobs are so targeted, and two different effectiveness levels, one that can be labelled "cautious" in which the welfare offsets anticipated are modelled on the current behavior of welfare recipients and one that can be labelled "optimistic" in which the welfare offsets are somewhat larger. In 1988, according to Levitan and Gallo, there were 3.1 million AFDC participants in an average month who were jobless and who were neither sick nor in school.

In IWPR's research using the 1986 and 1987 panels of the Survey on Income and Program participation, we have identified three groups of welfare recipients, those who are nearly totally reliant on AFDC and have almost no earnings (60 percent), those who combine AFDC receipt with part-time earnings at a low wage job (about 18 percent) and those who cycle between AFDC receipt and employment at slightly higher wages and a lower level of AFDC use (the remaining 22 percent). Both combiners and cyclers work about 1000 hours per year, or half-time, whereas reliant work almost no hours.

The cautious estimate assumes that 60 percent of the PSE jobs that go to welfare recipients will enable "reliants" to become "combiners" and that 40 percent of the jobs will enable "cyclers" to get off the welfare rolls. The more optimistic estimate assumes that some reliant will become cyclers and that some combiners will get off the rolls. To get off the rolls requires a
full-time job, whereas moving from welfare-reliant to combiner or cycler status requires only a half-time job. Thus a single full-time equivalent PSE job can move two welfare-reliant women to combiner-cycler status but only one combiner-cycler woman off the rolls. For this reason, in both estimates, a disproportionate share of the cost-savings come from increasing the work effort of the welfare reliants.

Our estimates show that 25 to 33 percent of the cost of providing PSE jobs to AFDC recipients would be offset by the savings in AFDC and Food Stamp benefits.

**CAUTIOUS ESTIMATE**  
*(1990 dollars)*

<table>
<thead>
<tr>
<th>Size of Program</th>
<th>Cost of Program</th>
<th>No. of Women Affected</th>
<th>Welfare Savings AFDC</th>
<th>Food Stamps</th>
<th>AFDC &amp; Food Stamps</th>
</tr>
</thead>
<tbody>
<tr>
<td>250,000 PSE Jobs</td>
<td>$3.3 billion</td>
<td>400,000</td>
<td>$640 million</td>
<td>$230 million</td>
<td>$870 million</td>
</tr>
<tr>
<td>500,000 PSE Jobs</td>
<td>$6.6 billion</td>
<td>800,000</td>
<td>$1.3 billion</td>
<td>$.5 billion</td>
<td>$1.7 billion</td>
</tr>
</tbody>
</table>

**OPTIMISTIC ESTIMATE**  
*(1990 dollars)*

<table>
<thead>
<tr>
<th>Size of Program</th>
<th>Cost of Program</th>
<th>No. of Women</th>
<th>Welfare Savings AFDC</th>
<th>Food Stamps</th>
<th>AFDC &amp; Food Stamps</th>
</tr>
</thead>
<tbody>
<tr>
<td>250,000 PSE Jobs</td>
<td>$3.5 billion</td>
<td>400,000</td>
<td>.8 billion</td>
<td>.3 billion</td>
<td>$1.1 billion</td>
</tr>
<tr>
<td>500,000 PSE Jobs</td>
<td>$7.0 billion</td>
<td>800,000</td>
<td>1.6 billion</td>
<td>.6 billion</td>
<td>$2.3 billion</td>
</tr>
</tbody>
</table>

Heidi Hartmann and Roberta Spalter-Roth  
October 1991
TECHNICAL NOTES TO COST/BENEFIT ANALYSIS

Starting Facts or Assumptions

Number of Jobs

At its peak in 1978, PSE provided about 1 million full-time equivalent jobs. Levitan and Gallo assume that any new program would provide a maximum of 500,000 jobs. Based on this analysis, we could assume either that (a) all 500,000 full-time equivalent jobs would go to AFDC recipients (or half of the 1 million jobs in a peak PSE program) or (b) 250,000 jobs (or half of the 500,000 jobs that Levitan and Gallo assume is the maximum that can be expected) would go to AFDC recipients.

Characteristics of Recipients Participating

1. Based on IWPR's recent Work/Welfare study, we estimate that of the 3.1 million adult recipients available to participate in a PSE program, about 60 percent (1.86 million) would be in the "more welfare reliant" category of recipients—who currently report very few hours of paid employment and about 40 percent would be in the category of work/welfare packagers or cyclers—who currently report about 1,000 hours per year of paid employment.

2. Given Levitan and Gallo's conclusion that PSE programs are increasingly targeted to a "more disadvantaged" clientele, we assume that the majority of the participants in a new PSE program will be recruited from the "more reliant" category and will be represented in the PSE program in proportion to their numbers in the AFDC program—i.e., 60 percent of PSE participants would come from the "more reliant" category and 40 percent from the cyclers and combiners.

3. Therefore, we assume that of 500,000 PSE jobs for AFDC recipients, 300,000 full-time equivalent jobs will go to "more reliant" AFDC recipients and 200,000 jobs will go to cyclers or combiners. If AFDC recipients receive only half the PSE slots (250,000 full-time equivalent jobs), then we assume that 150,000 will go to more reliant recipients and 100,000 will go to cyclers and combiners.

Wage Rates and Hours of Work

Levitan and Gallo note that hourly wage rates for PSE participants should be higher than AFDC benefits or the minimum wage but less than the market wage. We provide estimates for two alternative wage-rate scenarios.

1. In the first more cautious scenario, we assume that each of the more reliant recipients participating in the PSE program will earn wages at the level of the current work/welfare combiner population, i.e., $4.72 per hour in 1990 dollars for 1,000 annual hours of work. We also assume that current cyclers participating in PSE will increase their annual hours of work from their current 1,016 to 2,000 hours (full-time, full-year employment) and as a result they will increase their earnings from the current $5.81 per hour to $6.67 per hour (in 1990 dollars)—an above-poverty wage that will no longer allow them to qualify for AFDC.

2. In the second more optimistic scenario, we assume that the current welfare reliant population participating in PSE will increase their average hours of work to 1,000 hours and will earn wages at the level of $5.32 per hour in 1990 dollars (the current average wage level of the both combiners and cyclers). We assume that the remaining participating recipients (both cyclers and combiners) will increase their hours of work to 2,000 hours and will earn $6.67 per hour and move off the AFDC rolls.
These wage rates when multiplied by the number of jobs targeted to welfare recipients plus an additional 20 percent for administrative costs represent the total costs of the PSE program for welfare recipients.

Welfare Savings

As in the case of the wage rates, we use a more cautious and a more optimistic scenario, based on the differences in the dollar value of (a) AFDC benefits alone and (b) AFDC benefits plus food stamps and WIC currently received by each of the three groups of AFDC recipients, according to IWPR findings. We count only the reductions in benefits as cost savings and do not estimate any savings in administrative costs.

1. For the more cautious scenario, we assume that the welfare savings for the more reliant population who move into PSE jobs would be $1616 per person in annual AFDC costs alone and $2083 per person in annual AFDC costs plus food stamps and WIC. The savings for the cyclers, who would earn enough as a result of PSE jobs to move off the rolls, would be $1,547 in AFDC alone and $2,439 in AFDC plus food stamps and WIC.

2. For the more optimistic scenario, we assume that the welfare savings for the more reliant population who move into PSE jobs would be $2087 in AFDC alone and $2,784 in AFDC plus food stamps and WIC. The average savings for combiners and cyclers, who would move off the rolls as a result of PSE jobs, would be $1,547 in AFDC alone and $2,439 in AFDC plus food stamps and WIC.

REFERENCES

