MAKING SOCIAL ENTERPRISES WORK FOR WELFARE
THE VALUE OF FUNDING TRANSITIONAL JOBS THROUGH PROFITS

A Thesis
submitted to Georgetown University
in partial fulfillment of the requirements for the
degree of
Master of Arts
in Liberal Studies

By

David Altstadt

Georgetown University
Washington, D.C.
May 2007

ABOUT THE AUTHOR

David Altstadt undertakes policy research and analysis on issues related to adult workforce education and training for Community Research Partners (CRP), a nonprofit research firm based in Columbus, Ohio. Prior to joining the CRP staff in January 2007, he worked as a print journalist and editor for four years in Washington, D.C, most recently covering federal workforce development and welfare-to-work policy for the weekly independent newsletter, *Employment and Training Reporter*. The author has a Bachelor of Science in Journalism from the E.W. Scripps School of Journalism at Ohio University and a Master of Arts in Liberal Studies, with a concentration in Social and Public Policy, from Georgetown University. This thesis is the culmination of his graduate studies.

ACKNOWLEDGEMENTS

Many thanks go to Nikki Krasas Castle, Anne Ridder, and the Georgetown Liberal Studies Department; Harry Holzer; Ryan Hess; Jim McClurg and the Social Enterprise Alliance; Jan Mueller, Melissa Young, Sam Tuttleman, Abby Frank, and the National Transitional Jobs Network; Lauri Alpern; Brenda Palms-Barber; and Toni Schmid. A special thank you for their ongoing love and support goes to my fiancée Jessica and my parents Ron and Judy.

MAKING SOCIAL ENTERPRISES WORK FOR WELFARE
THE VALUE OF FUNDING TRANSITIONAL JOBS THROUGH PROFITS

David Altstadt

Mentor: Nikki Krasas Castle, Ph.D.

ABSTRACT

The thesis examines the challenges facing states in putting welfare recipients to work, as mandated by welfare reform. Although states have proved successful at helping some welfare recipients move off public assistance and into the labor market, they have mostly failed to improve the plight of recipients with the severest barriers to employment. And changes made to the welfare law in 2006 increase the pressure on states to raise work rates, making the need to engage the "hard-to-employ" that much greater.

The Transitional Jobs (TJ) model is one promising approach for helping welfare recipients overcome multiple employment barriers. However, the high cost of offering hourly wages, intensive case management, and a range of work supports may keep states from placing large numbers of clients in transitional jobs. In order to lower program expenses and make the model more attractive to states, the thesis proposes an alternative method for financing and delivering transitional jobs: placing welfare recipients at social enterprise businesses that would be required to leverage their revenue to defray costs.

To that end, the thesis poses two questions: (1) Can partnerships be formed between social enterprises and the welfare system in a way that improves the employment outcomes and work participation levels of hard-to-employ welfare clients and saves welfare funds in the process? and, (2) Does this approach align or clash with American values related to work, free market enterprise, self-sufficiency, and limited government?

This thesis uses multiple methodologies, including historical, socioeconomic, comparative, descriptive, and policy analyses, to examine welfare policy and the efficacy of placing welfare clients with social enterprises. The analysis includes case studies of TJ programs and social enterprises.

The thesis finds that social enterprises are capable of helping welfare recipients overcome employment barriers and make successful transitions off public assistance. As for the potential for

saving welfare funds, the thesis documents at least one case in which an enterprise leveraged its resources to provide a richer array of services not covered by its welfare contract; however, it does not have a formal cost-sharing agreement with the local welfare agency. Nonetheless, this investment has raised the employment rates of recipients and contributed to declining caseloads, which in essence lowers welfare costs.

In terms of political viability, the cost-sharing scheme appears to align with certain American values and clash with others. Policymakers would need to weigh whether providing subsidized jobs to the hard-to-employ, in hopes of moving them off welfare and into the labor market, is worth the potential political backlash for expanding the role of government and impeding on the free market. The thesis concludes that forging ties with social enterprises is a worthwhile endeavor because it could provide hard-to-employ welfare recipients with the best chance at a second chance.

CONTENTS

INTRODUCTION

Welfare as the nation had known it for 60 years ended in 1996. That summer, President Bill Clinton signed the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), 42 U.S.C. 601-619, which abolished the federal entitlement to cash assistance for indigent families. The previous policy, Aid to Families with Dependent Children (AFDC), had guaranteed monthly benefits for families as long as they could demonstrate financial need. In its place, PRWORA conditioned aid on compliance with work requirements. And, emblematic of its new name, Temporary Assistance for Needy Families (TANF), federally funded welfare became time-limited. Families may receive TANF for no more than five years (42 U.S.C. 608).

A key assumption underpinning welfare reform was the efficacy of the marketplace. Only through work, it was assumed, could poor families overcome their personal hardship and become self-sufficient. Welfare, which had been designed to protect children from harm, became perceived as a disincentive for families to take personal responsibility for their lives. This sea change on welfare reflected its tensions with core American values related to work, self-sufficiency, and fairness.

Most states reshaped their welfare programs to emphasize immediate job search. The subsequent years proved that low-income, single mothers were capable of working at much higher rates than opponents of welfare reform had thought. The employment rate rose while caseloads declined sharply. It seemed evident that a sizeable portion of recipients just needed a nudge off welfare and into work.

As states have sought to move welfare recipients quickly off the rolls and into the labor market, however, a troubling situation has emerged. Some welfare recipients have toiled unsuccessfully in welfare-to-work programs because they face too many hardships for typical services to make a difference. Many of them have been cut from welfare, either for reaching their time limits or for failing to work. Others have lingered on the rolls as their hardships go unresolved.

Until recently, states could choose to ignore the hardships of these “hard-to-employ” recipients. However, in 2006, Congress amended the welfare law to put pressure on states to engage more recipients in work or risk losing federal funding. States now have a choice to make:

retool their welfare programs to provide more intensive services for hard-to-employ recipients or implement punitive measures to cut more of them off welfare and, thus, avoid the federal work mandates.

The thesis examines a promising approach for engaging hard-to-employ welfare recipients. The Transitional Jobs (TJ) model provides recipients with temporary, wage-paying work assignments that incorporate on-the-job training, supportive services, and job search assistance in an effort to move them into unsubsidized employment and off welfare. Transitional jobs have been shown to raise employment levels and self-sufficiency; however, few states have set up TJ programs because they are typically expensive to operate.

For that reason, the thesis explores an alternate approach for delivering transitional jobs that has the potential to save welfare funds. A growing number of nonprofit organizations have launched for-profit businesses to provide temporary work opportunities for disadvantaged individuals. Known as social enterprises, these businesses use a portion of the revenue generated through product sales to pay for the wages and other forms of assistance offered to their indigent workforce. The model, proposed by this thesis, seeks to place hard-to-employ welfare recipients in transitional job slots at social enterprises, leveraging profits made to cover a portion of the participants' wages, training, and/or work supports. TANF funds would still be needed, but to a lesser degree.

This welfare-to-work strategy, however, raises two important questions: (1) Can partnerships be formed between social enterprises and the welfare system in a way that improves the employment outcomes and work participation levels of hard-to-employ welfare clients and saves TANF funds in the process? and (2) Does this approach align or clash with dominant American values related to work, self-sufficiency, free market enterprise, and limited government? The intent of this analysis is to uncover the socioeconomic impacts of social enterprises and to determine the feasibility of forging ties to the welfare system, weighing potential political opposition and bureaucratic constraints.

To address these issues, the thesis is divided into five chapters. The first chapter examines in greater detail the impact welfare reform measures have had on poor families, particularly those hardest to employ. This chapter commences with a description of the common strategies states have used to engage recipients, followed by a review of available research on employment outcomes.

The second chapter lays out the objectives, tradeoffs, and program models of previous public service employment strategies. In the third chapter, the Transitional Jobs model is examined more closely, including case studies of current programs and available research on employment outcomes and related costs.

The fourth chapter explains the key elements and underlying causes for the rise in social enterprises, and discusses constraints to the model and presents case studies of enterprises that provide subsidized employment. Data on employment outcomes and related costs are covered.

Finally, the fifth chapter explores the feasibility of social enterprises sharing the cost of providing transitional jobs for hard-to-employ welfare recipients. This chapter examines the challenges to the model, from the perspective of social entrepreneurs and nonprofit managers. The remainder of the chapter addresses the broader question of whether such partnerships would align or conflict with American values, thereby affecting their political viability.

CHAPTER 1

WELFARE REFORMED

The Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996 set strict work requirements and time limits on welfare and gave states wide discretion to administer their programs and spend federal funds as they saw fit. This chapter provides a brief overview of the common approaches states have taken in designing their welfare programs. In that context, the chapter reviews available research to examine how welfare recipients have fared economically since the reform. Particular attention is paid to recipients with the severest barriers to employment. The chapter commences by reviewing federal welfare rules.

The End to Entitlement

PRWORA did away with the federal entitlement to cash assistance for indigent families. Under the reform measure, families may only collect federally funded welfare payments for a total of five years, no more than two years consecutively. Some states have chosen to impose even stricter time limits or to provide state-funded assistance past the five-year federal deadline (OFA 2004).

The law requires most families receiving payments to engage in federally allowable "work activities." Depending on the age of children and the number of custodial parents in the household, adult family members are expected to work between 20 and 55 hours a week. For instance, a single woman with a child over the age of six must log 30 hours a week in work activities to comply with her work requirements.

PRWORA emphasizes work rather than education and training. To that end, recipients must log at least 20 hours in one or a combination of the following activities: unsubsidized employment, subsidized private-sector employment, subsidized public-sector employment, on-the-job training, job search and job readiness assistance, work experience, community service, child care, or vocational educational training (if limited to 12 months). Only after this participation threshold is reached can recipients engage in job skills training directly related to employment, education directly related to employment, or satisfactory attendance at a secondary school or in a GED program. In addition to limiting the number of months an individual can enroll in vocational education, PRWORA capped overall enrollment in that activity at up to 30 percent of a state's caseload (OFA n.d.).

Families face losing their welfare benefits if they do not work the prescribed number of hours. PRWORA mandates that states impose at least a pro rata benefit reduction on families that do not satisfy work and child support compliance requirements. States can choose to take away all cash assistance, known as a full-family sanction, as long as recipients did not have good cause for failing to comply (42 U.S.C. 607). States can choose to exempt up to 20 percent of their adult caseload from the federally prescribed work requirements.

Welfare reform reshaped the administration of the welfare system by giving states the flexibility to design their own welfare-to-work strategies and wide discretion on how to spend federal funds, now allocated in block grant form.[1] The U.S. Department of Health and Human Services (HHS) holds states accountable for meeting certain program goals.

PRWORA set four broad parameters for how states could use their block grants: assistance to needy families so that children can be cared for in their own homes; promotion of job preparation, work, and marriage to reduce the dependency of needy parents; prevention of out-of-wedlock pregnancies; and support for the formation and maintenance of two-parent families (42 U.S.C. 601). To encourage states to meet these goals, PRWORA established fiscal penalties and incentives.

Namely, states risk losing a portion of their federal funding if too few adults on their caseload meet the work requirements. States had to put to "work" at least 25 percent of adult recipients by 1997 and 50 percent by 2002. Among two-parent families on the dole, the "work participation" rate was set at 90 percent. HHS can reduce federal fund allotments by up to 21 percent for states that do not meet these work targets. State grants are cut by five percent in the first year and by an additional 2 percent for each consecutive year of noncompliance (42 U.S.C. 607). Noncompliant states also are required to increase their contribution of matching funds by 5 percent. In addition to the fiscal penalties, HHS can award incentive funding to states that reduce

[1] States receive a set amount of federal funds each year, equal to the highest amount of money they were allocated under AFDC in either 1994 or 1995, or the combined average funding level for 1992, 1993, and 1994. The annual block grant to states totals $16.5 billion. States are required to contribute their own funds, known as the maintenance of effort (MOE), which must be equal to at least 75 percent of the amount they allocated for welfare historically. (42 U.S.C. 603)

out-of-wedlock births or maximize employment entries, sustained workforce participation, and earnings growth (42 U.S.C. 603).

In response to the federal reform measures, states redesigned their welfare programs in an effort to move more adult recipients into the labor market and off the public dole. Most initially set aside goals relating to marriage and reproduction, as disagreement still abounds on how best to reduce out-of-wedlock births. In contrast, political support for employment is widespread (Gais et al 2001).

Welfare Remade Into "Work First"

Under PRWORA, states can choose to engage welfare recipients in a number of activities in preparation for work. By and large, states have sought to promote employment through a "work first" approach, which emphasizes helping welfare recipients find the first available job. Education and job training, once the cornerstones of welfare-to-work programs,[2] are considered by this model to be less effective at preparing unemployed recipients for the labor force. Further investments in human capital, if provided at all, are generally reserved for those already employed (Strawn, Greenberg, and Savner 2001).

As evidence of the work first approach, in a given year, 70 to 80 percent of clients who meet their work requirements have engaged in unsubsidized employment or job search/job readiness activities. In contrast, only 10 to 20 percent of compliant clients have enrolled in some form of education over the years (OFA 2006).[3]

This policy assumption, underlying the trend toward employment-driven strategies over education and training, is supported in part by available research. A national evaluation of states' early welfare reform efforts found that those welfare-to-work strategies focused primarily on job search activities produced larger gains in employment and total earnings over a two-year period than adult education-focused programs.[4] At best, basic education programs cost more and took

[2] The 1988 Family Support Act had required states to include basic education as a mandatory activity for individuals without high school diplomas or with weak basic skills (Strawn, Greenberg, and Savner 2001).

[3] The figure is based on the author's calculation of annual participation rates in three federally defined work activities: vocational education, education related to employment, and satisfactory school attendance (OFA 2006b).

[4] Earnings gains from programs emphasizing job search assistance generally resulted from welfare recipients working more hours, not from attaining better jobs (Hamilton 2002).

longer to achieve employment and earnings effects similar to job search assistance. The study found, however, that the sites that offered a mix of job search, education, job training, and work activities were the most successful at moving welfare recipients into better-paying jobs (Hamilton 2002).[5]

Most states have infused their eligibility processes and ongoing case management with a clear message: “get a job quickly or exhaust all alternatives to cash assistance” (Gais et al 2001, 38). Several localities now withhold benefits until applicants complete a program orientation, conduct an initial job search, establish paternity so that child support orders can be issued, and create a plan for reaching self-sufficiency. Less commonly, applicants are offered one-time cash payments, services, referrals to private charities, or Medicaid and food stamp benefits in lieu of TANF, a strategy known as “diversion.” If they are granted aid, welfare recipients are expected to continue searching for work and accept the first job offered to them[6] (Gais et al 2001).

To achieve their work first aims, states have emphasized differing strategies depending on how they construe the causes of unemployment and welfare dependency (Gais et al 2001). Among states that attribute these problems to a lack of motivation, some offer “carrots” such as earnings supplements, child care, and transportation subsidies to those clients who find jobs, while others emphasize the use of “sticks,” by sanctioning clients for noncompliance or basing welfare benefits on the number of hours clients log in work activities.[7] Still other states blame

[5] Of the 11 sites studied in the National Evaluation of Welfare-to-Work Strategies, the Steps to Success program in Portland, Oregon, posted higher gains in employment and earnings than three other work first programs and increased receipt of occupational licenses, certificates, and general equivalency diplomas by as much as the seven education-focused sites. In Portland’s mixed approach, high school graduates with solid basic skills and some work experience were assisted in finding better jobs, primarily through job matching and job development; for those who entered the program with low skills or had not graduated from high school, Portland provided training and adult education focused on building life skills and occupational skills. Portland increased stable employment, hourly wages, and access to full-time work and employer-provided benefits for both high school graduates and dropouts (Strawn, Greenberg, and Savner 2001).

[6] Some localities run job readiness workshops lasting two to four weeks, during which newly enrolled welfare recipients practice their job interviewing skills, prepare their resume, and search for jobs under the supervision of program staff (Sherwood 1999).

[7] Texas, Georgia, and other states have made it a goal to reduce the number of work-eligible adults on cash assistance to zero (Hagert and Baylor 2007). Since instituting a full-family sanction policy in 2003, Texas has cut caseloads by about 25 percent in each subsequent year. Under the policy, recipients who do not meet their work requirements lose their entire monthly welfare check. As a result, Texas now provides cash assistance only to 7 percent of children under the federal poverty level (Hagert and Baylor 2007). In recent years, other states have sought to implement full-family sanction policies as well, including California and New York, both of which have large caseloads.

dependency on clients' limited job skills. Those states have put more emphasis on providing training and education services to clients who have gained employment (Gais et al 2001).

Changing Employment Outlook for Single Mothers

The work first mantra is driven by the assumption that welfare recipients are capable of working and that jobs are readily available for them. Available labor market data have bore this out, to an extent. Following welfare reform, single mothers joined the workforce in unprecedented numbers, as caseloads plummeted and poverty lessened.

The percentage of single mothers gainfully employed jumped from 59 percent in 1994 to 75 percent in 2000, while their unemployment rate dropped by half to 6.5 percent (Lerman 2001). Mothers who dropped out of high school, likely candidates for welfare, enjoyed a 20-percentage-point rise in employment over the seven-year period (Lerman 2001b).

At least some of these employment gains can be attributed to the increased work effort of welfare recipients. In 1994, 36 percent of single mothers who received public assistance within the previous year reported that they were employed or actively seeking work. Their participation in the labor force rose to close to 57 percent in 2000 (Blank and Schmidt 2001). Half of former welfare recipients surveyed in 1999 were currently working, while only about 15 percent reported no source of income over the last year (Loprest 2003). Moreover, the percentage of adults on TANF who had not worked in the previous three years or longer decreased substantially, from 42 percent in 1997 to 27 percent in 1999 (Zedlewski and Loprest 2001).

As single mothers increasingly went to work and earned more money, their levels of poverty and welfare dependency diminished. The percentage of female-headed households living under the federal poverty line dropped from 42 percent in 1995 to 33 percent in 2000 (Bernstein 2006). Monthly welfare caseloads fell from an all-time high of five million families in fiscal year (FY) 1994 to 2.2 million families in FY 2000 (OFA 2006).

However, decreasing welfare dependency and improving employment situations for indigent single mothers cannot be attributed entirely to the work focus of welfare reform. The economic boom of the late 1990s sparked wider demand for entry-level workers, opening the door to employment for many low-skilled single mothers (Blank and Schmidt 2001). In addition, a corresponding expansion of child care subsidies and the Earned Income Tax Credit (EITC) increased the incentives for welfare recipients to go to work (Michalopoulos and Berlin 2001) (Blank and Schmidt 2001).[8]

Using monthly caseload data from October 1989 through June 2003, one team of researchers has determined that about a fifth of the caseload decline is due to clients hitting time limits or being sanctioned off rolls, about a quarter to the economy, and about a third to other policies, including the EITC; the remainder of the decline is absorbed by unexplained effects (Klerman and Danielson 2004).

Single mothers fared somewhat worse after the country slid into a recession in 2001, suggesting that work first may be less effective in a tighter job market. The proportion of working single mothers fell five percentage points, to 70 percent in 2003, as their unemployment rate hit double digits again (Lerman 2005). A survey of recent welfare leavers found that fewer were working in 2002 than earlier leavers did in 1999, 42 percent compared to nearly 50 percent (Loprest 2003). And, the share of adults on welfare with paid jobs dropped from 32 percent in 1999 to 27 percent in 2002 (Zedlewski 2003).

Poverty trends reversed course, with 36 percent of single mothers falling under the federal poverty line in 2005 (Bernstein 2006). Welfare caseloads continued to shrink but now at a much slower pace, creeping down to 1.9 million families in FY 2005 (OFA 2006).

Work Rules Toughened Through Reauthorized Law

In the context of these economic woes, Congress began the process of reauthorizing the welfare law for another five years. Lawmakers expressed concern that states were not doing enough to help welfare recipients move into jobs and off the rolls, as evidenced by low engagement in work activities (Altstadt 2005). In each year since welfare reform, only about a third of the adult caseload has met the work requirements, well under the 50 percent participation mandate now in effect. Two-parent families are participating more fully, generally around half in a given year, but their performance falls well short of the federal work target, set at 90 percent (OFA 2006b).

[8] The Earned Income Tax Credit, a refundable federal income tax credit for working poor families, tripled in value over the 1990s, so that by the end of the decade an employed mother of two or more children could qualify for a maximum check of $3,816 at tax season (Michalopoulos et al 2001). In 2005, the maximum refund rose to $4,400 (IRS n.d.).

In 2004, only 12 states put at least 50 percent of welfare clients to work, and only three states engaged at least 90 percent of two-parent families (OFA 2006b). However, other states were able to avoid fiscal penalties through a provision in PRWORA that reduces the federally prescribed work target by the rate of their caseload declines (42 U.S.C. 607).[9] Welfare rolls dropped so swiftly that work targets had in effect dropped to zero in 23 states, meaning that no TANF recipients actually had to work for these states to comply with the participation rule and earn their full allotment of federal funds (OFA 2006b).

After four years of debate, Congress finally reauthorized the welfare law in early 2006 as part of the Deficit Reduction Act (PL 109-171). One of the changes lawmakers made to PRWORA was tweaking the caseload reduction credit system to factor in only declines made since 2005 (PL 109-171, Sec. 7102(a)). Depending on their recent caseload trends, states saw their work participation targets raised back to, or at least near, their prescribed level. Congress adjusted the credit system to provide states further incentive to move families off welfare[10] and to ensure that those recipients still on the rolls are engaged more fully in work activities[11] (Altstadt 2005).

The new law also extended federal work rules to separate, stated-funded welfare programs, which were established typically to shield certain families from federal time limits and work requirements. Those families now factor into the work participation rate (PL 109-171, Sec. 7102(b)). In addition, the law also required states to develop new procedures for reporting and

[9] Through the "caseload reduction credit," work targets are lowered by one percentage point for each percentage point decline in the state's TANF caseload since 1995 that occurred for reasons other than eligibility changes. A state may not count caseload declines resulting from a tightening of income and resource limits or enactment of time limits, full-family sanctions, or other new requirements that deny assistance when a family fails to meet program requirements (45 C.F.R. 261.42(a)(1)).

[10] Policy observers have expressed concern that states may seek to impose stiffer upfront requirements and heavier sanctions on families in an effort to reduce caseloads more swiftly and, thus, lower their work participation targets again (Greenberg 2006). One indication that states may be renewing their efforts to reduce rolls is that the rate of caseload decline has increased from 2.9 percent between March 2004 and March 2005 to 6.1 percent between March 2005 and March 2006 (OFA 2006b).

[11] The Congressional Research Service calculated that if the recalibrated caseload reduction credit had been in place in 2003, states would have needed to engage an additional 236,000 welfare families in work in order to meet their work targets—a 69 percent rise in participation (Greenberg 2006).

verifying the hours that clients log in work activities, and authorized HHS to levy new penalties on states that fail to do so accurately (PL 109-171, Sec. 7102(c)).[12]

At the behest of Congress, HHS issued regulations in June 2006 that established uniform definitions for each category of work activities. Congress pushed for the stronger federal oversight at the recommendation of the Government Accountability Office, which found in an August 2005 report that some states were counting a number of questionable activities as work (Bellis 2005).[13] In the new rules, HHS has defined activities more narrowly toward the goal of obtaining or preparing for employment (45 CFR Parts 261, et al).[14]

States Faced With Engaging the "Hard-to-Employ"

The question resulting from these tougher federal mandates is whether states can continue to rely primarily on work first strategies to engage a wider proportion of welfare recipients. Barring another economic boom, the answer appears to be no.

Research indicates that a significant number of welfare recipients have one or more barriers to employment, which may impede their ability to participate fully or effectively in work activities (Parrott et al 2006). Known collectively as the "hard-to-employ," clients with multiple barriers need significant interventions in order to leave welfare successfully. Help finding a job is not enough (Zedlewski et al 2001).

Potential obstacles to employment vary, but generally fall into three broad categories: personal and family challenges, including substance abuse, mental or physical health problems, domestic violence, and learning disabilities; human capital deficits, including limited work experience and low levels of education; and logistical difficulties, including lack of access to reliable transportation and child care (Pavetti 2002).

[12] States that fail to establish or comply with verification procedures may lose up to 5 percent of their block grant (PL 109-171, Sec. 7102(c)(2)).

[13] The Government Accountability Office found that one state counted bed rest as a form of job readiness and another counted taking a child to a dentist appointment as a form of community service (Bellis 2005).

[14] For instance, the new rules define "community service" as a structured work program that provides direct benefit to the community, serves a useful purpose, and improves the employability of clients unable to obtain work. The rules also put a four-week limit on mental health and drug abuse treatment, counted under the rubric of job search/job readiness assistance (45 CFR Parts 261, et al).

Eighty percent of adults on TANF have at least one significant barrier to employment, and four out of 10 have multiple barriers (Zedlewski et al 2001b). In 2002, the most recent year for which there is national survey data, about a third of the caseload reported very poor mental or physical health, four out of 10 had not completed their high school education, nearly three out of 10 had not worked in more than three years, and a tenth had very limited English language skills (Zedlewski 2003). Culling data from psychiatric epidemiologists and social workers, other studies conclude that employment barriers are even more prevalent (Danziger 2001).

A common assumption is that recipients with fewer employment barriers have left welfare for work, leaving behind a significantly more disadvantaged group on the rolls. Available data, however, do not bear this out. The prevalence of certain employment barriers and the proportion of the hard-to-employ on the caseload have not changed significantly over the years (Zedlewski et al 2001). Still, there is cause for concern regarding the employability of single mothers who stay on welfare for longer periods of time or who regularly cycle on and off. In 2002, almost half of "cyclers" and "stayers" had multiple barriers to employment, particularly low levels of education and limited work experience. Their employment rates were especially low (Zedlewski 2003).

The more barriers a welfare recipient has to employment, the less likely she is to work 20 or more hours per week. For example, a single, black mother, aged 25 to 34, living in an urban area with one child under the age of two has a 60 percent chance of working 20 or more hours per week, assuming she had no major employment barriers. If she had between four and six barriers, the likelihood of her working decreases to just 40 percent (Danziger et al 2000).

Following welfare reform, hard-to-employ recipients made some sizeable job gains, but their employment rates remain relatively low and well below those reached by clients without barriers. Paid work among the hard-to-employ increased fourfold, from 5 percent in 1997 to 20 percent in 1999. These early job gains were attributed to the then-strong economy and to states' work first approach (Zedlewski et al 2001b). But more recent labor market data found that only 14 percent of welfare clients with two or more barriers were currently employed, when they were surveyed in 2002; in contrast, more than half of clients without barriers had jobs (Zedlewski 2003).

States have struggled to fully engage the hard-to-employ in their work first programs, and a disproportionate number of these families are sanctioned for noncompliance or exhaust their time-limited benefits. Almost half of clients with multiple barriers were not engaged in any work activity, not even job search (Zedlewski and Loprest 2001). Researchers have found that in some states, clients without a high school diploma or equivalency degree were more likely to be sanctioned than those who had graduated. In addition, individuals who reached time limits were more likely to have been long-term recipients before becoming subject to the limits (Pavetti and Bloom 2001).

Some states and localities have been able to engage higher rates of hard-to-employ clients in work activities by improving screening and assessment procedures to identify barriers to employment, providing more intensive case management services to families, matching recipients to activities that help them prepare for jobs that fit their interest and skill levels, and developing training and subsidized employment programs to help transition them to work (Parrott et al 2006).

The following chapters describe in more detail the efficacy of subsidized employment programs.

CHAPTER 2

PUBLIC SERVICE EMPLOYMENT

The Transitional Jobs (TJ) model grew out of a long lineage of public service employment (PSE) initiatives that sought to generate work for poor or unemployed individuals when private-market employment was unavailable or unattainable. Its very approach, targeting welfare recipients and other hard-to-employ individuals for temporary supportive jobs in the public and private sector in order to raise their future employability, builds on the successes and failures of prior PSE initiatives.

This chapter tracks the evolution of public service employment by examining the major objectives, tradeoffs, and program models. PSE is discussed in the context of welfare reform. The chapter concludes with a list of best practices from past programs.

Major Objectives

By definition, PSE programs provide a certain amount of funding to government, nonprofit, or, increasingly, for-profit employers to employ jobless workers. Programs differ, however, with respect to which of the following objectives they attempt to achieve (Bartik 2001):

1. **Countercyclical Measures:** To reduce aggregate unemployment during an economic downturn
2. **Targeted Efforts:** To increase the employment level of a targeted subgroup of individuals who have difficulty finding work even in a strong economy
3. **Supported Work:** To provide temporary, supported work opportunities for hard-to-employ individuals so that they might improve their work-related skills and move into unsubsidized employment
4. **Mandatory Workfare:** To create job slots for welfare recipients who are mandated to work in exchange for benefits

Major Tradeoffs

Regardless of their specific goals, PSE programs face certain tradeoffs that can diminish employment outcomes and temper public support. Foremost among them is the concern that any initial increase in employment that results from a PSE initiative might be eventually offset by a reduction in unsubsidized employment, a phenomenon known as "displacement" (Gottschalk 1998). There are, in fact, two types of displacement: public worker substitution and private-sector crowd-out.[1]

Public worker substitution occurs when a government or nonprofit entity uses their PSE funds either to hire disadvantaged persons whom they would have hired anyway or to replace a portion of their current labor force with subsidized workers. In contrast, private-sector crowd-out occurs when private businesses cave to market pressures and cut back on the number of low-level workers they hire. (Bartik 2001)

PSE initiatives can cause crowd-out by generating more employment opportunities in the government and nonprofit sectors for disadvantaged workers, leaving fewer jobseekers vying for entry level jobs available at private businesses. Therefore, for-profit employers are forced to compete over the diminished supply of workers by increasing wages. Consequently, higher wages make employment more expensive, causing private businesses eventually to lower their demand for workers (Bartik 2001) (Ellwood and Welty 1999).[2]

Both types of displacement can lead PSE initiatives to unfairly compete with the private sector both in hiring workers and in producing goods. The latter might occur if PSE participants help produce goods or services more cheaply than can be done by employers without a subsidized workforce (Bartik 2001) (Ellwood and Welty 1999).

Some PSE initiatives have sought to minimize displacement and unfair competition by requiring that public service workers be assigned tasks that would not otherwise get done or, at least, are extraneous to the everyday duties of other workers. The risk inherent with this approach is that employers might have less incentive to provide on-the-job training and instead only assign menial tasks meant to keep workers busy, often referred to as "make-work" (Bartik 2001) (Gottschalk 1998).

[1] Economists have defined these terms as such under the assumption that PSE workers generally are employed by government and nonprofit entities, not by private-sector businesses.

[2] On the other hand, if PSE programs target those who otherwise would be out of the labor force and successfully bring them permanently into the labor force, they might help expand overall employment and the economy (Bartik 2001).

Consequently, public service workers may not gain work-related skills, lessening their future employment opportunities. Additionally, their make-work assignments might not result in the production of any goods or services with market value, raising the concern that a PSE program providing only unproductive make-work is really just an income transfer in disguise (Bartik 2001) (Gottschalk 1998).

Alternatively, PSE programs that offer on-the-job training, educational opportunities, and supportive services to improve participants' employability can be quite expensive to operate. This approach raises another set of concerns regarding whether expected benefits can exceed high costs. Heavy investments in human capital pay off only if the future unsubsidized earnings of public service workers rise above the initial expense of employing and training them (Gottschalk 1998).

Past and current PSE initiatives have had varying levels of success in minimizing displacement, providing meaningful work opportunities, and running cost-effective operations. Their efficacy depends in part on their program model drawn from one of the four objectives listed on pages 19-20. Each model is examined below, in turn.

Countercyclical Measures

The roots of PSE can be traced to the Great Depression-era Work Progress Administration (WPA) and Civilian Conservation Corps (CCC). Enacted as part of President Franklin Roosevelt's New Deal, these two initiatives provided publicly funded jobs for tens of millions of unemployed adults during the 1930s and early 1940s. The WPA allocated federal funds to pay for state and locally managed construction and service projects, primarily linking prime-age unemployed workers with jobs suited to their skills and experience. In contrast, the smaller-scale CCC only employed young men between the ages of 18 and 25, putting them to work on labor-intensive reforestation and flood and fire control projects based out of work camps that sprung up around the country (Trattner 1999) (Ellwood and Welty 1999).

The New Deal work relief programs operated under the assumption that the private economy could not provide an adequate number of jobs (Bartik 2001). Therefore, their overarching objective was countercyclical: to reduce large-scale unemployment and provide a paycheck to families whom otherwise would suffer more or end up on welfare (Ellwood and

Welty 1999). At their height, the programs provided employment for about one-third of the jobless (Trattner 1999).

Little thought was given to building skills or providing work experience that would improve participant earning capacity because the work relief programs typically employed individuals who, in better economic times, were capable of finding desirable work (Ellwood and Welty 1998). To induce participants to drop out of the work relief programs when private employment became available, the subsidized jobs paid lower "security" wages and provided fewer hours than comparable jobs in the private sector (Trattner 1999).

The WPA was hailed for providing jobs to many who had no other alternative and for producing public works of lasting value to the nation. Nonetheless, it was widely opposed on the grounds that it "epitomized big government, had too many make-work projects rather than real jobs, was subject to political corruption in who got the jobs, and unfairly competed with the private sector both in hiring workers and producing goods" (Bartik 2001, 164-165). The WPA, CCC, and other New Deal employment programs were repealed in 1943, as the political tide shifted to the Right. Moreover, World War II prompted economic recovery and employment opportunities (Bartik 2001).

For the next 30 years, the United States did not administer any large-scale PSE programs for the disadvantaged or unemployed. Instead, in the face of changing economic times, the federal government turned to job training and vocational education to aid unemployed workers' reentry into the labor market. In 1962, President John F. Kennedy signed the Manpower Development and Training Act (MDTA), which provided funding to retrain workers who lost their manufacturing jobs because of automation and technological change (Kremen 1974).

However, as the country slid into recession in 1971, Congress once again embraced public service employment as a strategy to lower high unemployment. Authorized under the Emergency Employment Act of 1971, the Public Employment Program (PEP) provided funds to local governments to create temporary jobs for families below the poverty level, Vietnam veterans, and young and old workers who had been out of work for a week or more or were underemployed. The program, which generated jobs for 185,000 people at its peak in 1972, did not, however, get underway until the economy began to recover (Ellwood and Welty 1999).

In 1973, President Richard Nixon signed the Comprehensive Employment and Training Act (CETA), which replaced MDTA and succeeded PEP in creating temporary and longer-term jobs at public and nonprofit agencies for the unemployed or disadvantaged. Initially, eligibility for jobs was confined to individuals who resided in a high unemployment area and were out of work for at least 30 days. However, by summer 1974, another recession had emerged, leading Congress to expand eligibility to laid-off workers who were not otherwise disadvantaged. At its peak in 1978, CETA provided jobs to 750,000 Americans, equal to 10 percent of the unemployed (Ellwood and Welty 1999). Jobs ranged from child care to police and fire protection (Gottschalk 1998).

CETA gave local governments broad discretion on whom they hired and for how long. This led to the criticism that localities were using their CETA grants to hire laid-off city workers, or at least workers similar to those they would have hired anyway (Bartik 2001). Studies indicate that CETA increased employment in the short run when the economy was below full employment but that the early gains eroded over time as local governments began reducing the number of workers they hired with their own funds (Gottschalk 1998).[3]

CETA also was criticized on the grounds that many of those hired arguably were not the neediest. Instead, local governments often selected more highly skilled workers out of the applicant pool, a process known as “creaming.” As a result, 75 percent of the early CETA slots were filled by high school graduates, and less than half of the jobs were filled by people from low-income households who could have benefited more from the program (Gottschalk 1998). Critics contended that CETA had not helped the disadvantaged get jobs but rather allowed local governments to lower taxes by reducing payroll expenses (Bartik 2001).

In response to mounting criticism, Congress amended CETA in 1976 and again in 1978 to require that disadvantaged workers be given priority in hiring decisions. Program rules were tightened to limit CETA positions to less than one year and to eventually require that all job slots go to long-term unemployed persons with low income or to welfare recipients. Under these

[3] Researchers dispute how much displacement took place in CETA. One research team found that the net impact of federally financed jobs was almost totally offset by reductions in state and local employment. In contrast, another team of researchers asserted that substitution may have been as low as 25 percent and, thus, CETA resulted in positive employment gains (Gottschalk 1998).

restrictions, CETA lost much of its appeal to state and local officials (Ellwood and Welty 1999) (Bartik 2001).

Backed by strong political opposition and bad publicity foe CETA, President Ronald Reagan succeeded in repealing the law in 1982. Reagan, who adamantly opposed direct job creation efforts, replaced CETA with the Job Training Partnership Act (JTPA), which forbade the use of federal funds for public service employment (Gottschalk 1998).[4] CETA's perceived failure had widely discredited the notion that a large-scale public jobs program could be a solution to unemployment and poverty (Bartik 2001).

Targeted Efforts

Prior to its demise, CETA's shift to hiring only disadvantaged workers signaled a changing strategy in delivering public service employment. CETA and other small-scale programs began targeting job opportunities to individuals who struggle to obtain employment even during periods of strong economic growth. Unlike countercyclical measures, targeted strategies generally do not create permanent jobs, in order to minimize displacement. Instead, they typically combine short-term, wage-paying employment with some training and education to improve participant employment prospects (Ellwood and Welty 1998).

On that account, the more targeted CETA program achieved mixed employment effects. Men's earnings and hours in the post-program period were not substantially different from the labor market experiences of men who did not participate in the program (Gottschalk 1998). But, women posted significant increases in earnings, ranging from $643 to $3,889 for minority women and from $1,524 to $3,633 for white women. These earnings gains were primarily due to increased work hours in the post-program period (Ellwood and Welty 1998) (Gottschalk 1998).

Other jobs programs targeting at-risk youth have been launched intermittently, resulting in some positive employment gains for participants. The Summer Youth Employment Program (SYEP), and variants of it, has subsidized summer jobs for several million poor adolescents since 1965. To be eligible, youths must be between the ages of 14 and 21, still in school, and have a

[4] JTPA provided employment training for specific occupations and services, such as job search assistance and remedial education, to economically disadvantaged individuals (Blanchette 1996). JTPA was replaced in 1998 with the Workforce Investment Act (WIA), which made eligibility universal for basic employment services offered at local one-stop career centers. Under WIA, the number of disadvantaged adults receiving training has declined (Frank and Minoff 2005).

household income below the Bureau of Labor Statistics lower living standard. Participants are paid the minimum wage to work part-time or full-time at public and private organizations for nine weeks over the summer. They also have access to remedial education (Ellwood and Welty 1999).

At its peak in 1979, 45 percent of nonwhite youth employed during the summer were in SYEP. Participants were slightly more likely to work the following year but did not record long-term gains. Total cost per participant was about $1,444. Although SYEP only subsidized temporary jobs, 37 percent of the jobs resulted in substitution or crowd-out (Ellwood and Welty 1999).

A more intensive jobs program for indigent youth was tested from 1978 to 1980. The Youth Incentive Entitlement Pilot Project (YIEPP) guaranteed a part-time job during the school year and a full-time job over the summer for older, in-school teenagers from low-income or welfare households. Minimum wage-paying jobs were offered to all eligible youth living in the 17 rural and urban sites that participated in the pilot. In return, youth participants had to agree to stay in school (Ellwood and Welty 1999).

In total, 76,000 participants took jobs, primarily in the public and nonprofit sector. The program also generated private-sector jobs by offering generous subsidies to employers (Ellwood and Welty 1999). Blacks gained disproportionately from the guaranteed availability of a job. The unemployment differentials between black and white youth were largely eliminated during the existence of the program, indicating that YIEPP was successful at targeting job gains at a particularly disadvantaged subgroup of youth (Gottschalk 1998).

An experimental evaluation of YIEPP found that participants raised their earnings by 40 percent over the control group living in comparison sites (Ellwood and Welty 1999). Earning gains were more pronounced during the school year, upwards of 161 percent. The fact that earnings increased indicates that displacement did not fully offset the impact of the program (Gottschalk 1998). It is estimated that YIEPP substituted around half of private-sector jobs and lower or negligible levels of employment in the nonprofit and public sectors. The total cost per participant was about $3,282 (Ellwood and Welty 1998).

Supported Work

Most targeted efforts were designed with the intent of providing work opportunities for disadvantaged individuals who could not otherwise find employment. However, little attention was paid to providing the type of on-the-job supervision and training needed to raise their long-run employability. The federal government tested a more structured work experience program when it launched the National Supported Work Demonstration in 1975. The four-year pilot project provided work experience for more than 10,000 long-term welfare mothers, ex-offenders, recovering drug addicts, and out-of-school youth (Gottschalk 1998).

Participants were placed in temporary one-year jobs painting fire hydrants, recapping tires, building furniture, or working in daycare centers in 15 sites across the country. Their work responsibilities were gradually increased with respect to attendance, punctuality, and other work-related demands. In addition to work experience, Supported Work programs provided counseling, training, and help finding unsubsidized employment. The goal was to raise participants' employability by helping them get accustomed to workplace environments and expectations, instead of trying to teach them specific skills (Gottschalk 1998) (Ellwood and Welty 1999) (Bartik 2001).

A random assignment evaluation found that Supported Work significantly increased the employment and earnings of all four target groups during their participation in the program. However, only welfare recipients experienced earnings gains during the post-program period (Gottschalk 1998). By months 25–27 after enrollment, welfare recipients worked 35 percent more hours and had almost 50 percent more earnings. They earned on average $188 more per month, $2,260 more per year, than the control group. However, about two-thirds of these gains were absorbed by significant reductions in welfare payments and food stamps (Ellwood and Welty 1998).

Supported Work participants also appeared successful in contributing productive work at their assigned projects, partially offsetting the cost of running the program. Researchers determined that participants on average produced output of $13.12 per hour, valued in 1998 dollars, suggesting that they were productive given their low employability. Program costs totaled $30.48 per hour per participant, which included $14.84 for wages and fringe benefits,

$8.28 for on-site supervision, and $6.56 for job creation, participant recruitment, and supportive services. Therefore, project output offset 43 percent of program costs (Bartik 2001).

Mandatory "Workfare"

Other employment programs have been implemented with the intent of putting welfare recipients to work in exchange for continued cash assistance, a strategy often referred to as "workfare." These programs held three goals: (1) ensure welfare recipients meet a social obligation to work, (2) deter shirkers from getting aid, and (3) improve participants' earning prospects. The latter was often, but not uniformly, a goal.

Congress first toyed with work requirements in 1962 when it created the Community Work and Training (CWT) program. CWT allowed states that provided aid to two-parent families to require one of the parents to "work off" their welfare benefits by performing community service. In most states the program remained small, and most agencies chose to expand social services rather than to require work (Robles, Doolittle, and Gooden 2003).

Similarly, the Work Incentive (WIN) program, implemented in 1967, was designed to require all able-bodied fathers in families receiving welfare benefits to register for 13 weeks of work experience. In 1971, lawmakers extended work rules to able-bodied mothers. In practice, however, most states implemented extremely small-scale efforts and seldom applied sanctions on families who did not comply with work requirements (Bartik 2001) (Robles, Doolittle, and Gooden 2003).

President Jimmy Carter proposed a welfare reform package that would have provided guaranteed public service jobs and training positions for welfare recipients who could not find work elsewhere. The plan assumed the creation of 1.4 million jobs and training slots. Congress passed a scaled-back program, the Employment Opportunity Pilot Project (EOPP), to test the impact of job search assistance and subsidized employment (Bartik 2001).

In 14 EOPP sites around the country, work-eligible welfare recipients initially participated in five to eight weeks of self-directed job search, backed up by job club meetings and counseling. If the job search was unsuccessful, the family's primary earner qualified for subsidized employment and training for up to one year. EOPP was supposed to provide an entitlement to a job, but in practice few welfare recipients were enrolled. Those who were placed in EOPP-funded jobs generally experienced positive employment gains. About one-third left the program to take a regular job (Bartik 2001). Nonetheless, the Reagan Administration eliminated the program in 1981.

Reagan replaced EOPP with a tougher workfare initiative that required welfare recipients to perform community service in exchange for their benefits. The Community Work Experience Program (CWEP) placed welfare clients with government and nonprofit agencies. In an effort to avoid displacement, the agencies were supposed to assign clerical or maintenance tasks that were not being completed by permanent employees. Participants earned the minimum wage paid out by dividing their monthly welfare check into hourly earnings (Gottschalk 1998) (Sherwood 1999). CWEP work assignments often were combined with job search assistance and, in some localities, with limited job training (Ellwood and Welty 1998).

By 1985, about half of all states operated some form of CWEP. Most state programs provided only short-term jobs lasting an average of 13 weeks, while participation of eligible recipients remained relatively low, ranging from 3 to 24 percent at specific sites (Ellwood and Welty 1999). The limited use was attributed to administrative difficulties, insufficient resources, staff opposition, and greater popularity of other services among staff, especially education (Turner and Main 2001).

CWEP programs that combined structured job search, work experience, and limited training showed modest gains in earnings, as high as $873 for participants in San Diego's Saturation Work Initiative Model (SWIM) project. There is little evidence that CWEP alone did much to raise future earnings or reduce welfare caseloads. In West Virginia, the CWEP program that offered only work experience showed no long-term earnings gains, although this could have been caused by the extremely weak local economy. In two other programs comparing job search assistance to a combination of job search and work experience, the additional work experience did not improve employment outcomes (Ellwood and Welty 1998). Interestingly, a large majority of CWEP participants surveyed said they thought it was fair to expect them to work (Brock et al. 1993).

CWEP was terminated in 1987, giving way to the Job Opportunity and Basic Skills (JOBS) program enacted the following year as part of the Family Support Act. This legislation promised $1 billion annually in federal funds to states that formed training and work programs for parents on welfare. However, the measure contained restrictive regulations on creating paid jobs for welfare recipients (Cohen 1998). As a result, states shied away from public service employment strategies.

Renewed Interest in PSE

In the midst of the recession in the early 1990s, public sentiment swayed heavily in opposition of entitlements and again toward a jobs strategy for reducing welfare dependency.[5] According to surveys, nine out of 10 Americans agreed that welfare recipients should have to "work for their benefits" (Rector 1995). The push for work requirements raised the precarious question of how to employ welfare recipients. There was particular concern over how the hardest-to-employ recipients would be hired in an economy that, at the time, was having increasing difficulty generating employment opportunities for low-skilled workers. This dilemma led back to public service employment as a job of last resort for welfare recipients (Gottschalk 1998).

When Bill Clinton pledged to "end welfare as we know it" during the 1992 presidential campaign, his vision for breaking welfare dependency included the creation of publicly funded jobs for those recipients who were unable or incapable of leaving public assistance for the working world.[6] However, welfare reform legislation stalled during Clinton's first term of office. A few months before the 1996 election, Clinton succumbed to mounting political pressure by agreeing to sign the Republican-sponsored welfare reform package, the Personal Responsibility and Work Opportunity Reconciliation Act. The new law put far more restrictions on cash assistance than Clinton initially proposed. In addition, it did not carry the guarantee of a jobs program for unemployed welfare recipients or earmark the necessary funds for such a program.

[5] By the 1990s, welfare rolls had swelled to five million families, five times the number of cases in 1964 at the start of President Lyndon Johnson's "War on Poverty," which is credited with expanding coverage to underserved blacks (OFA 2006b) (Katz 1989).

[6] The Clinton proposal phased in a two-year limit on Aid to Families with Dependent Children (AFDC) benefits for nonworking adults without younger children. It created a public service employment program for recipients who were still jobless after two years on AFDC. Under the plan, clients would have been placed in short-term, minimum wage jobs, but they would remain ineligible for the Earned Income Tax Credit (Richardson and Burke 2001) (Ellwood and Welty 1999).

Still, the Republican Congress shared Clinton's assumption that some welfare recipients would not be immediately ready for private-market employment. Under PRWORA, lawmakers gave states the discretion to use their TANF allotments to engage clients in a set of "work-site" activities, including subsidized employment, "work experience," community service, or on-the-job training, in order to meet their work requirements (42 U.S.C. 607).[7]

And, in 1997, as part of a balanced budget measure, Congress agreed to the Clinton's request to appropriate $3 billion for welfare-to-work (WtW) grants, which the U.S. Department of Labor (DOL) awarded to states and localities on the basis that they provide job opportunities and employment preparation for the hardest-to-employ recipients on TANF (Fraker et al 2004).[8] Localities had to use WtW grants to help targeted populations make the transition to permanent, unsubsidized employment (Waller 2002). Money could go to job creation, placement, and retention efforts, such as wage subsidies to private employers, transportation, and other post-employment support services (White House 1997).[9]

Work Experience in the Welfare Reform Era

Several states undertook work-site activities around the time PRWORA passed, but their efforts have generally remained small. Over the course of the first six years of TANF, only about 17 percent of welfare recipients who met their work requirements did so by engaging in work-site activities, the lion's share of which was in work experience and community service. States have increased work-site engagement in more recent years to around a quarter of complying families. Still, given the low overall work participation rates, actual involvement is much lower in proportion to the total caseload (OFA 2006).[10]

---

[7] In passing PRWORA, Congress threw out many of the restrictions that AFDC had placed on work-site activities concerning the length of participation allowed and type and amount of payments to be made to participants and employers (Fagnoni 2000).

[8] Grants were awarded directly by DOL on a competitive basis to programs in local communities with innovative welfare-to-work approaches, and through states, on a formula basis, to the Private Industry Councils or equivalent bodies in all JTPA service delivery areas (now Workforce Investment Boards, under WIA) (Fraker et al 2004).

[9] An evaluation of 11 WtW grantees found that funds were primarily spent on providing welfare clients with job readiness training and job search assistance. Education, vocational training, and wage subsidies did not figure prominently in most programs (Fraker et al 2004).

[10] In FY1998, 122,000 out of three million families on welfare met their work requirements by engaging in work-site activities. Engagement fell steadily through the ensuing years in line with declining caseloads, to about

A few states have accounted for most of the participation in work experience. Over the years, Illinois, New Jersey, New York, Ohio, and Wisconsin have operated larger-scale workfare programs that have generated jobs in government offices and nonprofit entities for welfare recipients. Two of the most prominent, New York City and Wisconsin, are examined below in more depth.

New York City subsidizes short-term, part-time job slots at municipal agencies and nonprofits for TANF recipients and other general assistance clients who are unable to find employment on their own. Clients are required to work for their benefits, motivated as Clinton was by dual beliefs "that it is appropriate to expect work of those collecting public aid and an unwillingness to simply cut people off who say they cannot find unsubsidized work" (Ellwood and Welty 1999, 33).

Almost all unemployed welfare recipients are assigned to the city's work experience program (WEP) immediately after they are approved for cash assistance (Fagnoni 2000). By the late 1990s, WEP was placing 32,000 clients per month in jobs (Ellwood and Welty 1999). Almost 70 percent of WEP participants were assigned in large groups to public-sector agencies, where they performed such tasks as cleaning city court buildings and providing administrative support. Other participants were referred to a community-based agency to perform similar tasks for nonprofit organizations (Fagnoni 2000).

Typically, welfare recipients are required to work at their WEP assignment for 20 hours a week, and, in theory, their progress is re-evaluated every six months to provide additional training or a new job assignment if needed (Ellwood and Welty 1999). However, advocates have complained that WEP does not do enough to assess participants' needs and skills and to match them with work sites that would provide them the job search assistance and training needed to find employment at higher wages. They have also expressed concern that families in need of assistance might have left the welfare rolls or were sanctioned because they did not want to, or could not, perform the assigned work (Fagnoni 2000).

64,000 out of two million families in FY 2003, before rising to 74,000 in FY 2004 (OFA 2006). It should be noted that states generally report to HHS only work activity data for welfare recipients who meet their work requirements. Therefore, actual enrollment in work experience or community service might be much higher if welfare recipients who did not log enough hours to comply are counted.

Welfare recipients who did participate in WEP were not assigned unproductive make-work. *The New York Times* and the New York City Department of Parks and Recreation reported that city parks were noticeably cleaner just eight months after WEP work crews were sent to clean up litter and take down graffiti, suggesting that they were doing something useful at their jobs (Ellwood and Welty 1999).[11] Moreover, municipal managers rated WEP participants only slightly less productive than regular workers, who were paid considerably more (Lerman and Rosenberg 1997).

In light of their productivity, evidence mounted that municipal agencies were using WEP participants to replace higher-paid union workers. There have been no rigorous attempts to measure the extent of public worker substitution; however, union leaders and *The New York Times* documented several cases where cuts in the city workforce seemed to be coupled with an increase in WEP participants.[12] Municipal officials denied that WEP participants were displacing city workers and instead claimed that city was seeking to cut back employment anyway (Ellwood and Welty 1999).

With the implementation of the Wisconsin Works (W-2) program in 1997, Wisconsin also turned to PSE to require welfare recipients to work in exchange for their benefits. Depending on their level of job readiness, welfare recipients were assigned to participate immediately in one of four "tiers" of services: unsubsidized employment for the job ready, "trial" subsidized jobs at private business for those lacking sufficient work experience, workfare-style community service jobs (CSJ) for those lacking basic skills and work habits, or placements in rehabilitative or intensive services reserved for the hardest-to-employ (Robles, Doolittle, and Gooden 2003).

[11] The percentage of NYC parks deemed unacceptable by the Parks Department decreased by about 35 percent in the areas where WEP workers were assigned, even as public funding for parks decreased by 31 percent. Litter and graffiti was down by one-third, and inspections showed that 79 percent of parks were "acceptably clean," a 9 percentage point improvement from the previous reporting period (Ellwood and Welty 1999).

[12] In 1996, James Butler, president of the Municipal Hospital Workers Union Local 420, testified that a total of "472 WEP workers [partially] replaced 896 Health and Hospital Corporation employees who accepted severance packages." *The New York Times* found similar scenarios in the Health Department, Criminal Courts building, Family Court, Surrogate Court, and the headquarters of the Department of Housing Preservation and Development. In the 1980s, 20 city employees were responsible for the Health Department's maintenance work, but that number declined to three by 1995 at which time 50 part-time workfare participants were assigned to the building. The Sanitation Department, which used more than 5,000 WEP participants in the late 1990s, cut its paid workforce from 8,296 in 1990 to 6,327 in 1997. Due to layoffs and attrition, the Parks Department non-administrative workforce fell from 2,786 in 1990 to 1,156 in 1998 when the city placed more than 6,000 WEP participants there (Ellwood and Welty 1999, 15).

CSJ quickly became the dominant strategy of W-2, with 60 to 80 percent of welfare recipients assigned to a position in the first two years of the program.[13] Most worked at nonprofit organizations (68 percent) or private-sector businesses (21 percent), assigned to such tasks as customer service, child or elderly care, light assembly, housekeeping, thrift store work, or vocational training. Job assignments emphasized developing soft skills, including punctuality, reliability, social skills, and sustained work effort, rather than providing welfare recipients an opportunity to build occupational skills or increase their basic education. CSJ participants were required to work 30 to 40 hours per week for a monthly cash payment of $673,[14] which in turn could be reduced for each hour they did not engage in their assigned activities without an acceptable excuse (Robles, Doolittle, and Gooden 2003).

The stiff work requirements set in W-2 and its predecessor, Pay for Performance, resulted in many welfare recipients leaving the rolls either voluntarily or after being kicked off for noncompliance. Wisconsin's welfare caseload fell by more than 75 percent in the 1990s, the steepest decline in the nation (OFA 2006b). Many families on AFDC elected to close their cases rather than enroll in the work-based W-2 program (Turner and Main 2001).[15] This aroused criticism that workfare programs like W-2 appeared far more effective in producing caseload reductions than employment gains (Johnson 2001).

W-2 was further tarnished by several scandals and dubious practices involving private-sector case management firms with which the state contracted to deliver services. Funded through performance-based contracts, service providers pocketed windfall profits after caseloads declined sharply, all the while providing sub-par case management to clients (DeParle 2004). Program evaluators were troubled that case workers failed to detect that some CSJ participants stopped showing up for their work assignments. Evaluators surmised that the lack of attendance monitoring led some idle clients to run down their time-limited cash assistance, set at two years

[13] In comparison, only about 5 percent of welfare recipients nationwide participated in work experience or community service in 1999.

[14] Unlike most other states, Wisconsin decided to provide a flat welfare check regardless of the number of children in the household.

[15] Of the 26,000 AFDC families with an adult who was required to enroll in work activities under the W-2 program, 45 percent elected not to transfer and closed their cases.

in Wisconsin, without the benefit of ongoing case management services (Robles, Doolittle, and Gooden 2003).

Best Practices

Several lessons can be drawn from past PSE initiatives. The following list adapts findings made by Timothy Bartik (2001) and by David Ellwood and Elizabeth Welty (1999):

- Participants with little prior work experience can benefit more from PSE programs. In the Supported Work program, AFDC recipients with no previous work histories made greater earnings gains post-program than those who had worked previously.
- Limiting participation to six months appears to improve post-program employment outcomes, provided that some effort is made to deal with participant problems early on. Without time limits, participants become complacent and do not seek unsubsidized employment, as was the case in the West Virginia CWEP.
- Earning gains are generally higher in wage-paying programs than in workfare when comparing employment outcomes of CWEP and various PSE pilots.
- More intensive programs produce more long-term benefits and valuable output, but they are also more expensive and difficult to implement.
- Programs that combine structured job search, work experience, and training have shown modest but significant gains in earnings, as demonstrated by San Diego SWIM. Work experience alone does little to improve future earnings.
- Programs tend to have better post-program earning gains when participants are hired permanently by work sites or are provided job search assistance, as was the case in CETA and Supported Work.
- Work-site supervision is an important element in raising participants’ employment outcomes, as demonstrated by Supported Work.
- Real job tasks, as opposed to make-work, tend to improve participants’ work skills, improve their future earnings, and create output that offset program costs, but may cause displacement.
- Displacement can be reduced by (1) hiring individuals who are hard-to-employ, (2) offering temporary jobs that pay below market wages, (3) encouraging ongoing job

search, (4) using workers to do distinct assignments, and (5) targeting PSE initiatives in high-unemployment areas.

- Carefully structured programs can keep displacement low (creating as much as 70 percent new employment) and produce valuable output that can equal 25 to 100 percent of wage and administrative costs. When poorly designed, they can be wasteful and have little impact on employment and output.

Transitional jobs are designed with these lessons in mind. The next chapter examines program characteristics, overarching goals, employment outcomes, and costs.

CHAPTER 3

TRANSITIONAL JOBS

In the late 1990s, declining caseloads increased the amount of TANF funds available to finance intensive services for welfare recipients who were unsuccessful at finding employment through conventional work-first programs. A few states and localities chose to spend surplus TANF money, newly awarded WtW grants, and other available resources to create transitional jobs, an emerging model of public service employment (PSE) targeted at hard-to-employ welfare clients (Kirby et al 2002).[1]

The Transitional Jobs model differs from previous PSE initiatives in the manner by which participants are employed, the program objectives, and the depth of supportive services provided. This chapter begins with an overview of key components of the TJ approach before presenting a series of case studies, including available research on employment outcomes and program costs. Implications for work participation also are examined.

Program Design

Transitional jobs are created with the intent of enhancing participants' ability to compete for permanent, unsubsidized employment, by helping them acquire job-related skills, develop work habits and experience, and manage life issues (NTJN 2006). Most previous PSE initiatives put little or no emphasis on breaking down barriers to work, with the exception of the Supported Work pilot of the 1970s. As the last chapter described, past programs provided jobs to ensure reciprocity for welfare benefits (i.e., CWEP)[2] or to lower the unemployment rate for the aggregate labor force (i.e., WPA) or for a particular disadvantaged subgroup (i.e., SYEP). The dual goals of minimizing displacement and maximizing employability are reflected in the design of the TJ model and the types of services that may be offered.

TJ programs tend to subsidize jobs in the nonprofit sector, unlike previous PSE initiatives that placed participants predominantly in government offices. The changing tactic is meant to

[1] The TJ model was designed initially to employ long-term welfare recipients, but in ensuing years it has been expanded to serve ex-offenders, at-risk youth, refugees, asylum seekers, individuals with disabilities, and the homeless, who also face barriers to employment.

[2] Participation in transitional jobs is voluntary. Welfare clients can choose not to enroll in the program and still maintain eligibility for benefits, unlike workfare programs.

reduce the risk of public worker substitution, which plagued PSE efforts in the past. At the same time, the nonprofits benefit by attaining much needed workers who they would not otherwise be able to afford. In exchange, the organizations agree to provide participants with on-the-job training and supervision (Kirby et al 2002).

In cases in which placements are made at government agencies or private businesses, TJ programs usually collaborate with employee unions to ensure that transitional workers do not displace permanent staff (Kirby et al 2002). In addition, private businesses often are expected to contribute to the cost of wages and hire transitional workers permanently after they have completed the program (Waller 2002).

Job Elements

As the name implies, transitional jobs are temporary, ranging from a few weeks to nine to 12 months. The aim is to give participants enough time to gain marketable skills and work experience without losing the incentive to find permanent, unsubsidized employment (Kirby et al 2002). In addition, the brevity of job assignments is meant to ensure transitional workers do not displace permanent staff.

Unlike workfare programs that dole out monthly welfare benefits in exchange for work, clients earn a taxable hourly wage at their transitional job. This qualifies them for the Earned Income Tax Credit (EITC), which can increase their income by one-third or more (Sherwood 1999). Transitional workers earn at least the minimum wage, paid out biweekly or bimonthly, but do not typically receive employee health care or retirement benefits (Kirby et al 2002). Nevertheless, the combination of a paycheck and a sizeable tax refund can lift them out of poverty.

Advocates assert that providing a paycheck not only raises income levels but also sends a strong signal to potential employers that transitional workers performed well enough on the job to get paid. In that way, the TJ model, as opposed to unpaid workfare, carries the expectation that participants contribute meaningful, productive tasks to their transitional employers, not make-work intended mainly to keep them busy (Sherwood 1999).

TJ programs aim to provide a realistic experience of looking for and holding down a job. Program participants are expected to go through a job interview and fill out an application at potential worksites (Kirby et al 2002). Transitional workers typically are required to log at least 30 hours per week on the job and in supplemental activities. Work hours vary, from 20 to 40 hours per week, in accordance with program objectives and available resources. Some programs hold a goal of putting participants to work full-time, while other programs seek to supplement part-time work with activities designed to improve participants' basic education and occupational skills (Kirby et al 2002).

Supplemental activities can include job skills workshops, such as a computer class; basic education courses to prepare them to take the GED or to improve their English language skills; or rehabilitative treatment for substance abuse or mental health issues. In some programs, participants are involved in such activities for four to 20 hours a week (Kirby et al 2002).

At work, expectations are gradually increased to require better job performance, more stringent attendance and punctuality, and less supervision (Pavetti et al 2001). At least initially, transitional workers receive more supervision and support than regular employees. Worksite supervisors help them learn basic skills, acquire good workplace behaviors, and identify leads for unsubsidized jobs (Kirby et al 2002).

TJ programs place participants either in individual positions or on work crews. Group placements, an approach developed by supported work programs for disabled adults, generally offer a more structured work environment and more intensive support than do individual placements (Pavetti et al 2001). On the other hand, individualized placements more closely resemble permanent employment and may make it easier for participants to move from subsidized to unsubsidized jobs. However, individualized placements generally cannot provide the day-to-day support needed for participants struggling with barriers to work (Kirby et al 2002).

Whether using individual or group placement, all programs attempt to offer a variety of work placements that may interest participants, although choices for group placements are more limited. Common types of work include clerical, administrative, food service, warehouse, child care, and landscaping tasks (Kirby et al 2002).

Job Search Assistance

A critical component of the TJ strategy is the support participants receive in finding unsubsidized employment. Some programs refer participants to the welfare or workforce development agency to conduct job searches, while other programs put them in touch with their own job development staff to find work suitable for their skill level, work experience, employment desires, and employment barriers (Kirby et al 2002) (NTJN 2006). Programs that provide intensive support might ask staff to accompany participants on interviews, help find appropriate job openings, and review job applications. The emphasis is on making a good job match. Typically, programs require participants to begin their job search either after a specified period of time[3] or after they are determined to be work ready (Pavetti et al 2001).

To ensure participants maintain unsubsidized employment, some programs offer job retention services, which might include supportive services, job coaching, and incentive payments. Follow-up typically lasts a minimum of 90 days but might go on for as long as two years (Kirby et al 2002) (NTJN 2006).[4]

Supportive Services

The TJ approach carries the assumption that anyone can work, given the confidence gained while employed in a supportive environment (NTJN 2006). TJ programs offer a range of supportive services to help participants' handle life difficulties and overcome employment barriers.

The case management with which program staff provides participants is typically more intensive than that in conventional work first strategies. Client-to-staff ratios are kept low, generally 25 to 1, and meetings with clients are frequent, generally weekly (Kirby et al 2002).

Case managers link participants to social services, provide ongoing employment counseling, and review their progress in searching and interviewing for permanent employment (NTJN 2006). After participants are placed at their transitional worksites, case managers closely monitor them to evaluate their job performance and to ensure that they have real responsibilities,

[3] For examples, job searches may commence after 90 days into transitional employment.

[4] Program staff commonly meets with participants once a week during the first few weeks of employment, then twice a month for at least the next three months. Only a few programs provide regular support after a year (Pavetti et al 2001).

receive training, and make contributions to their employers (Kirby et al 2002). They also may meet with worksite supervisors to resolve any problems and act as a job coach to teach participants how to complete assigned tasks (Waller 2002).

In general, TJ programs place a much greater emphasis on client assessments than do most welfare employment programs. Nearly all programs assess participants before placing them at their transitional worksites. They are screened for personal and family circumstances that might inhibit their ability to find or maintain employment, including child care, transportation, and housing needs; domestic violence; mental health issues; medical problems; previous work experience; and career aspirations (Pavetti et al 2001).[5] The intent is to ease barriers before placing participants at TJ worksites as well as to set realistic short-term employment goals and long-range career plans (NTJN 2006).

Some programs augment this basic assessment with a number of specialized screening tools to identify basic skills, potential learning disabilities, alcohol and drug use, and vocational ability. These programs use assessments to determine what special accommodations may be needed to help an individual be successful in the workplace, given that the resolution of family and personal challenges may be a long and difficult process. Program staff focus not on resolving weaknesses but on finding a work situation in which their impact, or relevance, is minimized (Pavetti et al 2001).

TJ programs aim to place participants at their transitional worksites as quickly as possible (Pavetti et al 2001). Therefore, most programs limit pre-placement activities to two weeks or less (Kirby et al 2002).[6] Orientation activities might take the form of short-term, peer-to-peer classes meant to resolve employment barriers,[7] teach life skills,[8] and prepare participants for work (NTJN 2006).[9]

---

[5] Some TJ programs conduct their own assessments, while others depend on information collected by TANF case managers or other social workers (Kirby et al 2002).

[6] Some programs delay pre-employment or work activities until a client's personal and family situation is stabilized (Pavetti et al 2001).

[7] Employment barriers may include child care, medical or drug treatment, parole or probation, other appointments, family problems, housing, and child support.

[8] Life skills training covers time and anger management, problem-solving, stress reduction, and conflict resolution.

Implications for Work Participation

TJ programs are designed to satisfy welfare recipients' requirements to work.[10] For transitional jobs to count toward work participation, however, states must overcome a few obstacles. The U.S. Department of Health and Human Services (HHS) regulates how states provide wage subsidies and record the hours that clients engage in certain work activities, both of which affect the design of TJ programs.

States generally designate transitional jobs under the "subsidized employment" work category (Frank 2007). Under the new rules issued by HHS, subsidized work is defined as "employment for which the employer receives a subsidy from TANF or other public funds to offset some or all of the wages and costs of employing recipients" (45 CFR 261.2).

Wages subsidized with TANF funds, however, do not constitute "assistance" under federal rules. Therefore, states cannot include subsidized workers in the calculation of the work participation rate unless they also are provided a monthly welfare check (Parrott 2006). With income eligibility levels for welfare generally kept low, it is difficult for employed individuals to stay qualified for cash assistance unless their state offers a generous earned income disregard.

Under such a policy, caseworkers discount a certain portion of clients' earnings when determining the amount of cash assistance they are eligible to receive. Typically, then, transitional workers receive "residual" benefits, which are to some extent lower than the normal monthly amount but are time-limited just the same (Parrott 2006).

States can "stop the welfare clock," however, by covering the expense of residual benefits with their maintenance-of-effort funds, which under the interim final TANF rules count toward work participation but not to time limits. Of course, states may choose not to provide any cash assistance on top of wage subsidies, avoiding any entanglement with work participation rules and time limits (Parrott 2006).

In some programs, transitional work earnings are treated the same as permanent work earnings: 50 percent of monthly earnings are counted against the TANF grant. As a way of

---

[9] Work preparation covers how to write a resume, fill out an employment application, interview, conduct a job search, dress appropriately, learn real wage expectations, display proper workplace behaviors, develop financial literacy, and engage in career planning.

[10] As mentioned earlier, TJ participants are typically assigned 20 to 30 hours of work and related supportive services a week, putting them in full compliance with federally prescribed work rules.

smoothing the transition into subsidized jobs, some programs allow participants to keep both their wages and TANF check in the first month (Kirby et al 2002).

The use of wage subsidies raises another thorny issue. In the preamble language to the regulations, HHS states that "at the end of the subsidy period, the employer is expected to retain the participant as a regular employee without receiving a subsidy" (71 FR 37458). As mentioned earlier, states generally do not expect host worksites to hire TJ participants permanently, considering that most sites are nonprofit organizations that would not otherwise have the funds to employ them. In response to questions on this issue, HHS seems likely to approve state work verification plans that count participation in transitional jobs regardless of whether or not host worksites hire clients permanently. HHS has suggested that host sites should provide TJ participants with paid leave to search for unsubsidized employment (Frank 2007).

In addition to the wage-subsidy rules, states face restrictions on using the subsidized employment category to count client participation in all elements of a TJ program. HHS guidance released in December 2006 noted that states can only count hours that TJ participants spend in education, training, barrier removal activities, job search, and job readiness activities as subsidized employment when they are *paid* for those hours. If clients are not paid for these activities, their time must be logged separately under the other applicable work categories. On top of the accounting headache this would create, participation in these other categories is limited to a certain amount of time[11] (Frank 2007).

States could instead count transitional jobs as on-the-job training (OJT), but this work category also carries certain restrictions. HHS defined OJT as "training in the public or private sector that is given to a paid employee while he or she is engaged in productive work and that provides knowledge and skills essential to the full and adequate performance of the job" (45 CFR 261.2). However, HHS guidance states that barrier removal and various educational activities may not be counted as OJT even if the client is paid for those hours. Training can be counted as OJT only if it contributes directly to job performance (Frank 2007).

The new regulations leave states three options for reporting participation in transitional jobs (Frank 2007):

[11] For example, job search and barrier removal activities may only be counted for six weeks per year in most states, with no more than four consecutive weeks. Vocational education is limited to one year.

1. States can count all hours as subsidized employment as long as TJ participants are paid their hourly wage both for the hours worked and for the time spent in barrier removal or educational activities.
2. States can count all hours as OJT, provided that participants are paid and the training activities fall within the allowable activities of OJT outlined in the regulations and guidance.
3. States can count participation in separate categories, logging work hours either under subsidized employment or OJT and unpaid hours spent in barrier removal, education, and training activities under their designated work categories. If states choose this option, advocates suggest that they assign TJ participants at least 20 hours of work a week. Doing so enables states to log training hours as "job skills training directly related to employment," a non-core activity that, unlike vocational education, does not carry lifetime limits on participation.

The first option, counting TJ participation as subsidized employment, gives states the most flexibility in designing cohesive TJ programs and eliminates the burden of counting activities separately. However, it may be too expensive for states to pay TJ participants an hourly wage for all the hours they work and attend education and training activities (Frank 2007).

Case Studies

Several states and cities have implemented TJ programs since the enactment of welfare reform in 1996.[12] The initiatives generally combine the job elements and supportive services described earlier but differ in the scale, type of job placements, and administrative structure. The following section examines programs in the states of Washington and Georgia, and the cities of St. Paul, Minnesota, Chicago, and Philadelphia. These case studies were selected on the basis that each has undergone an evaluation of employment outcomes and, in four of them, a cost analysis.

Washington developed the first TJ initiative for hard-to-employ welfare recipients almost a decade ago. Known as Community Jobs (CJ), the program was initially implemented in five localities in 1998 and expanded statewide one year later (Burchfield 2002). The Department

[12] The National Transitional Jobs Networks reports that more than 30 programs have been developed since 1998 (NTJN 2006).

of Community, Trade and Economic Development (CTED) oversees state-level administration, relying on other state agencies to deliver specialized services. CTED relies on community-based organizations to provide case management and to place clients at transitional worksites. The Department of Social and Health Services makes client referrals to the CJ program; the Employment Security Department assists current CJ participants in searching for unsubsidized employment; and community colleges offer pre-employment training. TANF-funded contracts were awarded to 16 community-based organizations, including Goodwill stores, YWCAs, community action agencies, and workforce investment boards (CTED 2006). The program serves 2,600 participants per year (Wilson 2005).

Contracted service providers place CJ participants either on work crews at their plant or store operations (i.e., Goodwill) or, more commonly, on individualized assignments with other nonprofit organizations, government agencies, or private businesses. In both types of placements, participants work for 20 hours a week, for up to nine months. They earn the state minimum wage, which, adjusted for inflation, increased to $7.93 in 2007. CJ participants spend another 20 hours a week receiving supportive services tailored to their needs (Wilson 2005).

The typical CJ participant is a 31-year-old single mother with two children, no high school degree, less than one year of prior job experience, and many personal issues ranging from a lack of transportation to debt to an unstable housing situation to being a victim of domestic violence. More than half of CJ participants included in a recent study had not worked at all in the year before entering the program. Another 18 percent only worked for three months or less (Burchfield 2002).

Georgia designed a similar administrative structure for its TJ initiative but has focused on placing participants in work crews instead of individualized jobs. Known as GoodWorks!, the program was funded initially with surplus TANF funds and WtW grant money. It was piloted in Richmond County in 2000 and extended statewide about a year later (Derr, Pavetti, and KewalRamani 2002).

The Georgia Department of Labor (GDOL) oversees state-level administration, relying on community-based organizations to provide case management and to place clients at transitional worksites. The Georgia Division of Families and Children Services refers welfare clients to the program and provides supportive services; Rehabilitative Services conducts assessments; and workforce investment boards coordinate the payment of wages and assist with job development. Each year, more than 4,000 participate in the program (Copeland 2005).

GoodWorks! participants work between 20 and 35 hours per week and are paid between $5.15 and $8.52 an hour. In a five-county study, contracted service providers, such as Goodwill, KDI, Bobby Dodd Institute, WORKTEC, and Golden Harvest, place participants initially in work crews at their facilities. Participants perform production, assembly, custodial, and clerical tasks (Derr, Pavetti, and KewalRamani 2002).

Participants begin with a three- or four-week "work evaluation," in which they undergo extensive monitoring of their work behavior and a comprehensive vocational assessment. Depending on their ability and interests, clients then are assigned nine-month individualized positions at other nonprofit organizations, government agencies, or private businesses to perform customer service, clerical, health care, food service, or janitorial work. Otherwise, they maintain their work crew assignments. During the "work adjustment" period, they work up to 35 hours per week and may also participate in job readiness workshops and skills training if appropriate. Job search assistance and job development are provided by multiple agencies (Copeland 2005).

GoodWorks! is targeted at welfare recipients who are approaching the state's 48-month time limit on benefits. Typical participants have little or no work experience, a limited education, and personal and family challenges. Nearly two-thirds have no source of transportation, about half lack child care, and only a third completed high school (Derr, Pavetti, and KewalRamani 2002).

The remaining three case studies differ from Georgia and Washington in that they are limited to a particular city and are administered by a nongovernmental agency that delivers most, if not all, services directly.

In **St. Paul, Minnesota**, Lifetrack Resources assigns welfare recipients to transitional jobs at its packaging plant or with county government agencies and other nonprofit organizations. Known as Advancement Plus, the program was developed in 1999 with funding from TANF and WtW grants. More recently, Minnesota state and county governments have contributed general revenue money to finance wages and services (Mueller 2005). Between summer 1999 and May 2003, 364 welfare recipients were enrolled in Advancement Plus (Stockdill et al 2004).

Over the course of the six-month job placement, participants are expected to work 35 hours per week in one of three work assignments, depending on their functionality. In level one, participants with limited English language skills or job-related experience are assigned to work at the packaging plant, for $6 an hour, while they attend literacy and soft skills workshops three hours a week. In level two, clients with higher literacy and skill abilities work for $6.50 per hour at the Science Museum of Minnesota performing clerical support, educational aid, or custodial tasks. In level three, clients work for $7.19 an hour in positions at various county departments, such as Human Services, Public Works, and Public Health (Mueller 2005). The vast majority of clients work only at the packaging plant (Stockdill et al 2004).[13]

Although this program serves a general welfare population, 45 percent of the participants do not speak English (Mueller 2005). Most program participants are illiterate in any language and are typically Hmong or Somali refugees. Only a third has a high school diploma or GED, while another 17 percent has no formal education in their native country. Half are homeless, a third have mental illness, and a fifth have drug dependency issues. Nearly eight out of 10 have no significant work history, meaning they worked less than 13 consecutive weeks out of the last 12 months in a full-time, unsubsidized job (Stockdill et al 2004).

In **Chicago**, Catholic Charities operated a transitional jobs program for TANF recipients from January 2000 to June 2001, with funding from the Mayor's Office of Workforce Development. The Illinois Department of Human Services made client referrals to the program, called Transitional Community Jobs (TCJ). Just over 1,160 people went through an initial intake, but only half were placed at a jobsite (Rynell and Beachy-Quick 2003).

Catholic Charities staff put participants through job readiness workshops before placing them in minimum wage jobs at nonprofit organizations for 20 hours a week, for up to six months. Typical work included clerical, child care, warehouse, retail, and janitorial tasks. Job search assistance and retention services were also provided (Rynell and Beachy-Quick 2003).

The typical participant was a 33-year-old African-American woman with limited work experience or no high school degree. Roughly a third had health related issues, such as poor physical health, mental health issues, or substance abuse (Rynell and Beachy-Quick 2003).

[13] Only 37 clients worked in level two or three jobs (Stockdill et al 2004).

In 1998, the City of **Philadelphia** created a transitional jobs initiative, Philadelphia@Work, in partnership with state officials, Public/Private Ventures, and community stakeholders (Greenwald 2002). It incorporated a nonprofit organization called the Transitional Work Corporation (TWC) to handle daily operations, including pre-placement, case management, training, and employment and retention services (Kirby et al 2002). Services were funded initially with WtW and TANF funds. About 1,500 individuals have been placed in transitional jobs per year (Greenwald 2005).

During the placement period, which lasts up to six months, participants work 25 hours per week at $5.15 an hour and spend an additional 10 hours in unpaid training at TWC. The state government provides work supports, including transportation, child care, and clothing allowances. The majority of participants work in clerical, custodial, child care, and health care positions at either government or nonprofit offices within Philadelphia. To be eligible for the program, welfare clients must have received public assistance for at least 24 months (Greenwald 2005).

TWC participants typically have low education levels, low basic skills, little to no prior work experience, a history of cycling through employment and training programs, substance abuse, mental health issues, domestic violence, and, on average, three dependent children (Greenwald 2005).

Employment Outcomes

Evaluations of the five case studies indicate that transitional jobs tend to lead to positive employment and earnings gains and reduced dependency on cash assistance for hard-to-employ welfare recipients. Culling outcome data from the five case studies, TJ programs have placed as many as 72 percent of participants into unsubsidized jobs (Burchfield 2002). In two programs, nine out of 10 participants who successfully completed their transitional work assignment found permanent work (Stockdill et al 2002) (Greenwald 2002). Unsubsidized workers earned median wages as high as $9 per hour (Stockdill et al 2004) and doubled their income levels under welfare, when taking into account the EITC (Burchfield 2002). In addition, in some programs, TJ participants lowered their welfare receipt by as much as 60 percent (Rynell and Beachy-Quick 2003) (VanNoy and Perez-Johnson 2004). Yet, outcome data indicated that nearly all participants who found unsubsidized jobs still went through unemployment spells (VanNoy and Perez-Johnson 2004).

Comparing employment outcomes of the five case studies, the Washington CJ program reported the highest rate of participants who found unsubsidized jobs, at 72 percent (Burchfield 2002).[14] Employment rates varied widely among counties studied in Georgia GoodWorks! program, from 35 to 70 percent (Derr, Pavetti, and KewalRamani 2002). Meanwhile, half of the participants in the Advancement Plus program in St. Paul reportedly went to work (Mueller 2005).

Across programs, employment rates were higher when taking into account only those participants who did not drop out prematurely from their transitional job. In Georgia, the range of job attainment climbed from 54 to 85 percent, again depending on the study site (Derr, Pavetti, and KewalRamani 2002). In Philadelphia and St. Paul, more than nine out of 10 TJ participants who successfully completed the program found unsubsidized employment (Greenwald 2002) (Stockdill et al 2002).

A number of programs reported that participants found unsubsidized jobs quickly after leaving their transitional job assignments. In Washington, more than 60 percent found jobs in less than three months. About 22 percent took longer than six months to find their first job (Burchfield 2002). In Chicago, 70 percent had obtained jobs 90 days after program involvement. In comparison, about half of welfare recipients in Chicago who only received job search assistance were employed by that time period (Rynell and Beachy-Quick 2003).[15]

Still, some programs struggled to move participants from subsidized to unsubsidized jobs. In Philadelphia, employment rates initially rose to a high of 79 percent during the first quarter of program enrollment, reflecting participants' placement in paid transitional work positions. However, employment rates declined consistently, so that by the sixth quarter of program enrollment, only 39 percent of TWC participants were employed. Despite these declines, employment rates of participants were still higher than pre-enrollment figures. A higher

[14] Employment outcomes were tallied only for individuals who were actually placed at a CJ worksite and spent at least one day working, which were about three-fourths of all client referrals (Burchfield 2002).

[15] Evaluators compared the employment outcomes of TCJ participants to welfare clients who received only job search assistance, referred to as the limited service group. Both groups had to complete at least one day of work activities to be included in the evaluation. They were not randomly assigned to activities, but their characteristics were similar (Rynell and Beachy-Quick 2003).

proportion of TWC participants were employed consistently during all four of the quarters after program entry, 25 percent, compared to the four quarters before entry, 10 percent (VanNoy and Perez-Johnson 2004).

Once employed, most TJ participants continued to experience spells of unemployment. In Philadelphia, 95 percent reported being unemployed at least some part of the year after program entry (VanNoy and Perez-Johnson 2004). Yet, more than 60 percent were able to stay at their unsubsidized jobs for at least two full quarters (Greenwald 2002). In Washington, about half worked continuously once they found their initial job (Burchfield 2002).

As participants worked in unsubsidized jobs, their hourly and quarterly earnings rose above the minimum wages they typically earned at transitional jobs. In Washington, their median wages increased from $7.56 to $8.19 over two years in the program (Burchfield 2002).[16] St. Paul reported an average wage of $9 an hour (Stockdill et al 2004). In some counties in Georgia, median wages remained relatively low, at $5.75 (Derr, Pavetti, and KewalRamani 2002).

The combination of higher wages and more consistent work led to increases in income levels. Compared to pre-enrollment income levels, TWC clients more than doubled their median annual earnings, from $1,561 to $3,389 (VanNoy and Perez-Johnson 2004). In Chicago, income gains were 32 percent higher for TCJ participants than for welfare clients who only received job search assistance. A majority in both groups had zero earnings in the six months prior to enrolling in their respective programs. Quarterly median income for transitional workers rose from $811.90 to $2,407.62, compared to a change of $543.64 to $1,438.94 for the limited service group (Rynell and Beachy-Quick 2003).

The rise in earnings boosted family incomes well above the amount they received under TANF. In Washington, average income for working participants is 148 percent higher than their welfare check of $546 a month, totaling $6,552 a year. At the time of the study, clients earned $6.90 an hour, the state's minimum wage, for 20 hours a week, equaling a monthly paycheck of $593. Taking into account income gained from the EITC and residual welfare benefits, based on the 50 percent earnings disregard, clients earned as much as $12,900 a year, twice the amount they received on welfare. One year after completing the program, clients who found unsubsidized jobs increased their average income to $15,214 (Burchfield 2002).

[16] At the time of the study, Washington's minimum wage was $6.90 an hour (Burchfield 2002).

As the income of participants rose, TJ programs appeared to trigger lower use of welfare, according two evaluations that tracked recipiency rates. In Philadelphia, the number of TWC clients remaining on TANF has declined by 64 percent over six quarters since those clients entered the program (VanNoy and Perez-Johnson 2004). In Chicago, the reduction in cash assistance was more drastic among TJ participants than the limited service group.[17] Forty-two percent of TCJ participants no longer collected welfare, compared to 31 percent of the other group. Transitional workers also had a much more pronounced reduction in the median TANF amount received, 68 percent, compared to only 2 percent for the limited service group. As their earnings increased, TCJ participants saw their welfare grants drop on average from $278 to $88 (Rynell and Beachy-Quick 2003).

In short, TCJ participants had significantly better employment outcomes than welfare clients who only received job search assistance. These outcomes included a 32 percent higher increase in earnings, a 20 percent higher gain in employment, and a 66 percent greater reduction in median TANF funding received (Rynell and Beachy-Quick 2003). Meanwhile, in Washington, transitional jobs increased welfare clients' likelihood of employment by 33 percent and raised their post-program earnings an average of $792 per quarter (Burchfield 2002).

Available research appears to support the conclusion that transitional jobs lead to higher rates of unsubsidized employment, increased earnings, and less dependency on welfare. However, more rigorous evaluations are needed to determine the actual impact that TJ programs have on participant outcomes. Efforts are underway to compare outcomes of transitional workers to a control group who receive less-intensive employment services.[18] Random assignment evaluations are being conducted in six TJ programs.[19]

---

[17] More than 70 percent of both groups had received TANF for at least 30 months at the time of their enrollment (Rynell and Beachy-Quick 2003).

[18] In a couple of case studies, participant outcomes were compared with those achieved by other welfare clients who received only job search assistance. However, evaluations of these programs cannot determine the actual impact transitional jobs had on employment outcomes because clients were not assigned at random to the jobs program or to a control group to receive less-intensive employment services.

[19] As part of the Enhanced Services for the Hard-to-Employ Demonstration and Evaluation Project, 2001-2010, HHS is examining transitional employment strategies for TANF recipients in Philadelphia and for ex-offenders in New York City. In addition, the Joyce Foundation recently awarded $5.4 million to test TJ programs placing ex-offenders in jobs in Chicago, Detroit, Milwaukee, and St. Paul, Minnesota.

Program Costs

The cost of operating TJ programs is typically higher than traditional employment services because of client wages and staff costs associated with intensive case management as well as low client-to-staff ratios. For example, officials in St. Paul estimated that putting welfare clients through Advancement Plus cost around $8,000, excluding wage costs, compared to about $1,000 that is generally spent on helping clients find work (Stockdill et al 2002). On the other hand, TJ programs have similar costs to more intensive employment services funded with WtW grant money. Researchers found that gross costs in those programs averaged about $7,600 per participant (Hamilton et al 2002).

Data on program expenses, including the cost of paying participant wages, were available only for three programs in this study. The short-lived Chicago TCJ initiative did not publicly release a cost analysis. And, as mentioned earlier, the estimated cost of the St. Paul program does not cover participant wages. The other three programs, including Washington, Georgia, and Philadelphia, spent around $7,000 per participant (Kirby et al 2002) (Derr, Pavetti, and KewalRamani 2002) (Greenwald 2002).[20]

The uniformity in total costs is deceiving, however, because the programs differed dramatically in the length of time participants were enrolled, the wage levels paid, and the breadth of supportive services provided. On average, welfare clients participated in transitional jobs for less than four months in Philadelphia, about six months in Washington, and around nine months in Georgia (Kirby et al 2002) (Derr, Pavetti, and KewalRamani 2002).

Considering the disparities in the length of participation, monthly per participant costs varied dramatically, from around $1,825 in Philadelphia and $913 to $1,109 in Washington to around $785 in Georgia (Kirby et al 2002). The program costs were two to four times higher than

[20] The cost estimates were obtained from various sources, some of which conflicted. Gretchen Kirby et al (2002) conducted a cost analysis of six TJ programs, including four locations examined in this thesis. Kirby included the Transitional Work Corporation in Philadelphia, the GoodWorks! site of Augusta, Georgia, and the Community Jobs sites of Aberdeen and Tacoma, Washington. Because no statewide cost information was available for Washington, Kirby's findings on the two CJ sites, ranging from $4,838 in Tacoma to $6,875 in Aberdeen, represents the state program in this thesis. Other documentation was found for Philadelphia and Georgia. Richard Greenwald (2002) reported that the average cost for TWC participants is $6,994, a figure slightly higher than Kirby reported, which was $6,205, based on 3.4 months of participation. In Georgia, the difference in cost estimates was considerable. The Georgia Labor Department estimated it spent $7,065 per GoodWorks! client over a typical nine-month stay. In contrast, Kirby reported that the Augusta site spent $16,616 over an average of 7.7 months. With some hesitancy, this thesis relies on the Labor officials figure under the assumption that Augusta's high cost cannot be generalized to the state level.

the amount of a monthly welfare check. In 2002, the most recent year for which data is available, cash assistance for a family of three ranged from $546 in Washington and $403 in Philadelphia to $280 in Georgia (OFA 2004).

Philadelphia spent more than three times the amount that Tacoma, Washington, did on supportive services per participant month: $1,305 compared to $379. TWC clients had access to more comprehensive services, such as ongoing skill-building activities and in-house job development and placement services. In contrast, CJ participants were not offered additional training activities during the transitional placement period and were referred to their local one-stop career center to search for jobs on their own. On the other hand, the Washington program spent a greater portion of its funds on wages than Philadelphia, given the higher state minimum wage (Kirby et al 2002).

Program administrators contend that engaging welfare clients in transitional jobs is worth the high cost because a sizeable portion of participants acquire unsubsidized jobs and leave welfare, as the previous section on employment outcomes indicated. However, no TJ programs have yet undergone a full cost-benefit analysis, in which gross costs are compared to benefits, such as earnings increases, TANF savings, and societal gains. Until then, the efficacy of transitional jobs in increasing employment and lowering welfare dependency cannot be determined.

Sustainability

The high cost of transitional jobs is a significant obstacle to expanding the TJ model in other areas of the nation and, equally as important, to sustaining current initiatives. As cited earlier, Catholic Charities has halted its TJ program in Chicago. Other local organizations have filled the gap, including the Heartland Alliance, which runs TJ programs for ex-offenders, public housing residents, and domestic violence victims, among other disadvantaged populations (Pryor-Bryant 2007).

The situation is grimmer in Philadelphia. In summer 2006, the Pennsylvania Department of Public Welfare cut the funding allocation available to Philadelphia agencies serving welfare clients. Previously, the state had reimbursed Philadelphia agencies up to $15,000 to engage welfare clients in work activities; thereafter, it lowered the per-client allotment to $6,000 in line with budgets of other cities. As a result, Transitional Work Corporation lost $13 million and was forced to lay off 40 case workers. With less money and fewer staff, TWC officials have expressed concern that welfare clients will not receive the range of supportive services and case management needed to make transitional work assignments effective. The funding cuts come as Philadelphia must determine how to raise the participation levels of welfare clients in line with stiffer federal work rules (Ritter 2006).

At least one state has shown interest in launching a TJ-style program in response to the tougher work standards. In his biennial budget released in January 2007, Minnesota Governor Tim Pawlenty earmarked $3.2 million for the creation of 2,400 job slots for welfare recipients, expanding on the efforts of LifeTrack Resources' initiative in St. Paul. However, to make the jobs program more affordable, most of the positions would be unpaid. Paid work, however, is a key element of the TJ model (Lohn 2007).

Meanwhile, Connecticut has already poured $6.5 million of state funds into launching a subsidized employment program for welfare clients. Unlike Minnesota's plan, Connecticut clients earn wages on the job, at $7.65 per hour, the state minimum wage. In the 12-week program, clients spend 20 hours per week at their job assignments, typically engaged in office work at nonprofit and private-sector businesses. They spend another 10 hours a week in other work activities for a total of 30 hours per week, the threshold needed to count toward the state's work participation rate. On top of their hourly wages, clients continue to receive their monthly welfare check, made possible by the state's earned income disregard policy (Pritchard 2007).

The Connecticut program is missing some key elements of the TJ model. Clients do not typically receive education and training or other rehabilitative and supportive services that could help alleviate employment barriers. Those services take up too many resources. Thus, Connecticut has focused on putting clients in job search activities for the 10 hours a week. As a result of the lack of intensive support, few clients have transitioned directly into permanent employment (Pritchard 2007).

Available Resources

Even in the case of states such as Minnesota and Connecticut that have launched or proposed job programs for welfare clients, the lack of funding has constrained the spread of the

TJ model. As mentioned earlier, states typically spent WtW grant money and TANF reserves to implement TJ programs in the late 1990s. At that time, most states wracked up sizeable surpluses in their annual TANF block grant, as caseloads declined sharply. Since then, states have used up their WtW grants and leveraged their TANF funding to cover a wider array of social services.

Congress stopped appropriating funds for the WtW program after 1999 and required that grantees spend down their allotments over the five years that followed (Fraker et al 2004). Meanwhile, the amount of unspent TANF funds peaked at $7.1 billion in 2000 and has declined with each subsequent year. The total amount of carry-over funds at the end of 2003, $3.9 billion, was the lowest since 1997, the first year of TANF implementation. In 2003, states qualified for $17.2 billion in new TANF funds but used a total of $19 billion (Greenberg and Rahmanou 2005).

Spending for work-related activities, including education and training, work subsidies, and other work activities, remained essentially flat or in decline, representing less than 10 percent of TANF and state matching dollars. A large share of TANF expenditures go to low-income families outside the traditional welfare system, including child abuse and neglect-related services, diversion or emergency assistance programs, substance abuse treatment, services for victims of domestic violence, fatherhood initiatives, before- and after-school programs, and payments to food banks and homeless shelters (Greenberg and Rahmanou 2005).

In the absence of additional federal or state money, TJ programs have begun to seek other funding streams and ways to generate revenue. For example, St. Paul leverages a municipal budget line item created for temporary workers to cover the wages of Advancement Plus participants who complete their transitional assignments at county agencies (Mueller 2005). In addition, TJ programs have tapped Workforce Investment Act funding to pay for job placement services (Kass 2004).

Other potential sources of federal funding include the Community Development Block Grant, Social Services Block Grant, Job Opportunities for Low-Income Individuals, the Hope VI program, the Food Stamp Education and Training program, and the Carl D. Perkins Vocational and Technical Act. In addition, TJ programs serving certain disadvantaged populations can access other funding streams.[21] Programs also have sought financial support from national, regional, and local foundations and have created partnerships with private businesses interested in job-ready applicants (Kass 2004).

The next chapter explores another avenue for financing transitional jobs: earned income. Rather than rely solely on grant money, a growing number of nonprofit organizations have set up subsidiary businesses to temporarily employ disadvantaged workers. Known as social enterprises, these businesses leverage revenue from the goods their transitional workers help produce, in order to pay for at least a portion of their wages and supportive services.

[21] Population-specific funds include the Supportive Housing Program (for homeless); the Serious and Violent Reentry Initiative (for ex-offenders); Vocational Rehabilitation Services formula grants (for individuals with disabilities); and Youth Opportunity Grants, YouthBuild, and AmeriCorps (for at-risk youth) (Kass 2004).

CHAPTER 4

SOCIAL ENTERPRISES

In recent years, an increasing number of nonprofit organizations have sought ways to generate revenue to help cover the cost of mission-related activities. The trend toward earned-income strategies is driven in part by the financial predicament facing the nonprofit sector: growing competition for government and philanthropic money and declining charitable donations.

Yet, for some nonprofits, cash-making operations also have provided an avenue to help clients reach self-sufficiency. These nonprofit organizations have created commercial businesses that employ and train disadvantaged individuals. Commonly referred to as social enterprises, the ventures bring in revenue from the products and/or services that the client workforce helps produce. In turn, the earned income offsets the cost of wages, job training, and supportive services provided to the workers.

The social enterprise model offers nonprofit organizations an innovative approach to tackling social problems. By operating businesses, nonprofits can provide jobs to clients who do not have the skills or work ethic to obtain employment elsewhere. The wages the clients earn can help them rise out of poverty; the work experience and skills they gain can make them more competitive candidates for permanent, unsubsidized jobs. In that sense, nonprofits operating social enterprises are providing their clients a “hand-up” rather than a “hand-out.”

This chapter explores in greater detail the social enterprise model. It commences by examining the rising use of earned-income strategies within the nonprofit sector and the challenges underlying this trend. The chapter presents case studies of four social enterprises that have employed disadvantaged individuals, in some cases in temporary, supportive work assignments similar to the Transitional Jobs (TJ) model. Employment outcomes and program costs are reported. This discussion segues into Chapter 5 in which the concept of forging ties between the TANF-funded TJ system and social enterprises is unveiled.

Embracing Business Practices

The line between the nonprofit and private sectors has blurred in recent years as charitable organizations have turned increasingly to business practices and philosophies to make their operations more efficient and sustainable. Nonprofit organizations have employed several strategies to generate earned income in an effort to diversify their funding streams. Meanwhile, nonprofits have embraced business management philosophies, at least rhetorically, in response to the growing demands for strategic planning, performance measurement, and balanced budgets. Several factors have contributed toward this shift.

Government grants, once the stalwart funding source of the nonprofit sector, have become harder to obtain in recent decades, leading organizations to seek funding elsewhere. The sector expanded initially in the 1960s and 1970s as federal grants became available to deliver newly enacted or expanded social service programs. Funding for government programs of interest to charities, however, was cut back significantly during the Reagan Administration (Young and Salamon 2002). Even during the Clinton Administration, funding was tightened as the federal government pushed for a balanced budget (Proscio 1998). Despite decreased amounts of public funding, the number of nonprofit organizations in the United States has doubled since 1977 (Streeter 2001).[1] As a result, larger numbers of nonprofit organizations are competing for fewer government dollars. Meanwhile, per capita charitable giving has declined (Cannon and Fenoglio 2000).

Private companies have entered the field of service delivery, generating even more competition for government grants. Most notably, welfare reform spurred states to outsource the delivery of services to nongovernment organizations. Indeed, several nonprofits, such as Goodwill, benefited from this approach, but so did Lockheed Martin, America Works, Maximus, and other for-profit companies that have competed successfully for welfare-to-work contracts (Sanger 2003).

Given these developments, nonprofit organizations have relied increasingly on earned income to fund their programs. As of 1997, nearly half of the nonprofit sector's total revenue came from commercial sources, including fees, charges, and investment earnings. By comparison, government agencies provided 31 percent of total income, and charitable giving provided only 20 percent (Salamon 2002).

[1] The number of nonprofit organizations increased by 40 percent alone in the 1990s (Cannon and Fenoglio 2000).

Two recent surveys give evidence to the increasing role of earned income strategies. According to a 2003 survey of U.S. nonprofit executives, half of the respondents said they expected earned income strategies to play an important role in bolstering their organizations' revenue in the future (Stone 2005). In a 2000 survey of nonprofit organizations, 42 percent of respondents said they were currently operating an earned income venture (Massarsky and Beinhacker 2000).

Some of the methods for generating earned income include:

- **Fee-for-service**: YMCA sells gym memberships
- **Payment plans**: Habitat for Humanity requires new homeowners to make payments on their mortgage
- **Corporate partnerships**: financial support that companies provide to nonprofit organizations to be associated with social missions
- **Commercial ventures**: Girl Scouts sell cookies
- **Social enterprises**

According to a study conducted by the Venture Fund Initiative, more than 70 percent of social-purpose businesses starting up or in operation in 1998 were aimed at creating employment opportunities for target populations that could not find work elsewhere (Proscio 1998).

Social enterprises take at least four forms: traditional sheltered workshops that receive preferential treatment for government funds; open-market businesses that compete with the private-sector without government assistance; individual franchises within a national corporation; and enterprises that grow out of a nonprofit organization's social service programs (Emerson and Twerky 1996).

These nonprofit businesses range from manufacturing to bakeries, restaurants, grounds maintenance, and translation services (Dees and Anderson 2003). In these cases, the particular products or services that are sold are not especially relevant to the missions of the nonprofit organizations, but they are a means to provide training and employment for clients (Young and Salamon 2002).

Beyond funding patterns, the nonprofit sector has increasingly adopted the culture, concepts, and practices of the business world to respond to the demands of their boards and funders for efficient and effective programs (Young and Salamon 2002) (Dees and Anderson

2003). Nonprofit managers have begun to speak in terms of marketing their “products,” viewing their clients as “customers,” identifying their “market niche,” and formulating a “business plan” (Young and Salamon 2002, 437). These same organizations had until recently perceived the terms “marketing” and “customers” with negative connotations (Dees and Anderson 2003).

Social Impact

It is difficult to fully measure how nonprofit organizations have integrated the market culture into the management of their operations, as opposed to mere rhetoric (Salamon 2002). Yet, there are signs that some nonprofits are thinking more entrepreneurially about how best to fulfill their social missions. By employing disadvantaged individuals, social enterprises not only contribute to their income security, a goal of many human service organizations, but also provide a means for them to improve their job skills, raising their chances of obtaining family sustainable employment in the future (Emerson and Twersky 1996).

Philosophically, the offer of employment, instead of social services, may transform how clients view themselves and are viewed by others. Employment can reinforce their capabilities and strengths, rather than their needs and personal problems. Being identified as an employee rather than a client increases access to mainstream opportunities and reduces marginalization in society (Emerson and Twersky 1996). The social enterprise approach requires individuals receiving help to take an active role in improving their lives. As a result, clients do not feel like objects of charity because they are working for wages in a real, albeit more supportive, business environment. Ironically, by working, clients may feel more comfortable seeking assistance (Dees and Anderson 2003), as noted below:

> These “business-like” strategies empower the individuals and increase the chances of lasting social impact, giving them an advantage over charitable efforts that offer temporary assistance to those willing to accept charity. (Dees and Anderson 2003, 20)

Hundreds, perhaps thousands, of nonprofit organizations have experimented with enterprise or market-based approaches to solving problems, weaving together profit-making activities with social-change purposes (Reis and Clohesy 1999). In doing so, they have begun to put into new light nonprofit organizations’ engagement in commercial activity, as noted below:

> No longer conceived simply as a revenue generation, these ventures treat market engagement as the most effective way to pursue a nonprofit organization's mission, to provide marketable skills to the structurally unemployed, or to change behavior in an environmentally sensitive way. (Young and Salamon 2002, 433)

Moreover, by running commercial ventures, nonprofit groups learn firsthand whether their training and supportive services are effective at helping clients overcome personal problems. Traditionally, organizations providing job training have to rely on client surveys and employment data to measure their program's performance. By providing on-the-job training, social enterprises can track a client's progress and make necessary adjustments to services as needed (Dees and Anderson 2003).

Social Entrepreneurship

In their pursuit of social change through the marketplace, social enterprises can be identified as part of a larger movement known as "social entrepreneurship." The term broadly refers to individuals who devise new ways of solving social problems and then work to implement these innovative solutions on a large scale (Ashoka n.d.). Social entrepreneurs are not satisfied with good intentions; instead, they believe charity work is adequate only if it has a lasting impact on recipients, in the case of providing job training services that results in recipients obtaining employment and raising their self-sufficiency (Streeter 2001), as noted below:

> Social entrepreneurs are looking to address underlying problems rather than meet needs, empower individuals rather than provide charitable relief, and create sustainable improvements rather than short-term responses. Business methods and approaches provide valuable tools for achieving these goals. (Dees and Anderson 2003, 19)

The term "social entrepreneur" was coined by Bill Drayton, founder of Ashoka, a Virginia-based organization that identifies so-called social entrepreneurs living around the world and helps fund their work. Among the initiatives funded through Ashoka are community based centers in Hungary that provide skills training, access to employment, and housing for previously institutionalized disabled citizens; health centers in Brazil that provide emergency assistance to low-income children during and immediately after hospitalization to ensure they make a full recovery; and a telephone hotline service in India that refers abused children to a network of child-service organizations and advocates on their behalf. Ashoka helped these social entrepreneurs improve and expand their services (Bornstein 2004).

Perhaps the best-known social entrepreneur is Muhammad Yunus, who won the Nobel Peace Prize in 2006 for creating the Grameen Bank in Bangladesh. The bank makes micro-loans to the rural poor in Bangladesh, thereby giving them the resources to produce small items for sale, without the burdens of predatory lending. Rather than requiring collateral, the bank uses a form of peer pressure to ensure repayment. Grameen awards a loan to a small group, typically women, and requires that each person repay their portion before additional loan money is made available to the particular group (Grameen 2007).[2]

Although the concept has received considerable attention lately, social entrepreneurship has been around for as long as people have looked for innovative ways to solve social problems. Case in point, in 1895, a young Boston University divinity student named Edgar J. Helms opened a repair shop and a storefront to employ immigrants and handicapped persons in poverty. He paid them to repair donated furniture and other goods, which were then resold. His charity grew into Goodwill Industries International; his innovative approach for providing jobs to unskilled, poor individuals became a model social enterprise (Cannon and Fenoglio 2000).

The Goodwill Model

Goodwill now operates a total of 2,078 retail stores, which resell donated clothing and household goods at discounted prices that poor families can afford (Bragale 2006). In addition, Goodwill competes for contracts from private-sector businesses and government agencies to provide a range of commercial services, including packaging and assembly, document management and destruction, laundry services, food services, custodial work, and grounds-keeping (Goodwill n.d.).

Goodwill uses the revenue generated from retail sales and contracted services to fund a variety of employment programs targeted at disadvantaged individuals. Occupational skills training and career services are offered to people with disabilities, welfare recipients, and others who are trying to enter the workforce for the first time or are attempting to obtain a better job.

[2] Ninety-eight percent of Bangladeshi borrowers pay back their loans. Over the years, Grameen has expanded into 2,319 branches serving 74,462 villages, representing more than 89 percent of the total villages in Bangladesh. The bank has 6.91 million borrowers, 97 percent of whom are women (Grameen 2007).

Training is provided for such careers as financial services, computer programming, and health care (Goodwill n.d.).

A key element to the employment programs is the placement of training participants into temporary, wage-paying jobs at a Goodwill retail store, assembly plant, or offsite work team. The goal is to provide participants with temporary work experience as they search for permanent, competitive employment (Goodwill n.d.). Job tasks at a Goodwill retail store might entail processing donations, stocking inventory, and operating the cash register. Contracted projects may include sewing military fatigues, assembling toolkits, washing dishes, or mowing lawns (Olson 2006).

In 2005, the most recent year for which data is available, Goodwill served a total of 846,730 people through employment and training programs, including 98,684 TANF recipients (Olson 2006). Job placement services were provided to 344,423 individuals, of which 129,899 successfully found permanent employment elsewhere (Goodwill 2007).

In 2005, the network of local Goodwill stores generated $2.12 billion from retail sales and industrial and service contract work, comprising 80 percent of their total income. Goodwill stores also received $369.4 million in government grants, some of which provides case management and welfare-to-work services for TANF recipients.[3] Another $162.5 million was raised from charitable contributions and other revenue sources. In total, 83 percent of funds available in 2005 were spent directly on programs, covering the cost of training and placement services and wages paid to new hires (Goodwill n.d.).

Case Studies

To illustrate the social enterprise model more fully, this chapter presents case studies of four enterprises: Pioneer Human Services, The Enterprising Kitchen, Sweet Beginnings, and Juma Ventures. They were selected to reflect the range of operations currently in the field: the type of business model as identified on page 76-77; demographics of individuals served; new and

[3] With the passage of welfare reform, states increasingly turned to nongovernmental organizations to deliver case management, training, and job placement services to TANF recipients. In several areas, welfare agencies awarded contracts to local Goodwill stores, given their well-established employment programs for disadvantaged individuals (Sanger 2003). Some Goodwill stores offered temporary jobs to TANF recipients to complement training classes and to fulfill work requirements. Not all welfare recipients were paid wages for their job assignments. Some Goodwill stores considered the assignments as unpaid work experience (Olson 2006).

well-established enterprises; the type of industry; sources of funding and reliance of earned income; and involvement with private sector, government, and philanthropic foundations. Effort was made to select enterprises that monitor employment outcomes and costs; however, none of the programs have undergone rigorous evaluations. Each enterprise is described below, followed by a broader discussion on challenges.

Seattle-based **Pioneer Human Services** is one of the longest running and most successful social enterprises in the United States. Founded in the 1960s, this nonprofit enterprise first employed ex-offenders in its small metal-fabrication shop (Cannon and Fenoglio 2000). Pioneer now operates several types of social enterprises throughout the state of Washington, including an aircraft parts manufacturing plant that contracts with the Boeing Company; assembly, packaging, and warehousing for corporations such as Nintendo, Costco, and Nordstrom; three retail cafes; and a catering service (Pioneer n.d.).

Pioneer has about 1,000 people on its payroll, most of them either ex-offenders, recovering alcoholics/drug addicts, or persons on probation or under court supervision. It served a total of 10,000 clients in 2005 through an integrated array of services, including employment, job placement, treatment, counseling, and housing. Pioneer has an annual budget of $50 million, with more than 99 percent coming from earned-income ventures. About 67 percent comes from the businesses it operates and 23 percent comes from contracted services provided to the government. As a matter of course, Pioneer does not seek government grants to serve particular populations, such as TANF recipients (Pioneer n.d.).

The Enterprising Kitchen produces and sells natural soap products from its plant in Chicago. This enterprise hires disadvantaged women to work on a number of tasks throughout the manufacturing process. Whereas Pioneer Human Services may employ workers permanently, The Enterprising Kitchen treats all participants as transitional workers. Over the course of the six- to 12-month jobs, program participants are provided with occupational and life skills training, individualized career planning, high school equivalency preparation, computer training, financial planning, and a variety of other support services in effort to prepare them for permanent unsubsidized employment elsewhere. Participants earn the Illinois minimum wage of $6.50, for about 23 hours of work a week (Alpern 2006). The per-participant cost for a six-month transitional job and supportive services is estimated at $5,000, or $833 a month.

Launched in 1996, this enterprise initially hired five women; payrolls rose to about 75 in 2006. At any given time, 60 to 70 percent of the women are African American, 20 to 25 percent are immigrants and refugees, and the rest are either white or Hispanic. Typically, half are ex-offenders, mostly having served time on drug charges. Others are victims of domestic violence or human trafficking. Women are referred to the program by a network of nonprofit social service agencies (Alpern 2006).

Nearly half of the cost to employ and train participants comes from revenue generated through product sales. In 2005, product sales totaled $400,000, with sales projected to reach $750,000 in 2006. Corporate and foundation grants represent another 20 percent, individual donations 25 percent, and the remaining 10 percent comes from government grants. The agency has received a $25,000 grant from the U.S. Department of Labor and $30,000 from the city of Chicago's allotment of the federal Community Development Block Grant (Alpern 2006).

The soap products are sold onsite and through 300 retail stores across the country. One source of sales involves selling the soaps directly to companies for their promotional reward and gift programs. In one of the largest contracts, the soaps are provided free of charge to customers of Eileen Fisher clothing stores. The Enterprising Kitchen staff expects that these business-to-business arrangements will expand the customer base and lead other companies to purchase the soaps in large quantities (Alpern 2006).

Sweet Beginnings grew out of the efforts of North Lawndale Employment Network (NLEN) to prepare ex-offenders for reentry into the labor market. Based in a near-Westside neighborhood of Chicago, the organization launched Sweet Beginnings in 2004 as a way to provide paid work experience for graduates of its month-long job readiness program. Graduates had struggled to find employment on their own, so NLEN created temporary job slots to better equip them for the labor market. Additionally, it was hoped that honey sales would defray the cost of wages and case management services (Palms-Barber 2006).

About 10 clients are hired at a time for six-month transitional jobs. They help set up and monitor beehives, cultivate the honey, and sell the finished product at farmers' markets around town. NLEN staff explain that, in every step of production, participants learn transferable skills in light manufacturing, assembly, food handling, retail sales, customer service, and inventory, while building "soft" skills through the routine of going to work everyday (Palms-Barber 2006).

Participants work 30 hours a week, at an hourly wage of $7 to $9 (Wallace 2007). Staff helps participants apply for supportive services, resolve bad credit and open checking accounts, and find and retain permanent employment (Palms-Barber 2006).

Since 2004, NLEN has sold $56,000 worth of honey and other products, spurred along by sales to several high-end restaurants and to the city of Chicago (Wallace 2007). The enterprise has been funded primarily through a $140,000 grant from the Illinois Department of Corrections and a $100,000 grant from the Mayor's Office (Palms-Barber 2006). The enterprise recently switched to the sale of honey products, such as soaps and lotions, after it determined that these products were more profitable than selling honey and could create additional jobs for clients (Wallace 2007).

San Francisco-based **Juma Ventures** provides a breadth of supportive services to disadvantaged youth. Over the course of one or two years, youth participants work with Juma's staff to reach their goals for a higher education, career, financial literacy and savings, and personal health and wellness. As a way to fund the services and to provide paid work experience for youth, Juma has operated several social enterprises over the years. In 1994, Juma opened a Ben & Jerry's ice cream shop in San Francisco. More recently, Juma participants have operated ice cream and coffee concessions at the city's sports venues. Each year, about 100 youth work as ice cream vendors.

Juma was a spinoff of Larkin Street Youth Center (LSYC), which provides outreach, a drop-in center, counseling, medical care, education, and housing to more than 1,000 at-risk youth in San Francisco (Emerson and Twersky 1996). LSYC launched Juma after staff determined that youth were not overcoming their problems through the traditional form of social work (Cannon and Fenoglio 2000). Juma was formed as a separate legal entity to maintain organizational focus within LSYC, protect its tax-exempt status, and lower its liabilities (Emerson and Twersky 1996).

Ben & Jerry's waived its standard $25,000 franchise fee, which enabled Juma to shoulder the cost of opening the ice cream shops. The majority of the start-up costs of the scoop shop were covered through an enterprise development grant from the Roberts Enterprise Development Fund (REDF).[4] REDF, a philanthropic foundation in San Francisco, seeks to improve the

[4] Ben and Jerry's estimates that start-up costs can total $200,000.

efficacy and capacity of local social enterprises. It provides ongoing technical assistance and financial support to Juma (Emerson and Twersky 1996).

Employees in the scoop shop earned $4.25 per hour during the training period, $5.00 per hour as scoopers, and $6.50 per hour as supervisors. The wages earned by those working as concessionaires vary widely because much of their pay comes from commissions. Some youth employees can earn as much as $22 per hour. Juma provides benefits such as paid vacation, sick time, and holidays to all employees, and health benefits to all full-time employees (Emerson and Twersky 1996).

Issues of Concern

The social enterprise model raises four important issues and several related questions that could undercut the viability of employing and training disadvantaged individuals:

1. **Private-Sector Competition:** Do social enterprises, subsidized in part by charitable giving and/or taxpayer dollars, have an unfair advantage over private-sector businesses that sell similar products or services? Are social enterprises more efficient at providing services than the private sector? Should social enterprises pay taxes on their profits just like traditional earned income ventures do?
2. **Sustainable:** Can social enterprises be profitable or do they typically cost more to run than the revenue they generate? Can nonprofit organizations sustain and expand these ventures or are most doomed to fail?
3. **Mission-Drift:** Do nonprofit organizations run the risk of straying from their original mission by focusing too much attention on generating revenue?
4. **Effectiveness:** Is social enterprise an effective method for improving the employment outcomes of disadvantaged individuals?

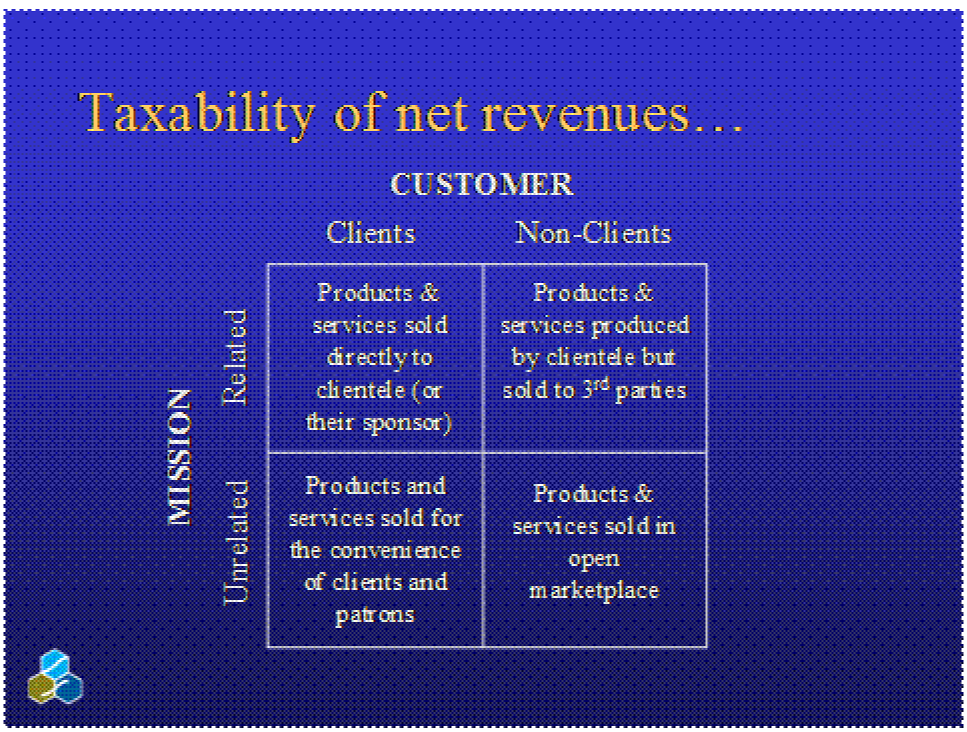
Private-Sector Competition

No quantifiable evidence could be found to support the assumption that private businesses have suffered financial loss on account of competition by social enterprises offering similar products and services. Nonetheless, it stands to reason that some social enterprises may take away business from private-sector firms. When Goodwill wins a contract to mow lawns, assemble goods, or clean office buildings, private firms lose a chance to expand their customer and revenue base. Drawing an example from the wider array of earned income strategies, the YMCA has been criticized by some private-sector fitness centers (Weisbrod 2004).

Ultimately, the debate comes down to the fairness of the tax system. The government exempts nonprofit organizations from having to pay taxes in an effort to lower the burdens and increase the incentives of providing charity. The trend toward earned-income practices, including social enterprise businesses, raises the question of whether nonprofit organizations should pay taxes on revenue.

Goodwill Industries, the Girl Scouts, and other large operations generate millions each year through product sales, but their nonprofit tax status is not in jeopardy because the Internal Revenue Service (IRS) considers these earned income activities to be integrally linked to their social missions. The IRS looks at whether organizations earn "substantial" revenue from earned-income activities that are deemed unrelated to their mission and occur on a "regular" and "ongoing" basis. If these standards are met, nonprofit organizations are forced to pay what is known as the Unrelated Business Income Tax (UBIT). (Bromberger 2006) (McClurg 2006)

The figure below helps decipher whether business income is considered related or unrelated to a nonprofit's mission, and thus subject to federal tax (McClurg 2006).



Business products and services that are unrelated to the nonprofit's mission and are targeted primarily to customers who are not clients, as depicted in the lower-right quadrant, are likely to be taxed. If such income represents a significant portion of the nonprofit's total income, typically more than 20 to 30 percent, the nonprofit's tax exempt status may be in jeopardy. In contrast, social enterprises typically fit in the upper-right quadrant. For instance, The Enterprising Kitchen sells products to "non-clients" but those products are created in the course of fulfilling its charitable mission of providing paid work experience to disadvantaged women. Thus, The Enterprising Kitchen's tax status is not in jeopardy (McClurg 2006).

The common complaint is that tax exemptions and ease of avoiding UBIT give nonprofits engaged in business activities an unfair competitive advantage. Social enterprise supporters assert, however, that this concern is exaggerated. They claim that nonprofit organizations in fact have "inherent disadvantages with regard to social mission costs, size inefficiencies, difficulty attracting people with valuable business skills, and limited access to capital" (Dees and Anderson 2003, 27).

Efficiency

There is a broader debate over whether nonprofit organizations provide services more or less efficiently than the private sector. This debate has taken on greater significance as more for-profit firms have begun competing for government contracts to deliver social services, such as welfare-to-work activities. The very presence of for-profit firms in these endeavors indicates that these services could be provided without government subsidy or preferential treatment in the tax system. Free-market advocates take the argument one step further, suggesting that private businesses can provide these services more efficiently because nonprofits, backed by government subsidies, have less incentive to cut costs and watch their bottom line (Bennett and DiLorenzo 1989).

Government has traditionally directed public dollars to nonprofit organizations to ensure the delivery of essential services that, because of thin markets, poor consumer information, or public goods problems, would otherwise be provided poorly or not provided at all. Nonprofits are considered to be in a good position to deliver those essential services by virtue that they are not motivated by profit and, thus, have no reason to cut corners to save funds (Lee 1989). In fact, it has been argued that people are more likely to trust nonprofits because of the “nondistribution” constraint: nonprofits cannot pay out profits to those in a controlling position (Dees and Anderson 2003).

However, scholars have pointed out that the inability to disburse profits does not guarantee against corruption and does not ensure effective performance, as noted below.

> Because of the non-distribution constraint, complacency, inefficiency, and waste can be serious problems in nonprofit organizations. … A nonprofit can survive, even thrive, and yet be very inefficient and ineffective in creating social value and serving its mission. (Dees and Anderson 2003, 26)

Nonprofit organizations lack accountability because their donors rarely are in a strong position to evaluate their efficiency and effectiveness. In contrast, for-profit firms are dependent on customers voluntarily choosing to pay for their products; therefore, they have to find a cost-effective way to deliver goods and services (Dees and Anderson 2003).

The increasing trend toward earned-income strategies could be a catalyst for increasing efficiency in the nonprofit sector. Social enterprise operations, unlike private businesses and traditional nonprofit organizations, are concerned with not one but *two* bottom lines: (1) to ensure their operations are economically sustainable and (2) to make a social impact (Alter 2006). The argument is that possessing a social mission, on top of the new-found fiscal conservatism, puts social enterprises in a better position than private-sector businesses to deliver social services (Anderson 2005).

Sustainability

The spectacle of nonprofit organizations seeking business income also raises questions over whether these ventures are profitable or a drain on overall resources. As discussed earlier, one reason nonprofit organizations have undertaken earned income strategies is to provide new sources of funding for its programming. Otherwise, the organization may not be able to sustain their mission to employ and train disadvantaged individuals.

However, social enterprise ventures tend to operate small retail businesses, such as ice cream shops, thrift stores, restaurants, and cafés, which are unlikely to succeed on a double-bottom-line basis. Small retail businesses produce very low profit margins, which are insufficient to cover the additional costs of social mission activities. Often generating as little as $200,000 in annual revenue, small social enterprises cannot create a meaningful number of job opportunities and cover the incremental training, management, and other costs associated with employing an unskilled and disadvantaged workforce.

With little ability to grow business revenues, these social enterprises cannot reach a level of scale that provides sufficient revenue to cover these additional “social costs.” It is estimated that social enterprises need to generate about $1 million annually to create a significant number of jobs and to operate in a financially sustainable manner. However, few retail businesses are likely to approach this level of sales (Schorr 2006).

Researchers disagree about the proportion of social enterprises that are profitable. On the optimistic side, two recent surveys reported that a half to two-thirds of ventures were either profitable or at least breaking even (Massarsky and Beinhacker 2000) (Community Wealth Ventures 2003). The validity of those findings was questioned by another research team.[5] That team conducted a different survey, which found that 71 percent of ventures were not profitable, while only 24 percent reported profits, and 5 percent broke even. Moreover, the latter survey reported that half of those recording profits did not fully account for indirect costs, such as allocations of general overhead, senior management time, and start-up costs (Foster and Bradach 2005).

Researchers who are skeptical of the sustainability of social enterprises point out that most private-sector businesses fail within five years. They contend that the prospects for nonprofit ventures are likely even grimmer for four main reasons (Foster and Bradach 2005):

1. Nonprofits’ desire to make money might conflict with its ideals of offering livable wages and selling products at prices that disadvantaged individuals can afford. As a result, nonprofits may not build the kind of highly competitive, profit-focused culture that is essential to the success of many commercial enterprises.
2. Nonprofits may not recognize the full expense of running a business, by failing to take into account the cost of worker downtime, product development, infrastructure, and staff salaries.
3. Nonprofits may struggle to find customers/markets for their products.

[5] They contended that the survey results were skewed by the fact that profitable ventures were more likely to respond to the survey and undercount their operating expenses, including hefty start-up costs (Foster and Bradach 2005).

4. Nonprofits may be unwilling to pull the plug on unprofitable ventures because of their commitment to fulfill their social mission. In addition, philanthropic funding may absorb some of the losses.

Most social purpose businesses lose money and require ongoing funding subsidies to support their operations. However, these subsidies are not readily available because philanthropic foundations typically reserve their support to covering start-up costs. These grants dry up over time, leaving unprofitable social enterprises with mounting levels of debt. (Schorr 2006)

In terms of the case studies, Sweet Beginnings has had difficulty sustaining and expanding its operations. After three years in operation, the enterprise generated modest product revenue, limiting its ability to hire more ex-offenders and, thus, have a larger impact in the community. NLEN also incurred a sizeable debt in launching Sweet Beginnings (Wallace 2007).

The organizations enlisted the help of Boeing and Ben & Jerry's to chart a more sustainable business plan. Sweet Beginnings has become a separate legal entity to eliminate the financial risk to NLEN. Under the new strategic plan, Sweet Beginnings hopes to grow to 100 employees in 10 years, at an expected cost of $500,000, by selling honey products at popular tourist attractions in Chicago, Hyatt hotels, and as part of toiletry bags given to offenders leaving the state's prison system. The Corrections Department recently awarded the charity a grant worth $300,000. The MacArthur Foundation gave NLEN a $400,000 grant to pay off debt and establish a cash reserve (Wallace 2007).

Furthermore, social enterprises may be difficult to sustain, given the low skill levels and low productivity associated with their targeted workforce. In a mainstream business, workers who underperform or have significant problems would be fired, but a central element of social enterprises is to employ such individuals.

Social enterprises attempt to minimize this risk by ensuring their workers have access to a variety of support programs, such as mental health counseling, subsidized housing, or other services, which may be necessary for them to achieve greater personal success (Dees, Emerson, and Economy 2001).

Juma Ventures nearly was forced out of the concessionaire business its first year due to the poor on-the-job performance of its youth vendors (Maran 2003). Only four of the first 17 youth assigned to concessions completed the baseball season. The 12 employees who were unsuccessful were either fired due to problems with theft, tardiness, or a lack of improvement in job performance, or they simply disappeared from their jobs. The low employment outcomes were attributed to poor training and planning (Emerson and Twersky 1996).

Juma responded to its earlier employment difficulties by making some difficult trade-offs. With respect to hiring, Juma has sought to develop a manageable mix of youth employees at various skill and functioning levels. Juma has contended that only hiring high-risk youth would require a greater investment of training resources and, thus, would make it more difficult to reach profitability goals. By also hiring more advantaged workers, Juma has created structures that enable the organization to accommodate greater training needs while maintaining profitable performance (Emerson and Twersky 1996).

Mission Drift

A social enterprise that does not break even may still be a worthy investment if it furthers the nonprofit's mission (Foster and Bradach 2005). The danger with earned income strategies is that a nonprofit may become so preoccupied with how to generate a profit that its staff neglects the social mission altogether. Alternatively, the nonprofit may refocus its mission to align with more profitable and effective business strategies. In either case, the nonprofit has experienced what is known as "mission drift" (Dees, Emerson, and Economy 2002).

Launching and running a venture may consume scarce management resources, diluting an organization's focus on social programs. For instance, nonprofit managers, in turning their full attention to determining how and where to sell their product, may neglect their responsibilities in monitoring the quality of services provided to its clientele, such as education and training (Foster and Bradach 2005).

Moreover, nonprofit managers may find it too difficult and costly to employ individuals with the severest barriers to employment (Dees and Anderson 2003). They may decide instead to expand the eligibility of job slots in order to hire higher-skilled workers who can raise productivity and efficiency of the operations, which Juma decided to do to a certain degree. In this respect, the organization has neglected its mission of employing and training the hardest-to-serve, in order to improve its bottom line (Foster and Bradach 2005).

The situation is made worse by the lack of clear performance measures in the nonprofit sector. It is difficult for customers, payers, and donors, and even board members and managers, to recognize when certain activities are actually causing a decline in social impact (Dees and Anderson 2003).

A related concern is that the presence of a profit motive and emphasis on efficiency might lead social enterprises to cut corners, lowering both costs and the quality of social services. This raises the question, "Is it better to maintain very high quality and stay small, or would it be more socially desirable to lower quality but expand capacity to serve more of the people in need?" (Dees and Anderson 2003, 21). Service providers must make a difficult trade-off between the quality of care provided and the number of people served (Dees and Anderson 2003).

Effectiveness

Even if a social enterprise competes fairly in the market and generates enough revenue to be sustainable without diluting its mission, it cannot be considered effective unless it has achieved success helping clients overcome their personal problems, such as unemployment, poverty, or homelessness.

The Roberts Enterprise Development Fund (REDF) has studied the employment outcomes of nearly 1,000 individuals who have been employed in one of 19 social enterprises. The study has found that 75 percent of participants retained their jobs over a two-year period, with many transitioning into unsubsidized employment. In addition, their monthly income has tripled, their educational levels have improved, housing has stabilized, and criminal recidivism rates have declined dramatically (Schorr 2006).

There is a trend in the social enterprise field of defining impact more broadly to include positive outcomes for clients, the enterprise, and society as a whole. This concept is known as *social* return on investment (SROI). In the traditional sense of return on investment, investors expect to earn dividends on the stocks they have purchased. In contrast, in SROI, social enterprise donors measure performance of their investment in terms of whether a social impact was made.

There are no generally accepted methods or metrics for assessing SROI. However, a leading model has been developed by REDF. The foundation determines a social enterprise's SROI by calculating projected business performance, such as income generated by business sales; projected social benefits, such as number of jobs created for a target population, their expected wage rate, and taxes owed as a result of the employment; and projected social welfare savings, such as reduced public expenditures on welfare and other social services (Streeter 2001).

For instance, in its assessment of the social enterprise Recycled Merchandise, REDF calculated a per-dollar enterprise and social purpose "indices of return" of 14.48 and 24.97, respectively. This means that for every dollar invested in the social purpose enterprise, Recycled Merchandise generated $14 in revenue and nearly $25 dollars in social savings to taxpayers and increased disposable income to clients (Streeter 2001).

In order to track SROI, REDF has made a sizeable investment in information technology. It has developed a management information system (MIS) to track social impact data and income data from each of the social enterprises it funds. The MIS tracks target employees' use of various social services when first hired and tracks changes in the use of services at six-month intervals over the following two years (Streeter 2001).

The impact of some social enterprises can be estimated more generally. For instance, YouthBuild spends an average of $20,000 to provide education, support services, and employment opportunities in construction trades for high-risk youth. The youth participants typically had dropped out of high school and encountered the juvenile justice system. Predictable outcomes for this population are a life of unemployment and periodic incarceration. The typical prison cost of one inmate per year can range from $25,000 to $40,000, depending on the type of detention facility and location, not to mention the loss of productivity and taxable income. Therefore, the large up-front investment YouthBuild makes in its clients can be deemed worthwhile (Dees 1998).

Case Study Outcomes

Each of the case studies has reported positive employment outcomes for its clients. However, broader impacts, as defined by the SROI model, could not be determined for all of the enterprises.

The Enterprising Kitchen reports that 70 percent of program participants have found unsubsidized employment[6] or have enrolled in education within a year of completing the program. Staff attributes the program's success and longevity to the fact that the women are proud of the finished soap products. The soap labels carry the agency's mission statement and the signatures of participants who worked on that particular batch (Alpern 2006).

Sweet Beginnings has shown some signs of success. As of March 2006, all 10 of the first-year participants found unsubsidized jobs and had not returned to prison. Eight second-year participants also found jobs (Palms-Barber 2006).

In 2004, Pioneer Human Services placed 334 people in unsubsidized jobs with 84 employers. Seventy-three percent made it though their 90-day probationary periods. Research has revealed that Pioneer's programs cut recidivism in half (Celaschi 2005).

Through its partnership with REDF, Juma has been able to track a wider array of outcomes. Program evaluators tracked the outcomes of a sample of 83 youth who worked at Juma-run businesses sometime between 1998 and 2001. Three-quarters were still employed 28 months after first obtaining a job through Juma. Most continued to work at Juma for the first 16 months of the follow-up period. This trend was reversed in the last 11 months, as a majority of youth transitioned to permanent, unsubsidized employment elsewhere (BTW 2002).

Moreover, Juma participants increased their hourly wages and income over time. Prior to being hired by Juma, youth earned an average of $282 a month. Monthly income jumped by an average of $200 at the time of their hire, and steadily increased to $891 by the 17-28 month follow-up period. Income gains could be attributed partly to higher hourly wages over time. Youth earned $7.82 an hour on average at time of hire at Juma. Their wages increased to $9.26 at the 17-28 month follow-up. Youth who left Juma for other employment tended to earn higher wages, $9.72 compared to $8.07 at the 17-28 month follow-up (BTW 2002).

[6] They earned an average wage of $10 an hour (Alpern 2006).

Beyond employment outcomes, Juma also has tracked the number of youth who have gone on to college and how much money they have saved from their paychecks to cover tuition. One of Juma's goals is to prepare youth for higher education. To date, 540 youth participants have opened individual development accounts, saving more than a combined total of $425,000 of their earnings and accessing more than $580,000 in matching funds toward asset purchases. Seventy percent of these savings and matching funds have been used for post-secondary education, 25 percent for micro-enterprise expenses, and 5 percent for home purchases (Juma n.d.).

About 85 percent of Juma's youth graduates have successfully transitioned to college and careers. About three-quarters of these youth have enrolled in post-secondary education, while a quarter have moved on to full-time employment at or above the living wage level. Many youth participants have been the first in their families to attend college (Juma n.d.).

****

In the face of multiple challenges, the social enterprises examined in this chapter have achieved relative success in building sustainable operations and moving clients on the path toward unsubsidized employment. For those reasons, the social enterprise model could be an appealing approach for engaging hard-to-employ TANF clients in subsidized work. This proposal, laid out in the following chapter, raises important questions regarding administrative constraints and political viability.

CHAPTER 5

MAKING SOCIAL ENTERPRISES WORK FOR WELFARE

The problem that this thesis has set forth to examine is how to more fully engage welfare recipients with the severest barriers to employment, the "hard-to-employ," in a way that improves their chances at becoming self-sufficient and that helps their home states meet tougher work participation targets set by the federal government. By combining paid work experience, on-the-job training, job search assistance, and supportive services, the Transitional Jobs (TJ) model has showed promise at raising employment and participation levels, but the high cost of services has limited its use.

The thesis has sought to determine how transitional jobs can be made more affordable. To that end, the previous chapter examined the growing trend in the nonprofit sector of launching social enterprise businesses to create short-term jobs for disadvantaged clients that are funded in part through revenue from product sales. Getting in the business of producing and selling goods has posed a number of challenges, but at least a few social enterprises have proved successful at raising employment levels and offsetting wage and training costs.

This chapter explores the feasibility of forging ties between social enterprises and the welfare system in the hope of creating more affordable transitional jobs. Under this plan, welfare agencies and social enterprises would share the cost of putting hard-to-employ welfare recipients to work at the enterprises. The intent of this chapter is to weigh the pros and cons of this cost-sharing concept, including the potential for administrative constraints and political opposition. In the process, the chapter attempts to answer the following two questions:

1. Can partnerships be formed between social enterprises and welfare agencies in a way that improves the employment outcomes and work participation levels of hard-to-employ welfare recipients and saves TANF funds in the process?
2. Does this approach align or clash with dominant American values related to work, self-sufficiency, free market enterprise, and limited government?

To take up these questions, the chapter is divided into two parts. Part 1 lays out the options for designing a cost-sharing concept. Potential pros and cons of administering the program are discussed by drawing on concerns raised by social enterprise practitioners.

Following this discussion, Part 1 then presents case studies of welfare agencies that have formed partnerships with social enterprises, to assess the feasibility of sharing costs and raising employment levels. This portion of the chapter concludes with an attempt at answering the first question.

Part 2 explores the feasibility of the cost-sharing concept from a different angle: whether policymakers are likely to support or oppose its implementation for political reasons. To that end, Part 2 undertakes a study of American values as they relate to welfare and free market enterprise, in order to demonstrate their influence on policy decisions. This discussion provides the basis for examining whether the cost-sharing concept aligns or clashes with dominant American values, the subject of the second question. Ultimately, this relationship with American values could decide the political viability of the cost-sharing concept.

Part 1

Administrative Feasibility

Several welfare agencies have already built strong partnerships with social enterprises to deliver a range of welfare-to-work services, including transitional jobs. As noted in Chapter 2, Goodwill Industries hosts TJ participants in GeorgiaWorks! and in Washington's Community Jobs program. Other social enterprises providing TJ assignments to welfare recipients include the Bobby Dodd Institute in Georgia and LifeTrack Resources in St. Paul, Minnesota. Goodwill, Bobby Dodd, and LifeTrack operate light assembly plants that provide sheltered work environments for crews of welfare recipients and other hard-to-employ individuals, typically with cognitive and physical disabilities.

While these social enterprises leverage revenue from commercial services to pay for the wages and supportive services of their general population of workers, welfare clients assigned to their sites are funded entirely through TANF. Other social enterprises, including Pioneer Human Services and The Enterprising Kitchen, have decided not to seek welfare contracts. As a result, they do not monitor whether or not their clients are on TANF.

Options for Cost Sharing

The thesis presents two options for a welfare agency and social enterprise to share the cost of delivering transitional jobs for welfare recipients. Under the first option, the welfare agency would disburse a client's full monthly welfare check directly to the social enterprise for the use of covering hourly wage costs. Under the second option, a welfare agency would allocate welfare funds from its general pool to subsidize wage offerings.

In either scenario, the social enterprise would be required to contribute revenue to pay the rest of the wage costs. Under the first option, known as grant diversion, the enterprise would need to finance wages for any hours of work once the welfare check has been fully depleted.[1] Under the second option, the enterprise would pay a portion of the hourly wage rate.[2] The major difference between the two is that, in the first option, the social enterprise would have to contribute to wage costs only after the client had worked 15 hours; in the second option, the enterprise would have to cover wage costs from the onset, albeit at a lower rate.

Regardless of how wages are paid out, the welfare agency and the social enterprise could share the cost of supportive services. For instance, enterprises could be responsible for covering the cost of onsite training and education programming. The welfare agency could pay for supportive services, such as child care and transportation subsidies and job search assistance. In addition, the welfare agency could provide incentive payments to social enterprises to offset the time and resources spent supervising welfare recipients on the job.

Determining the cost of transitional jobs under a cost-sharing scheme is beyond the scope of this thesis. Furthermore, the options presented for sharing costs are meant only as suggestions. Welfare officials could devise other ways to divvy up expenses. For instance, a welfare agency could decide to fully fund supportive services but provide a minimal subsidy for wages. In this scenario, the social enterprise would cover a higher portion of wage costs, but few or no other costs.[3]

---

[1] For example, a monthly welfare check of $300 could cover the cost of about 15 hours of work a week if paid out as the federal minimum wage of $5.15 an hour. The social enterprise would be responsible for wages for any additional hours of work. If a client worked a total of 20 hours a week, at $5.15 an hour, the enterprise's contribution would be $25.75 a week or about $103 a month.

[2] In the case where a welfare agency decides to subsidize 75 percent of hourly minimum wages for 20 hours of work a week, the enterprise would need to cover $1.29 of those hourly wages. This also translates to $25.75 a week or about $103 a month, assuming the client works 20 hours a week.

[3] The wage subsidy rate could be set by estimating how much productivity is lost by employing welfare recipients. The welfare agency could cover the difference, such as 25 percent of wage costs (Tuttleman 2006).

Pros and Cons of Cost Sharing

The primary benefit of sharing costs is, of course, the ability to make transitional jobs more affordable than if a welfare agency or a social enterprise were funding them on their own. As a result, more states could afford to place welfare clients in transitional jobs. Social enterprises would benefit by gaining access to low-cost labor, which in turn could increase their profits and enable the expansion of business operations.

Welfare clients also stand to benefit by this arrangement. On a fundamental level, more clients could receive transitional job assignments, assuming that cost-sharing attracted greater interest in the TJ model. Moreover, clients assigned to social enterprises may benefit from working in real work environments, in which their supervisors are driven by the double bottom line of making profits and tackling social problems. Through their mantra of empowering clients to change their lives rather than treating them as charity cases, social enterprises may provide the best work environment to help welfare recipients build confidence in themselves and their abilities.

On the other hand, cost sharing could carry a number of constraints. To determine the feasibility of the cost-sharing concept, interviews were conducted with nonprofit officials knowledgeable of the TJ and social enterprise models. They gave a number of reasons why forging ties between social enterprises and welfare agencies may not be in the best interest of either party, including:

- **Recordkeeping Burdens:** Under the new rules issued by the U.S. Department of Health and Human Services, work-site supervisors have to regularly submit data on clients' hours of participation and wages (45 CFR Part 261). Social enterprises typically are not responsible for verifying and reporting work hours for other clients, so they may conclude that serving welfare recipients is not worth the time and effort (Tuttelman 2006).
- **Funding Restrictions:** Access to TANF-subsidized workers may lower business costs, but the funding source carries certain restrictions. Grant diversions are rarely done because redirecting a client's welfare check carries complex administrative rules (Kirby et al 2002). On the other hand, subsidizing wages could be too costly because, in order for recipients to count toward the work participation rate, they would also

need to receive a monthly welfare check on top of their hourly wages.[4] If the social enterprise were awarded a welfare contract to cover the cost of supportive services, on-the-job training, or case management, for instance, other restrictions may apply. According to federal auditing standards, TANF funds cannot pay for training classes if attended by individuals ineligible for welfare (Tuttelman 2006). Social enterprises may not have the capacity to provide separate programming for individuals not eligible for welfare. Even if they could, the redundancy of effort would be antithetic to the principle of efficient, streamlined business practices.

- **Welfare Stigma:** Some social enterprises have resisted any entanglement with the welfare system to avoid the stigma of providing publicly-funded jobs. Instead they have made a concerted effort to build business operations that emulate the private economy, as noted in Chapter 3 (Alpern 2006).
- **Work Requirements:** The level of motivation for working may be different for individuals voluntarily seeking employment than for welfare clients obligated to meet minimum standards of engagement (Alpern 2006). The former group has made the choice to work and the latter was told to work as a condition of receiving benefits. This raises two questions: (1) Would welfare recipients be as productive on the job, a crucial need for enterprises seeking profits? and (2) Do enterprises have the case management expertise and desire to handle welfare clients with sporadic attendance or poor attitudes?
- **Skill Advancement:** Social enterprises may not provide the best work environment for raising the skill levels of welfare recipients. These enterprises tend to operate sheltered worksites that offer a narrow range of tasks. In contrast, welfare clients placed on an individual basis at nonprofit or private-sector firms may be exposed to a wider variety of job assignments that are more in tune with their interests and that are better-suited to build transferrable occupational skills (Tuttelman 2006). In addition, clients on individual placements may be more likely to learn proper work ethics through interactions with permanent staff than if they were part of a work crew at a social enterprise.

[4] See the full explanation on page 51.

- **Sustainability:** Some social enterprises may not generate enough revenue to make the cost-sharing scheme viable. Survey data in Chapter 3 presented contradictory accounts of the profitability of social enterprises; if the grimmer projection is accurate, few social enterprises would have the means to share the costs.

These issues raise doubts as to whether social enterprises could improve the employment outcomes and work participation levels of hard-to-employ welfare clients or save TANF funds. Quantitative data is not available to support or reject this hypothetical claim. However, there is anecdotal evidence to suggest the cost-sharing scheme may be a viable option.

Case Studies in Cost Sharing

Two localities in Colorado have placed welfare recipients in social enterprises, which have leveraged their revenue to help pay for the jobs programs. Neither area has reached a level of cost-sharing with the social enterprises to lower program costs, but they have demonstrated that the concept could be feasible to an extent.

In Denver, the city workforce development agency provides funding to a few social enterprises to employ and train welfare clients. One of the programs, Work Options for Women (WOW), operates the county government cafeteria and puts welfare clients to work there. All revenue from food sales is cycled back into the program. In Saguache County, Colorado, the social services agency launched a thrift store to employ welfare clients. The county agency leverages the small profits made from secondhand clothing sales to offset program and facility costs. The Denver program has fared better than Saguache in transitioning clients into unsubsidized employment (Nightingale and Emery 2006).

Work Options for Women

In Denver, the city workforce development division has awarded welfare-to-work funds to several social enterprises to provide work experience for welfare clients. Job placements are made at the county human services agency's onsite cafeteria, managed by Work Options for Women (Nightingale and Emery 2006).

WOW has operated the cafeteria since 1998 (WOW n.d.). Revenue from food sales is used to offset the cost of providing on-the-job training to TANF clients and other low-income women participating in the work program. Typically, 16 women are in the training program at a given time (Schmid 2007).

The goal of the program is to prepare participants for careers in the food service industry. The nonprofit organization targets training at this industry because workers can advance to higher-paying jobs even without a postsecondary education (WOW n.d.).

At the time of enrollment in the program, all participants must fall under the federal poverty level. In addition, WOW reports that 45 percent of the women are homeless, 95 percent lack a high school diploma or GED and read at the third to sixth grade level, 90 percent lack job skills and have no previous employment history, and 90 percent are single mothers (WOW 2006). Fifty-five percent have been on TANF for two or more years, while another 30 percent already reached their 60-month time limit (WOW 2004).

Over the course of the four-month program, participants spend 10 to 12 weeks working in the kitchen, two weeks in an internship, and four to six weeks in job placement. They are expected to work from 7:30 a.m. to 2 p.m. Monday through Friday, a total of 32.5 hours a week. TANF clients are not paid wages, but they can earn $75 per week in incentives, in the form of gift cards to Wal-Mart, as long as they maintain good attendance and punctuality (Nightingale and Emery 2006).

On top of the real-world experience they gain by working at the cafeteria, participants receive instruction from two professional chefs on kitchen safety, sanitation, health regulations, preparation of hot and cold foods, menu planning, and catering. In addition, they attend life-skills classes three days a week and receive support from WOW case managers on overcoming obstacles such as domestic violence, inadequate housing and child care, poor medical and dental care, and insufficient transportation (WOW n.d.).

Toward the end of the program, clients begin the process of searching for employment with the help of a WOW case manager. Typically, WOW case managers will only place clients in jobs that offer opportunities for advancement and a starting hourly wage of at least $8.50 to $10 per hour, plus benefits (WOW n.d.).

WOW reports that more than 95 percent of participants have secured jobs before completing the program. Program graduates earn an average starting wage of $8.61, but some have been placed in $12-an-hour jobs (WOW 2006) (WOW 2006b). Half of the participants receive employment benefits (WOW 2006). Their typical monthly income is $1,050, which is triple the amount they received on welfare (WOW n.d.).

WOW case managers provide career counseling and assistance to graduates for at least one year to ensure they retain employment (WOW n.d.). After a year of employment, 85 percent of graduates are still employed. All of them have maintained stable housing. In 2005, eight graduates received a raise within 12 months on the job (WOW 2006b).

WOW has set a goal of helping 30 women leave welfare each year. Since the program's inception, 90 percent of program graduates have stayed off welfare permanently (WOW n.d.).

WOW does not appear to be strapped by any bureaucratic constraints that provide disincentives for serving welfare clients. WOW staff has not reported any concerns over tracking the work hours of welfare clients, which is done through time cards. In addition, WOW has not run into any problems with how it spends the TANF contract (Schmid 2007).

Moreover, WOW staff reports that welfare recipients share a strong work ethic with other women who are served. The staff contends that the welfare clients have a strong desire to work and to maximize their culinary training so they can rise above poverty and get off public assistance. Staff reports that the culinary training program offers clients their first real opportunity to learn a skill in a supportive environment, noting that several WOW participants had failed in other training programs in the past (Schmid 2007). One woman's experience is shared below:

> One student last year came to us after being in several programs including vocational rehabilitation. She was on her second TANF extension. Her life was total chaos and her kids were out of control. She has a learning disability. When she came to WOW her TANF case manager told us we were wasting our time because she would never be employable. We worked with her daily to get her to the program on time, help her stabilize her life, which took many months of work. She finished the program [and] was hired part-time at a day care center. [She] was doing such a great job [that] she was give a $2.30 an hour raise in the first three months and was recently promoted to a full-time position as a cook at another day care center they operate. (Schmid 2007)

The ability of WOW to effectively train and place clients in jobs and to generate revenue makes the program an ideal model for the cost-sharing concept. As explained below, WOW and the city of Denver are in fact sharing the cost of training welfare clients, but the arrangement is not a formal one.

Food sales bring in about $390,000 annually, more than 40 percent of WOW's total income, which is just over $912,000. The Denver government contributes another 30 percent of its funding level, awarding a TANF contract worth $122,000 and a Workforce Investment Act contract worth $152,000. Philanthropic foundations and other funding sources chip in another $260,000 (Schmid 2007).

WOW uses the TANF grant to pay the salaries of culinary trainers, case managers, and the job placement coordinator. The TANF dollars, however, only cover about half the cost of training and placing welfare clients in a job. Food sales revenue and other funding sources cover the rest of the operational and program costs, including the weekly incentive payments, equipment repairs, and some fundraising (Schmid 2007).

Nonetheless, WOW and the city do not have a formal cost-sharing arrangement, per sé. The Denver Workforce Development Division has set parameters on the amount of money it is willing to pay for welfare services. The culinary training costs are higher than the set allotment, so WOW has had to cover the shortfall. A true cost-sharing concept would require that the city achieve savings below its current per-client funding level. Meanwhile, WOW has lobbied unsuccessfully for more money, citing its track record of training and placing TANF recipients (Schmid 2007).

Blue Horizons Thrift Store

The Saguache County Department of Social Services has not fared as well in generating program revenue and raising the employment levels of welfare clients. The county agency operates the Blue Horizons Thrift Store, which puts welfare clients to work selling donated merchandise, primarily clothing. The thrift store generated a small profit of $2,000 in 2005, and as of 2006, no program participants had transitioned to permanent employment elsewhere. (Nightingale and Emery 2006)

Program participants are expected to work 32 hours a week during the program, which lasts up to six months. Clients stay on the job for an average of three months. They are taught a range of occupational and "soft" skills, including how to interact with customers, coworkers, and their boss; how to balance receipts, make bank deposits, and sort and prepare merchandise for sale; and the importance of dressing appropriately for work as well as being punctual (Nightingale and Emery 2006).

As part of the program, participants are encouraged to search for unsubsidized employment and can receive cash incentives for doing so. They may conduct job searches on their own, with the help of county welfare staff, or at the nearest one-stop career center. Clients can qualify for incentive payments as high as $500 if they obtain employment within a week of initiating their job search. Incentives steadily decline in value, to $100 for those clients who land jobs within five weeks. After that point, clients do not qualify for the cash bonuses (Nightingale and Emery 2006).

The county expected that the thrift store would provide the work experience and training welfare recipients needed to successfully obtain employment elsewhere. However, clients have had few job prospects, in part because of the lack of jobs in that rural area. County staff has sought to engage local employers on an advisory board for the enterprise, in hope that forging closer ties with the business community would lead to more job offers for clients (Nightingale and Emery 2006).

The revenue generated from clothing sales was leveraged to purchase training materials and to help offset rent for the facility. However, the large majority of program costs are still paid through welfare funds (Nightingale and Emery 2006).

Conclusion

Ultimately, the thesis cannot conclusively answer whether or not a formal cost-sharing scheme is administratively feasible or likely to improve the employment outcomes of welfare recipients. The Colorado programs addressed some of the concerns raised earlier in the chapter. The reporting requirements and funding restrictions did not deter WOW from serving TANF clients alongside other low-income women. In both programs, TANF clients worked more than 30 hours a week, fulfilling their work requirements and allowing Colorado to count them toward the participation target.

Saguache County created a real-world environment to provide work experience and training for welfare clients, who have limited employment prospects in that rural area. Although commendable, the approach may not be sustainable because county officials are unlikely to possess the business expertise to make the operations more efficient and profitable. As it stands, the thrift store generated little profit in 2005. Furthermore, Saguache fared poorly in transitioning clients to unsubsidized work, in part because few jobs were available.

On the other hand, Work Options for Women has demonstrated that social enterprises can be a conduit for advancing the careers of low-income women and offsetting training costs. Eighty-six percent of WOW graduates remain employed, a much higher figure than the national average for job training program participants, which stands at 54 percent (Schmid 2007). In a way, WOW has saved welfare funds. Program participants have left welfare in large numbers for the labor market, lowering caseloads and, thus, welfare expenditures. Moreover, the capacity of WOW to help finance training has taken the pressure off the city government to pay the full cost of serving welfare clients.

Yet, the WOW program has its drawbacks. Welfare clients are not paid wages; instead, they only qualify for incentive payments. The lack of wages hurts welfare clients financially and may diminish the importance of their work. Offering wages, however, may make the jobs program too expensive for WOW to operate.

The above case studies indicate that there are some constraints to cost sharing, but decisions to undertake such a scheme may depend on political support or opposition. To analyze this, the chapter turns to a wider discussion of American values.

Part 2

Political Feasibility

Up to this point, the thesis has relied largely on quantitative data, such as employment outcomes and program costs, to determine whether placing hard-to-employ welfare recipients in subsidized employment would make good public policy. The underlying assumption was that if the efficacy of transitional jobs and social enterprises could be established, states would then be more apt to implement welfare-to-work programs based on these strategies. The cost-sharing scheme was put forth in an effort to make the jobs more attractive financially. To gauge the feasibility of cost sharing, the thesis examined the potential constraints of forging ties with social enterprises. Yet, little attention has been paid to whether policymakers would support an expansion of subsidized employment.

After all, public service employment programs have, in the past, faced intense political opposition. As noted in Chapter 2, concerns were raised that the Work Progress Administration and the Comprehensive Employment and Training Act programs interfered with the private market and wasted taxpayer dollars. As a result, policymakers may not want to risk their political offices to create subsidized jobs.

On top of that, public sentiment has turned decidedly against welfare in recent decades. As caseloads rose to record highs in the early 1990s, Congress sought to break dependency by instituting time limits and work requirements in the 1996 welfare reform legislation. Many states responded by designing "work first" programs meant to push welfare recipients quickly off the rolls and dissuade others from applying, as explained in Chapter 1. Therefore, the longer-term, more intensive approach of subsidized employment may clash with the objectives of state welfare programs.

These political decisions have been based on a belief in the efficacy of free market enterprise, the importance of self-sufficiency, and a desire for limited government. Inevitably, such principles, or values, influence political discourse and public sentiment of policy proposals. Therefore, the remainder of this chapter seeks to determine whether the cost-sharing concept aligns or clashes with commonly held American values, the topic of the second question of this thesis. Core American values are described, before turning to a discussion of how these values relate to welfare, transitional jobs, social enterprises, and the cost-sharing concept.

Defining Values

Several scholars have provided a framework to describe the values or principles that underpin American society. This chapter draws on the work of social scientists Daniel Yankelovich and John Tropman. Each contributes a somewhat different list of core American values. Both have something to say about how welfare policy relates to values. This discussion also draws on the work of economist Milton Friedman and social policy scholars Lawrence Mead and Christopher Beem.

Values could be defined as a list of things that people esteem or in which they believe (Tropman 1989). Yankelovich identifies 11 core values of American society: freedom, equality before the law, equality of opportunity, fairness, achievement, patriotism, democracy, American exceptionalism, caring beyond the self, religion, and luck (Yankelovich1994, 23-24). His descriptions of these values are provided below.

1. **Freedom:** Valuing political liberty, free speech, freedom of movement, freedom of religious worship, and other freedoms from constraints to the pursuit of private happiness.
2. **Equality before the law:** Placing a high value on having the same rules of justice apply to one and all, rich and poor, black and white.
3. **Equality of opportunity:** The practical expression of freedom and individualism in the marketplace, which helps to resolve the tensions between the values of freedom and equality.
4. **Fairness:** Placing a high value on people getting what they deserve as the consequence of their own individual actions and efforts.
5. **Achievement:** A belief in the efficacy of individual effort; the view that education and hard work pay off.
6. **Patriotism:** Loyalty to the United States and dedication to the way of life it represents.
7. **Democracy:** A belief that the judgment of the majority should form the basis of governance.
8. **American exceptionalism:** A belief in the special moral status and mission of the United States.
9. **Caring beyond the self:** Placing a high value on a concern for others such as family or ethnic group; neighborliness; caring for the community.
10. **Religion:** A reverence for some transcendental meaning extending beyond the realm of the secular and practical.
11. **Luck:** A belief that one’s fortunes and circumstances are not permanent, and good fortune can happen to anyone at any time.

Tropman identifies a somewhat shorter list of seven value dimensions: work, mobility, status, independence, individualism, moralism, and ascription (Tropman 1989, 2). His descriptions of these values are provided below.

1. **Work:** A central element of American life, work provides an immediate source of income and activity and the repository of many American aspirations. Historically, the importance of work originated from the Protestant ethic: that work had intrinsic moral value and was a way to accomplish God's purpose. In contemporary times, work has provided a mechanism for finding meaning in life.
2. **Mobility:** Americans believe that anyone can rise above their current status and succeed in life, the so-called "American Dream."
3. **Status:** Americans believe that a person earns one's status in life, whether that is class, education, occupation, power, or prestige.
4. **Independence:** American society was founded on the concept of independence, from the church, the state, or even interpersonal commitments such as the family.
5. **Individualism:** As a society of do-it-yourselfers Americans prefer to do things on their own rather than in cooperation with others.
6. **Moralism:** One of the singular features of American society is its tendency to be judgmental about affairs and events, imbuing a moral quality to influence much of their attitudes about life in general.
7. **Ascription:** American culture does not emphasize ascription, the process of assigning attributes, qualities, characteristics, categories, or even titles to something. Instead, the prevailing belief is the so-called performance ethic: If you can do the job, you can have the job.

Understanding Values

Tropman and Yankelovich each put forth important claims about the relationship of values in American society, which provide a basis for understanding the public sentiment toward welfare. Tropman claims that the American society holds values that are in conflict with one another. In the case of a value clash, typically one value is more strongly held than the other. In the hierarchy of dominant and subdominant values, Tropman explains, subdominant values are more likely to be the subject of criticism because they tend to mitigate the full effect of the main, or dominant, values (Tropman 1989).

The second claim, put forth by Yankelovich, is that some values have changed over time as economic conditions have either improved or worsened. Yankelovich explains that economic changes do not by themselves transform values; what does, however, are people's perceptions of their own, and their nation's, affluence. He calls this notion "the affluence effect" (Yankelovich 1994).

Yankelovich argues that this transformation in values has occurred in three stages. In the first stage, when affluence is new, people maintain traditional values because they do not believe their personal prosperity will last. They focus on social bonds, sacrifice, hard work, and saving for the future; personal choice is limited. A sea change occurs in the second stage. Suddenly, society believes personal prosperity will go on forever. In this context, Americans expanded their life choices by choosing careers and lifestyles in accord with their individual interests, not in conformity to the expectations of others or as a concession to economic constraints. Finally, in the third stage, apprehension grows once again, as people "adapt to what they see as a more difficult, less open, less fair, more demanding, and more stressful economic environment" (Yankelovich 1994, 19). Yankelovich argues that American society transitioned into the third stage in the early 1990s (Yankelovich 1994).

Welfare and Values

How Americans perceive welfare can be explained through the claims that there are inherent clashes between dominant and subdominant values and that values have shifted with changing perceptions of economic prosperity. American society does not like welfare because it does not adhere to commonly held values.

Tropman argues that welfare generates deep social resentment because it challenges dominant values. Because Americans value working, Tropman explains, they look down on those whom they perceive to be rejecting work. This is reflected in Americans' conditional support of charity and the belief that there are "worthy" and "unworthy" poor. Charity directed at working poor individuals, the so-called "worthy" poor, is thought to help that person and provide an expression of societal concern. In contrast, public aid to the nonworker, the so-called “unworthy” poor, is viewed negatively because it provides proof that the person need not work and can get sustenance regardless (Tropman 1989).

Welfare also threatens the American belief in a fair society. Specifically, the notion that the American economy provides a fair chance at success is undercut by cases of discrimination against poor people. Tropman notes that the poor are disproportionately composed of groups who traditionally have been discriminated against: women, children, minorities, the elderly, the ill, and the handicapped. Tropman argues that Americans tend to “blame the victim” for his or her poverty in order to neutralize this threat to their belief in fairness (Tropman 1989).

Finally, welfare undermines the American value of self reliance. As Tropman explains, “dependency, when applied to the poor, connotes giving up, lack of trying, settling for something that should not be settled for and that ultimately may control the individual” (Tropman 1989, 49). At issue is that welfare programs tell people what to do, which is particularly troubling to Americans because they fear that welfare recipients may come to like being told what to do. This is a flat rejection of personal freedom, a core American value (Tropman 1989).

In the face of these value clashes, welfare programs must rely on subdominant values for support and legitimacy. Tropman argues that welfare programs are in a state of constant crisis because, as they seek to expand and to make subdominant values concrete, dominant values are threatened. This position is politically untenable (Tropman 1989).

Furthermore, Yankelovich cites how grimmer economic outlooks have led to shifts in American values against welfare: “The changing attitude toward entitlements is perhaps, the best example of how value changes tied to affluence effect bear on solving social problems” (Yankelovich 1994, 26).

In the 1970s, which falls under stage two of the affluence effect, Americans endorsed two different definitions of fairness relating to entitlement, one based on need and the other on getting what is deserved. Traditionally, Americans have felt entitled, or *deserving* of something, if they work hard for it. But, during the optimistic economic times of the 1970s, Americans broadened their conception of fairness to cover an entitlement based on need: the sense that people are entitled to welfare, housing, a college education, or health care because they *need* it. Yankelovich contends that as Americans became less certain about their personal prosperity, they began to realize the contradictions between these two definitions (Yankelovich 1994). He notes the following sentiment:

> I skimped and saved for my kid’s college education, but who got the scholarship? Not my kid, but the kid next door whose parents spent every dime they ever made. It’s just not fair. (Yankelovich 1994, 26)

In the more practical mood of stage three of the affluence effect, Yankelovich writes, Americans embraced a more balanced social contract: “If the society gives you a benefit, you must, if you are able, pay it back in some appropriate form” (Yankelovich 1994, 26). What the public is saying, Yankelovich explains, is that government should require some form of reciprocity in return for providing benefits.

In addition to the value tensions that Tropman cites, this shift in thinking about entitlement and reciprocity contributed to the decision to reform the welfare system in 1996. The next section discusses the underlying principles of welfare reform. This provides a basis for determining whether a social policy proposal, such as the cost-sharing scheme put forward in this thesis, would be viable in the current political climate.

The Principles of Welfare Reform

The debate over welfare reform revealed tensions between American interests in protecting children from harm and in promoting the notion that work is the most effective means for overcoming personal hardship. Underlying the debate was the threat welfare posed to the dominant American values of achievement, independence, and fairness as it relates to reciprocity. Interest in helping the less fortunate succumbed to these pressures. Evident in the title of the legislation, the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996, the notion was put forward that people must take responsibility for their actions and circumstances. Only through their own work effort can they succeed.

These value tensions were reflected in the contentious debate in Congress over PRWORA. Proponents of welfare reform contended that eliminating the federal entitlement to welfare and replacing it with conditions on aid, including work requirements and time limits, would end intergenerational dependency on welfare and move recipients into the labor market. House Republican Deborah Pryce (OH) noted that when able-bodied Americans are given cash assistance without exerting any effort to help themselves, “we risk destroying the American spirit and undermining our society at large” (House Congressional Record 1996, H9402).

On the other hand, opponents argued that a strong safety net should be preserved to protect children from harm. They expressed a desire for work, but assumed that welfare recipients would have a real chance to succeed only if the government increased its investment in education and supportive services and launched a large-scale public work program. Democratic Congressman Charles Rangel (NY) contended that children should be given assistance regardless of circumstances. In his floor statement, Rangel posed, “What did the child have to do with the fact that the mother wanted to work, did not want to work, jobs were there, jobs were not there? As Americans we believe in taking care of our children” (House Congressional Record 1996, H9398).

Mead and Beem (2005) contend that welfare reform has challenged the American understanding of citizenship, political equality, and the role and moral cognizance of the state, as noted below:

> Does welfare reform mean that to be a citizen in full standing one must function in certain minimal ways? Is political equality now conditional on making some effort toward economic self-sufficiency? Has the liberal state given up on moral neutrality as even the goal of policy, so that it now explicitly affirms some ways of life and deprecates others? What are now the limits of government intervention in intimate areas of family life, such as marriage and reproduction? (Mead and Beem 2005, 2)

Ultimately, Mead and Beem contend that welfare reform reflected the core dispute over the meaning of citizenship. In the spirit of John Stuart Mill, opponents of welfare reform treat citizenship as a set of protections for individual autonomy. To them, citizenship provides people the right to retain much of the freedom to decide their actions and beliefs. “In this light, government’s ability to shape individual lives is and ought to be strictly limited. Any extension of public power, or any conditions placed on benefits, appears to compromise citizenship” (Mead and Beem 2005, 263).

In contrast, supporters of welfare reform contend that conditions on citizenship are necessary to avoid free riding by individuals in the areas of economic support or child rearing. To them, society is based on a reciprocal exchange. They conceptualize citizenship to contend that individuals are not autonomous or separate, but that they have certain duties or obligations they must accept (Mead and Beem 2005). At issue is the relative balance of rights and obligations in the constitution of the citizen, as noted below:

> A priority for rights leads toward entitlement and opposition to welfare reform, and a priority for obligation leads toward conditionality and a paternalist social policy. (Mead and Beem 2005, 265)

Under these circumstances, the next sections reflect on whether transitional jobs and social enterprises put enough obligations on recipients to be politically viable social policy.

Viability of Transitional Jobs

Welfare reform has set up a reciprocal relationship between citizens and government. If welfare clients meet their work requirements, then the government provides them with benefits. If they do not, benefits are rescinded. Reciprocity is a key element of workfare programs in places such as Milwaukee and New York City, where welfare benefits are based on the number of hours that recipients perform in community service.

Among the values underlying the Transitional Jobs (TJ) model is a desire to ease this reciprocal relationship. TJ programs seek to reward welfare recipients for the hours they work by paying them an hourly wage, on top of their monthly welfare benefits. The intention is to have TJ participants conceptualize work positively as a means for receiving rewards, in this case wages, rather than as a form of punishment for seeking government assistance.

This notion appears to enjoy public support in America, given the negative publicity workfare programs have received (DeParle 2004). Even the proposed expansion of Minnesota's TJ program was viewed unfavorably by some because most of the jobs were to be unpaid (Lohn 2007).

The design of TJ programs also seeks to defuse the political opposition that had plagued past public service employment (PSE) initiatives. By making job assignments temporary and by placing most participants in nonprofit organizations, TJ programs minimize displacement effects that had burdened large public work programs in the past, including the Depression-era Work Progress Administration and the 1970s Comprehensive Employment and Training Act.

On the one hand, PSE initiatives have enjoyed a certain amount of public support because they provide jobs rather than charity, building upon the distinction between "worthy" and "unworthy" poor. PSE initiatives, including transitional jobs, align with American values of caring beyond the self and equality of opportunity, in the sense that the government intervenes in these situations to ensure individuals have a chance at obtaining employment when jobs are either unavailable or unattainable in the traditional labor market.

This labor market intervention, however, may clash with Americans' cherished views of limited government, personal freedom, and free-market enterprise. The assumption is that government interventions reduce personal freedom and limit the voluntary economic exchange between people. Under this perspective, articulated by economist Milton Friedman, the market, if unrestrained by government, can provide opportunities for people, regardless of their socioeconomic status (Friedman 1962). Friedman defines that role for government narrowly, as noted below:

> A government which maintained law and order, defined property rights, served as a means whereby we could modify property rights and other rules of the economic game, adjudicated disputes about the interpretation of the rules, enforced contracts, promoted competition, provided a monetary framework, engaged in activities to counter technical monopolies and to overcome neighborhood effects widely regarded as sufficiently important to justify government intervention, and which supplemented private charity and the private family in protecting the irresponsible, whether madman or child — such a government would clearly have important functions to perform. (Friedman 1962, 34)

Friedman laid out an argument for a government more limited in scope than Americans generally support. For instance, he opposed a minimum wage, social security, and a public school system, three areas in which Americans have willingly limited their personal freedom to preserve a notion of social equality. It is this tension between personal freedom and equality that has underlined much public debate over health care, school vouchers, social security reform, tax reform, and so on.

Viability of Social Enterprises

Social enterprises are up against value tensions similar to the ones facing the TJ model. On the one hand, social enterprises emphasize the American value of work over charity, articulated in the concepts of providing a “hand up” rather than a handout and by defining clients as workers rather than charity cases. This subtle relabeling may help to reduce the stigma associated with receiving aid, thereby making social enterprises more politically viable.

American society values a level playing field to ensure individuals have a real chance at success. Welfare clients who lack the work experience and skills, coupled with other personal problems, are at a disadvantage. Social enterprises could give them the necessary “hand up” to achieve labor market success.

On the other hand, support for the social enterprise model may be inhibited by its interference in the market economy. Operating businesses that are exempt from taxes and subsidized with philanthropic and, sometimes, government dollars raises issues over fairness. As Chapter 4 portrayed, there is concern that private-sector businesses may not be able to compete in these circumstances. These concerns, however, can be diffused by taking into account the following circumstances:

- The federal government has a long and largely uncontroversial tradition of giving social enterprises, such as Goodwill Industries, an advantage in the competition for certain commercial contracts, due to their mission of providing supportive employment to individuals with cognitive and physical disabilities.
- Social enterprises, such as The Enterprising Kitchen and Pioneer Human Services, have formed partnerships with corporations to manufacture goods for them or to sell goods through them.
- In addition, social enterprises, such as Juma Ventures and Work Options for Women, have garnered support from private and public-sector firms to operate their franchised stores or facilities on their premises.
- Social enterprises tend to operate “hustle” businesses, such as bicycle repair shops or lawn service business, which are in markets not typically dominated by large entrenched competitors who may oppose these operations.

This is not to suggest that social enterprise operations are warmly welcomed into the marketplace by all for-profit competitors, but the concern over unfair advantage may be overstated, as noted below:

> If nonprofit status provides such an advantage, why haven't we seen more for-profits converting to nonprofit status to gain this advantage? Conversions, in fact, usually run in the other direction. (Dees and Anderson 2003, 27)

Conclusion

As the previous sections have lain out, there are some values tensions inherent to welfare reform, the transitional job model, and social enterprises. As a result, the cost-sharing scheme may not be a politically tenable option. The scheme appears to align with American values related to work, mobility, equality of opportunity, caring beyond the self, and status. However, the scheme may clash with the values of personal responsibility, freedom, and fairness, particularly as they are interpreted in support of limited government and free market enterprise. It would appear, then, that policymakers would need to weigh whether providing subsidized jobs to the hard-to-employ, in hope of moving them off welfare and into the labor market, is worth the potential political backlash for expanding the role of government and impeding on the free market.

CONCLUSION

The thesis has attempted to address the challenges that the 2006 welfare reauthorization legislation now poses to states. Due to changes to the caseload reduction credit, work activity definitions, and work eligibility rules, states will likely have a tougher time complying with federally prescribed targets for engaging welfare recipients in work. States run the risk of losing federal funds if they fail to meet their work targets. This predicament is made more difficult by the fact that upfront job search assistance, the primary approach states have used to engage welfare clients, has proved ineffective at transitioning the hard-to-employ off public assistance and into employment. In order to reach their participation targets, states may need to provide more intensive services to recipients with multiple barriers to employment.

By incorporating on-the-job training, supportive services, and job search assistance, the Transitional Jobs (TJ) model offers one promising strategy for putting hard-to-employ clients to work. TJ programs hold politically viable points missing from previous public service employment initiatives, including:

1. The jobs are targeted at the hard-to-employ individuals, reducing the incentives inherent in the Comprehensive Employment Training Act (CETA) program to "cream" the applicant pool for the highest-skilled workers who would be most likely to attain employment on their own.
2. Job placements are temporary and are typically made at nonprofit organizations that have limited staff resources, rather than government offices, thereby reducing the chance that welfare recipients could displace the current workforce.
3. Participants receive supportive services and job search assistance to ease the transition from welfare to unsubsidized employment.
4. Wages are paid, raising expectations that welfare recipients contribute productive work at their host worksite rather than extraneous "make work."

However, the high cost of providing hourly wages, intensive case management, and a range of work supports may keep states from placing large numbers of welfare recipients in transitional jobs.

The thesis has explored an alternative method for financing and delivering transitional jobs, in an effort to lower program costs and make the model more attractive to states. Under this proposal, welfare recipients would be placed at social enterprise businesses, which in turn would be required to leverage their revenue to defray program costs.

The underlying assumption of this plan is that cost sharing would enable states to lower their costs of delivering transitional jobs and would create a source of inexpensive labor for social enterprises to expand their business operations. A second assumption is that social enterprises would provide an ideal work environment for welfare recipients to break down employment barriers, in order to transition to unsubsidized jobs, because the enterprises possess empowerment-focused social missions and strong business cultures.

To that end, the thesis has posed two questions: (1) Can partnerships be formed between social enterprises and the welfare system in a way that improves the employment outcomes and work participation levels of hard-to-employ welfare clients and saves TANF funds in the process? and (2) Does this approach align or clash with American values related to work, self-sufficiency, free market enterprise, and limited government?

To answer the first question, the thesis presented case studies of several social enterprises. While none of the enterprises has been rigorously evaluated, data were available on program costs and employment outcomes of their clients. All the enterprises, except the Blue Horizons Thrift Store, achieved some level of success at transitioning clients to unsubsidized employment.

In particular, The Enterprising Kitchen reported that 70 percent of clients found unsubsidized jobs or enrolled in education within a year of completing the program. Juma Ventures reported that three-quarters of youth participants were still employed 28 months after enrolling in the program and experienced steadily increasing incomes. Additionally, Work Options for Women reported that 85 percent of program graduates were still employed one year after their job placement.

These employment rates, 70 percent, 75 percent, and 85 percent, respectively, are considerably higher than the national average for job training programs, which stands at 54 percent. Similarly high employment figures were posted by 19 social enterprises in a study by the Roberts Enterprise Development Fund. Of the nearly 1,000 clients in that study, 75 percent retained their jobs over a two-year period, with many transitioning into unsubsidized employment.

At first glance, social enterprises appear well-positioned to raise the employment levels of welfare recipients. However, this employment outlook may be too optimistic. First, it is unclear what portion of social enterprises has successfully transitioned clients into unsubsidized jobs. By and large, the case studies reflect well-established, highly successful operations. Other enterprises are unlikely to replicate these strong employment outcomes. Blue Horizon Thrift Store did not place any clients in unsubsidized jobs. Even Juma Ventures, which is regarded a model social enterprise, initially failed at employing clients as ice cream vendors.

Furthermore, concerns have been raised over whether social enterprises are capable of making profits, particularly given that they tend to operate in the low-profit-margin world of retail. On the optimistic side, a half to two-thirds of social enterprises may be profitable or breaking even, but other research suggests that the percentage may be much lower, even below 30 percent. The poor economic performance of many social enterprises raises concern that the model may be unsustainable and too financially shaky for welfare agencies to award them welfare contracts, much less to expect program costs to be shared.

These concerns indicate that welfare agencies should take caution and only work with proven and financially stable enterprises. Even in those cases, employment impacts may turn out to be minimal, for at least two reasons. First, social enterprises may be accustomed to serving individuals who, although disadvantaged, may have less severe employment barriers than welfare recipients and who have expressed a greater willingness to work. Second, social enterprises may not have the capacity to serve a significant number of welfare clients; therefore, employment impacts may be small in the aggregate.

In raising these doubts, it is important to reiterate that some social enterprises have made positive impacts serving several welfare clients at a time. Work Options for Women stands out as a model. In addition, social enterprises are attractive partners for at least two other reasons:

1. Social enterprises identify clients as their “employees” rather than “charity cases,” providing the positive reinforcement clients need to proactively turn around their lives and move permanently into the world of work.

2. Social enterprises stake their business's sustainability on the work effort of their client workforce and base their social mission on making a social impact, demonstrating their commitment to breaking down clients' barriers to work.

Cost is the other side of the equation. A cost-sharing scheme, as laid out in this thesis, has not been fully realized. Some enterprises, such as Work Options for Women, do in fact share expenses, in that their services cost more per-client than states are willing to award in welfare-to-work contracts. To make transitional jobs a more attractive work engagement strategy, cost-sharing schemes would need to lower the financial burden on states administering TJ programs. Social enterprises would fill that funding gap by leveraging their revenues. It is unclear whether social enterprises would be willing and able to serve welfare clients under these financial conditions.

Even if a cost-sharing scheme may be improbable, social enterprises can contribute to welfare savings in the aggregate. Enterprises such as Work Options for Women have moved a large portion of their welfare participants off cash assistance, thereby preserving welfare funds.

To that end, at least some social enterprises appear to have the resources and expertise to help hard-to-employ welfare clients meet their work requirements and successfully transition off public aid. In doing so, the enterprises may provide more effective services at or below the cost of other service providers.

The question remains whether states would avoid forging ties with social enterprises for political reasons. The thesis examined whether placing welfare clients at social enterprises clashes or aligns with American core values.

The cost-sharing scheme seems to align with American values related to work, mobility, equality of opportunity, and caring beyond the self. However, the scheme may clash with the values of personal responsibility, freedom, and fairness, particularly as they are interpreted in support of limited government, reciprocity, and free market enterprise. It would appear, then, that policymakers need to weigh whether providing subsidized jobs to the hard-to-employ, in the hopes of moving them off welfare and into the labor market, is worth the potential political backlash for expanding government and impeding on the free market.

Framing the issue in terms of either supporting government expansion into publicly subsidized employment or opposing government intervention into the market, however, may present a false choice for policymakers. This type of work program does not expand government, per sé, in that job recipients would not work for governmental offices. Still, their wages and supportive services would be subsidized with public dollars, which could fuel political opposition. In response, it is helpful to reiterate that the jobs are targeted at the hard- to-employ who are not currently in the labor force and who have limited prospects of obtaining employment on their own. Therefore, the concerns about intrusive government must be weighed against the overarching American values of work and equality of opportunity.

Market intervention raises another sticky issue, namely that social enterprises may be perceived as having an unfair advantage over their private-sector competitors. It could be argued that government is helping to provide an unfair advantage by providing social enterprises with a publicly subsidized workforce. However, it is important to remember that many enterprises have already forged ties with the private sector. Corporations have invested resources and technical expertise to sustain social enterprises and have been a source for the sale or purchase of goods produced by these enterprises. Therefore, private-sector resistance to social enterprise competition may be overstated.

Nonetheless, states may be unwilling to invest resources and the political capital needed to implement a large-scale transitional jobs program for welfare recipients. Since welfare reform, states have pursued policies meant to move recipients quickly off welfare regardless of whether employment opportunities are present. States may find it easier to meet the tougher work standards, passed in 2006, by cutting caseloads even further, rather than increasing their efforts to actively engage noncompliant clients.

Reflected in stringent state policies, such as full-family sanctions, is the idea that welfare breeds complacency and that, if the option for aid were taken away, families would find ways to become self-sufficient. Cash assistance is opposed because it is considered a “hand out.”

Yet, no real effort is made to provide families a “hand up.” American society supports the notion that individuals should have an equal chance at achieving personal success. Work is the best means to reaching that measure of success. Clearly, welfare clients’ lack of work experience and employable skills, coupled by other personal problems, has put them at a disadvantage. Subsidized employment, which reinforces the core value of work, can give hard-to-employ recipients the needed boost into the labor market.

The real question that should be weighing on policymakers is whether their unflinching pursuit of personal responsibility, as realized through full-family sanction policies, is worth the cost of providing poor families a second chance at reaching self-sufficiency through employment. Placing hard-to-employ welfare clients in transitional jobs at social enterprises may offer them the best chance at a second chance.

REFERENCE LIST

42 U.S.C. 601-619. 1996. Block Grants to States for Temporary Assistance for Needy Families.

45 CFR Part 260, et al. 1999. Temporary Assistance for Needy Families Program (TANF); Final Rule.

45 CFR Part 261, et al. 2006. Reauthorization of the Temporary Assistance for Needy Families Program; Interim Final Rule.

Alice Pritchard. 2007. Interview by author, Washington, D.C., 20 March 20.

Alter, Kim. April 2006. Social Enterprise Typology. 7/13/06 <http://www.virtueventures.com/setypology.pdf>.

Altstadt, David. 2005. Welfare gains 5-year funding; program changes delayed. *The Employment and Training Reporter* (26 December).

---. 2006. Georgia turns to 'values' to raise activity rate, slash caseload. *Welfare To Work* (10 April).

Anderson, Beth. 2005. Mission-driven social enterprise: Integrating income and impact. *CASE Corner*. Center for Advancement of Social Entrepreneurship. 3/3/07 <www.fuqua.duke.edu/centers/case/articles/0205/corner.htm>.

Ashoka. n.d. What is a social entrepreneur? Ashoka. 3/3/07 <www.ashoka.org/social_entrepreneur>.

Baider, A., and E. Lower-Basch. 2006. Model comments on TANF interim final rule: Transitional Jobs Providers. Washington, D.C.: Center for Law and Social Policy.

Bartik, Timothy. 2001. *Jobs for the poor: Can labor demand policies help?* New York: Russell Sage Foundation.

Bellis, David. 2005. HHS should exercise oversight to help ensure TANF work participation is measured consistently across states. A report to the Chairman, Subcommittee on Human Resources, Committee on Ways and Means, House of Representatives no. 05-821. Washington, D.C.: Government Accountability Office.

Bennett, J., and T. DiLorenzo. 1989. *Unfair competition: The profits of nonprofits*. Lanham, Md.: Hamilton Press.

Bernstein, Jared. 2006. Work, poverty, and single-mother families. In *Economic Snapshots* (9 August): Economic Policy Institute. 10/31/06 <www.epi.org/content.cfm/webfeatures_snapshots_20060809>.

Blanchette, Cornelia. 1996. Job Training Partnership Act: Long-term earnings and employment outcomes. A report to Senator Paul Simon. Washington, D.C.: Government Accountability Office.

Blank, R., and L. Schmidt. 2001. Work, wages, and welfare. In *The new world of welfare*, ed. Rebecca Blank and Ron Haskins. Washington, D.C.: The Brookings Institution.

Bornstein, David. 2004. *How to change the world: Social entrepreneurs and the power of new ideas*. Oxford University Press.

Bragale, Christine Nyirjesy. 2006. Goodwill Industries sees double digit increase in people receiving job training and career services: Workforce development agency on track to reach 21st century initiative workplace goal. Maryland: Goodwill Industries.

Brenda Palms-Barber. 2006. Interview by author, Washington, D.C., 8 March.

Brock, T., and D. Butler. 1993. Unpaid work experience for welfare recipients: Finding and lessons from MDRC research. MDRC Working Papers (September). New York: Manpower Development Research Corporation.

Bromberger, Allen. 2006. Tax status of social enterprises. 7/13/06. By way of Jim@se-Alliance.org.

BTW Consultants. 2002. The social impact of employment. California: Juma Ventures.

Burchfield, Erin. 2002. Community jobs program moves people from welfare to a career track: Outcomes assessments summary. Washington: Economic Opportunity Institute.

Cannon, C., and G. Fenoglio. 2000. Charity for profit: How the new social entrepreneurs are creating good by creating wealth. *The National Journal*, 17 June.

Celaschi, Robert. 2005. Pioneering strategy sets example for nonprofits. *Puget Sound Business Journal* (13 May).

Cohen, Marie. 1998. Work experience and publicly-funded jobs for TANF recipients. *Welfare Information Network Issue Notes* 2:12. New York: The Finance Project.

Community Wealth Ventures. 2003. Powering social change: Lessons on community wealth generation for nonprofit sustainability. Washington, D.C.

Conference Report on H.R. 3734.1996. *Congressional Record*. 104th House.

Copeland, Wendi. 2005. GoodWorks! A brief description of program elements provided to the National Transitional Jobs Network. 12/5/06 <www.transitionaljobs.net/Programs/Georgia05.htm>.

Danziger, S.K., M. Corcoran, and S.H. Danziger. 2000. Barriers to the employment of welfare recipients. In *Prosperity for all? The economic boom and African Americans*, ed. R. Cherry and W. Rodgers. New York: Russell Sage Foundation.

Danziger, Sheldon. 2001. A comment on Will TANF work for the most disadvantaged families? *The new world of welfare*, ed. Rebecca Blank and Ron Haskins. Washington, D.C.: The Brookings Institution.

Dees, Gregory. 1998. Enterprising nonprofits. *Harvard Business Review* (January-February): Massachusetts.

Dees, G., and B. Battle Anderson. 2003. Sector-bending: Blurring lines between nonprofit and for-profit. *Society* 40: 4.

Dees, G., J. Emerson, and P. Economy. 2001. *Enterprising nonprofits: A toolkit for social entrepreneurs*. New York: John Wiley & Sons, Inc.

Dees, G., J. Emerson, and P. Economy. 2002. *Strategic tools for social entrepreneurs: Enhancing the performance of your enterprising nonprofit*. New York: John Wiley & Sons, Inc.

Deficit Reduction Act of 2005, PL 109-171. 2006. 109th Cong., 1st sess.

Denise Pryor-Bryant. 2007. Interview by author, Washington, D.C.

DeParle, Jason. 2004. *American dream: Three women, ten kids, and a nation's drive to end welfare.* New York: Penguin Books.

Derr, M., L. Pavetti, and A. KewalRamani. 2002. Georgia GoodWorks!: Transitional work and intensive support for TANF recipients nearing the time limit. A special report prepared by Mathematica Policy Research, Inc. for the Smith Richardson Foundation, Inc., and the Annie E. Casey Foundation. Washington, D.C.

Ellwood, D., and E. Welty. 1999. Public service employment and mandatory work: A policy whose time has come and gone and come again. In *Finding jobs: Work and welfare reform,* ed. David Card and Rebecca Blank. New York: Russell Sage Foundation.

Emerson, J., and F. Twersky. 1996. *The new social entrepreneurs: The success, challenge and lessons of non-profit enterprise creation*. California: The Roberts Foundation.

Eric Olson. 2006. Interview by author, Washington, D.C.

Fagnoni, Cynthia. 2000. Welfare reform: Work-site-based activities can play an important role in TANF programs. A report to the Ranking Minority Member, Committee on Finance, U.S. Senate. Washington, D.C.: Government Accountability Office.

Foster, W., and J. Bradach. 2005. Should nonprofits seek profits? *Harvard Business Review* (February): Massachusetts.

Fraker, T., D. Levy, I. Perez-Johnson, A. Hershey, D. Nightingale, R. Olsen, and R. Stapulonis. 2004. The national evaluation of the welfare-to-work grants program: Final report. A special report prepared by the Mathematica Policy Research, Inc. at the request of the U.S. Department of Health and Human Services. Washington, D.C.

Frank, A., and E. Minoff. 2005. Declining share of adults receiving training under WIA are low-income or disadvantaged. Center for Law and Social Policy. 11/14/06 <www.clasp.org/publications/decline_in_wia_training.pdf>.

Frank, Abbey. 2007. Increasing opportunities: Creating and expanding transitional jobs programs for TANF recipients under the Deficit Reduction Act. 3/11/07 <www.clasp.org/publications/increasing_opportunities.pdf>.

Friedman, Milton. 1962. *Capitalism and freedom*. Illinois: University of Chicago Press.

Gais, T., R. Nathan, I. Lurie, and T. Kaplan. 2001. Implementation of the Personal Responsibility Act of 1996. In *The new world of welfare*, ed. Rebecca Blank and Ron Haskins. Washington, D.C.: The Brookings Institution.

Goodwill. n.d. Fact sheet about Goodwill. Goodwill Industries International. 3/3/07 <www.goodwill.org/c/portal/layout?p_l_id=PRI.3.1&p_p_id=20&p_p_action=1&p_p_state=exclusive&p_p_mode=view&p_p_col_id=&p_p_col_pos=0&p_p_col_count=0&_20_struts_action=%2Fdocument_library%2Fget_file&_20_folderId=956&_20_name=Fact_Sheet_About_Goodwill_2005.pdf>.

Gottschalk, Peter. 1998. The impact of changes in public employment on low-wage labor markets. In *Generating jobs: How to increase demand for less-skilled workers*, ed. Richard Freeman and Peter Gottschalk. New York: Russell Sage Foundation.

Grameen. 2007. Grameen Bank: Bank for the Poor. 3/3/07 <www.grameen-info.org/bank/index.html>.

Greenberg, Mark. 2006. Conference TANF agreement requires states to increase work participation by 69 percent, but new funding meets only a fraction of new costs. Center for Law and Social Policy. 10/31/06 <www.clasp.org/publications/tanfagreement_update_jan12.pdf>.

Greenberg, M., and H. Rahmanou. 2005. TANF spending in 2003. Washington, D.C.: Center for Law and Social Policy.

Greenwald, Richard. 2002. Transitional jobs: The Philadelphia story. Washington, D.C.: The Brookings Institution.

---. 2005. Transitional Work Corporation. A brief description of program elements provided to the National Transitional Jobs Network. 12/5/06 <www.transitionaljobs.net/Programs/Pennsylvania05.htm>.

Hagert, C., and D. Baylor. 2007. A new welfare-to-work approach for Texas. Texas: Center for Public Policy Priorities.

Hamilton, Gayle. 2002. Moving people from welfare to work: Lessons from the national evaluation of welfare-to-work strategies. A special report prepared by the Manpower Research Development Corporation at the request of the U.S. Department of Health and Human Services.

Internal Revenue Service. n.d. EITC thresholds and tax law updates. U.S. Department of the Treasury. 10/31/06 <www.irs.gov/individuals/article/0,id=150513,00.html>.

Juma Ventures. n.d. College and career services. Juma Ventures. 3/3/07 <www.jumaventures.org/pages/what_college_&_career_services.html>.

Johnson, Clifford. 2001. A comment on work experience under welfare reform. In *The new world of welfare*, ed. Rebecca Blank and Ron Haskins. Washington, D.C.: The Brookings Institution.

Kass, David. 2004. Financing transitional jobs programs: A strategic guide to federal funding programs. A special report prepared by the Finance Project for the Institute for Youth, Education, and Families. Washington, D.C.

Katz, Michael. 1989. *The undeserving poor*. New York: Pantheon Books.

Kirby, G., H. Hill, and L. Pavetti. 2002. Transitional jobs programs: Stepping stones to unsubsidized employment. *Lessons from the Field: Information for Evaluators, Program Leaders, and Policymakers*. New Jersey: Mathematica Policy Research, Inc.

Klerman, J.A., and C. Danielson. 2004. Why did the welfare caseload decline? California: Rand Corporation.

Kremen, Gladys Roth. 1974. MDTA: The origins of the Manpower Development and Training Act of 1962. U.S. Department of Labor Office of the Assistant Secretary for Administration and Management. 12/03/06 <www.dol.gov/oasam/programs/history/mono-mdtatext.htm>.

Lauri Alpern. 2006. Interview by author, Washington, D.C.

Lee, Dwight. 1989. Book review of Unfair competition: The profits of nonprofits. *The Cato Journal: An Interdisciplinary Journal of Public Policy Analysis* 9:2 (fall). Washington, D.C. Cato Institute.

Lerman, Robert. 2005. How did the 2001 recession affect single mothers? *Single Parents' Earnings Monitor*. Washington, D.C.: Urban Institute.

---. 2001. Jobs and wages up sharply for single moms, gains especially high after welfare reform. *Single Parents' Earnings Monitor* (25 July). Washington, D.C.: Urban Institute.

---. 2001. Less educated single mothers achieved high wage and employment gains in the mid 1990s. *Single Parents' Earnings Monitor* (26 October). Washington, D.C.: Urban Institute.

Lerman, R., and E. Rosenberg. 1997. The benefits and costs of New York City workfare. Washington, D.C.: Urban Institute.

Lohn, Martiga. 2007. State may subsidize jobs under tougher welfare-to-work rules. *La Cross Tribune* (25 January): Wisconsin.

Loprest, Pamela. 2003. Fewer welfare leavers employed in weak economy. *Snapshots of America's Families III*. Washington, D.C.: Urban Institute.

Maran, Meredith. 2003. Changing lives, changing times. California: Juma Ventures.

Massarsky, C., and S. Beinhacker. 2000. Enterprising nonprofits: Revenue generation in the nonprofit sector. A special report commissioned by the Pew Charitable Trusts. Connecticut: Yale School of Management.

McClurg, Jim. 2006. Tax status of social enterprises. 7/13/06. Jim@se-Alliance.org.

Mead, L., and C. Beem. 2005. *Welfare reform and political theory*. New York: Russell Sage Foundation.

Michalopoulos, C., and G. Berlin. 2001. Financial work incentives for low-wage workers. In *The new world of welfare*, ed. Rebecca Blank and Ron Haskins. Washington, D.C.: The Brookings Institution.

Mueller, Jan. 2005. Advancement Plus. A brief description of program elements provided to the National Transitional Jobs Network. 12/5/06 <www.transitionaljobs.net/Programs/Minnesota05.htm>.

Nightingale, D. S., and J. Emery. 2006. Employment services and employer interaction in Colorado Works programs. A special report prepared by the Lewin Group for the State of Colorado Department of Human Services.

National Transitional Jobs Network. 2006. Basic transitional jobs program design. Illinois: Heartland Alliance for Human Needs & Human Rights.

Office of Family Assistance. 2006. Caseload data index. U.S. Department of Health and Human Services, Administration for Children and Families. 10/31/06 <www.acf.hhs.gov//programs/ofa/caseload/caseloadindex.htm>.

---. November 2004. Sixth annual report to Congress XII: Specific provisions of state programs. U.S. Department of Health and Human Services, Administration for Children and Families. 10/31/06 <www.acf.hhs.gov/programs/ofa/annualreport6/chapter12/chap12.pdf>.

---. August 9, 2006. Participation rates. Work participation rates for FY 1997-2004. U.S. Department of Health and Human Services, Administration for Children and Families. 10/31/06 <www.acf.hhs.gov//programs/ofa/particip/indexparticip.htm>.

---. TANF work activities. n.d. U.S. Department of Health and Human Services Administration for Children and Families. 10/31/06 <www.acf.hhs.gov/programs/ofa/workfact.htm>.

Parrott, S., L. Schott, E. Sweeney, A. Baider, E. Ganzglass, M. Greenberg, E. Minoff, V. Turetsky. 2006. Implementing the TANF changes in the Deficit Reduction Act: "Win-win" solutions for families and states. Washington, D.C.: Center on Budget and Policy Priorities and Center for Law and Social Policy.

Pavetti, LaDonna. 2002. Helping the hard-to-employ. In *Welfare reform and beyond*, ed. A. Kane, R. Haskins, I. Sawhill, and K. Weaver. Washington, D.C.: The Brookings Institution.

Pavetti, L., and D. Bloom. 2001. State sanctions and time limits. In *The new world of welfare*, ed. Rebecca Blank and Ron Haskins. Washington, D.C.: The Brookings Institution.

Pavetti, L., D. Strong, R. Bajaj, J. Jacobson, C. Lloyd, C. Nagatoshi, R. Rosso, and A. Stieglitz. 2001. Work-based strategies for hard-to-employ TANF recipients: A preliminary assessment of program models and dimensions. A special report prepared by Mathematica Policy Research, Inc. for the U.S. Department of Health and Human Services.

Pioneer Human Services. n.d. Fast facts about Pioneer Human Services. Pioneer Human Services. 3/3/07 <www.pioneerhumanserv.com/news_links/facts.html>.

Proscio, Tony. 1998. The Venture Fund Initiative: An assessment of current opportunities for social purpose business development and recommendations for advancing the field.

Rector, Robert. 1995. Why congress must reform welfare. *Heritage Foundation Backgrounder* 1063 (4 December). 11/14/06 <www.heritage.org/Research/Welfare/BG1063.cfm>.

Reis, T., and S. Clohesy. 1999. Unleashing new resources and entrepreneurship for the common good: A scan, synthesis, and scenario for action. Michigan: WK Kellogg Foundation.

Richardson, J., and V. Burke. 2001. Short history of the 1996 welfare reform law. Washington, D.C.: Congressional Research Service.

Ritter, Kera. 2006. Crisis for welfare programs: Phila. agencies are told to do more with less. *Philadelphia Inquirer* (4 August).

Robles, A., F. Doolittle, and S. Gooden. 2003. Community service jobs in Wisconsin Works: The Milwaukee county experience. New York: Manpower Development Research Corporation.

Rynell, A., and K. Beachy-Quick. 2003. Transitional community jobs, Chicago Illinois: A summary report on the program and its outcomes. Illinois: The Heartland Alliance Mid-America Institute on Poverty.

Schmid, Toni. 2007. Re: Information request about Work Options for Women. 3/20/07. Toni.Schmid@dhs.co.denver.co.us.

Sherwood, Kay.1999. Designing and administering a wage-paying community service employment program under TANF: Some considerations and choices. New York: Manpower Development Research Corporation.

Strawn, J., M. Greenberg, and S. Savner. 2001. Improving employment outcomes under TANF. In *The new world of welfare*, ed. Rebecca Blank and Ron Haskins. Washington, D.C.: The Brookings Institution.

Salamon, Lester. 2002. The resilient sector: The state of nonprofit America. In *The state of nonprofit America*, ed. Lester Salamon. Washington, D.C.: The Brookings Institution.

Sam Tuttelman. 2006. Interview by author, Atlanta, Georgia.

Sanger, M. Bryna. 2003. The welfare marketplace: Privatization and welfare reform. Washington, D.C.: The Brookings Institution.

Schorr, Jim. 2006. Social enterprise 2.0: Moving toward a sustainable model. *Stanford Social Innovation Review* (summer): California.

Sherwood, Kay. 1999. Designing and administering a wage-paying community service employment program under TANF: Some considerations and choices. New York: Manpower Development Research Corporation.

State of Washington Department of Community, Trade and Economic Development. 2006. WorkFirst. 12/5/06 <www.cted.wa.gov/portal/alias_CTED/lang_en/tabID_615/DesktopDefault.aspx>.

Stockdill, S., R. Anderson, M. Smith, M. Stoehr, S. Dean, and B. Weakly. 2004. 2004 comparison study: An evaluation that compares outcomes for a multi-site transitional jobs program with random samples of participants in the Minnesota Family Investment program. A special report prepared by EnSearch, Inc. for Lifetrack Resources.

Stockdill, S., R. Anderson, M. Smith, M. Stoehr, and S. Dean. 2002. A comprehensive evaluation report of Advancement Plus: A paid transitional work experience program. A special report prepared by EnSearch, Inc. for Lifetrack Resources. Minnesota.

Stone, Nan. 2005. Strategies for social impact. *Knowledge Letter* (winter). The Bridgespan Group. 3/3/07 <www.bridgespangroup.org/knowledgeletters/ winter2005/default.html#perspective1>.

Streeter, Ryan. 2001. *Transforming charity: Toward a results-oriented social sector*. Indiana: Hudson Institute.

Trattner, Walter. 1998. *From poor law to welfare state: A history of social welfare in America*. New York: The Free Press.

Tropman, John. 1989. *American values & social welfare: Cultural contradictions in the welfare state*. New Jersey: Prentice Hall.

Turner, J., and T. Main. 2001. Work experience under welfare reform. In *The new world of welfare*, ed. Rebecca Blank and Ron Haskins. Washington, D.C.: The Brookings Institution.

VanNoy, M., and I. Perez-Johnson. 2004. Targeted help for the hard-to-employ: Outcomes of two Philadelphia welfare-to-work programs. A special report prepared by Mathematica Policy Research, Inc. for the U.S. Department of Health and Human Services.

Wallace, Nicole. 2007. Recipe for success: Charity hopes new plan will improve its honey business. *The Chronicle of Philanthropy* (11 January).

Weisbrod, Burton. 2004. The pitfalls of profits. *Stanford Social Innovation Review* 3:2 (winter): California.

Waller, Margy. 2002. Transitional jobs: A next step in welfare to work policy. Washington, D.C.: The Brookings Institution.

White House Office of the Press Secretary. 1997. The balanced budget delivers tax cuts to clean up and revitalize urban areas…And to move people from welfare to work. William J. Clinton Presidential Library. 11/12/06 <http://clinton2.nara.gov/WH/New/Budget/urban.html>.

Wilson, Julie. 2005. Community jobs. A brief description of program elements provided to the National Transitional Jobs Network. 12/5/06 <www.transitionaljobs.net/Programs/Washington05.htm>.

Work Options for Women. n.d. About Work Options for Women. 3/16/07. <www.workoptions.org/default.asp?PageID=10003771>.

---. 2006. *Worksheet* (summer). 3/16/07. <www.workoptions.org/files/485/documents/WOW%20Newsletter%2010-06.pdf>.

---. 2006. *Worksheet* (spring). 3/16/07. <http://workoptions.org/files/485/documents/WOW%20Newsletter%20Spring%202006.pdf>.

---. 2004. *Worksheet* (winter). 3/16/07. <www.workoptions.org/files/485/documents/WOW2004.pdf>.

Yankelovich, Daniel. 1994. How changes in the economy are reshaping American values. In *Values and public policy*, ed. Thomas Mann and Timothy Taylor Henry Aaron. Washington, D.C.: The Brookings Institution.

Young, D., and L. Salamon. 2002. Commercialization, social ventures, and for-profit competition. In *The State of Nonprofit America*, ed. Lester Salamon. Washington, D.C.: The Brookings Institution.

Zedlewski, Sheila. 2003. Work and barriers to work among welfare recipients in 2002. *Snapshots of America's Families III*. Washington, D.C.: Urban Institute.

Zedlewski, S., and D. Alderson. 2001. Do families on welfare in the post-TANF era differ from their pre-TANF counterparts? *Assessing the new federalism*. Washington, D.C.: Urban Institute.

Zedlewski, S., and P. Loprest. 2001. Will TANF work for the most disadvantaged families?" In *The new world of welfare*, ed. Rebecca Blank and Ron Haskins. Washington, D.C.: The Brookings Institution.