



# STEPS



STEPS TO EMPLOYMENT PROSPERITY & SUCCESS

Spring 2004

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## FOOD STAMPS: Results are More Important than Intentions

By Jon Hobbs

Food Stamps—one of the largest federal welfare programs, with annual costs approaching \$24 billion—are intended to help low-income families purchase nutritious food. So, how effective are Food Stamps in meeting its goal? Not very, according to experts. Depending on one study, only between 17 and 47 cents of each Food Stamp dollar are used to increase the amount of food a family purchases. The rest effectively supplements recipients' other income, allowing them to increase purchases of non-food items. In other words, from half to four-fifths of Food Stamp dollars aren't even spent on food.

The program also continues to be vulnerable to fraud. Although attempts have been made to curb the flagrant abuses in the 70s and 80s, where it was not uncommon to see Food Stamp coupon discount rates openly advertised in inner cities, the program is still susceptible to fraud. For example, an electronic benefit transfer (EBT) card has replaced Food Stamp coupons, but implementing regulations do not require an individual to present picture identification when using the card.

Proponents of the program argue that supplementing income, while not an explicit goal of the Food Stamp program, is a worthy goal in itself. In other words, it doesn't much matter that most food stamps dollars aren't actually used to purchase food.

In a vacuum, this is an interesting point, but hasn't experience with welfare reform taught that the better path for government programs for the poor is based on increasing self-sufficiency rather than increasing dependence?



*continued on page 2*

### What is Full Employment?

Full Employment is a welfare, unemployment, and food stamp benefit replacement concept that moves public assistance recipients into the active workforce by converting public assistance benefits to wage subsidies for transitional, training oriented jobs, predominantly in the private sector.

## How many residents in your state receive Food Stamps?

The middle column indicates the number of Food Stamp participants in the state. The right-hand column indicates the per capita proportion of Food Stamp participants. For example, in Alabama, 475,345 are receiving Food Stamps; that translates to one in every 9.5 Alabamans receiving Food Stamps.

STATE	FOOD STAMP RECIPIENTS June-03	FOOD STAMP DEPENDENCY (One in Every)
Alabama	475,345	9.5
Alaska	53,211	12.2
Arizona	491,255	11.4
Arkansas	317,448	8.6
California	1,750,889	20.3
Colorado	213,931	21.3
Connecticut	182,534	19.1
Delaware	46,844	17.5
District of Columbia	80,267	7.0
Florida	1,027,530	16.6
Georgia	797,866	10.9
Hawaii	99,993	12.6
Idaho	84,066	16.3
Illinois	984,370	12.9
Indiana	487,197	12.7
Iowa	157,655	18.7
Kansas	164,472	16.6
Kentucky	515,900	8.0
Louisiana	652,834	6.9
Maine	134,877	9.7
Maryland	255,425	21.6
Massachusetts	303,762	21.2
Michigan	862,284	11.7
Minnesota	240,367	21.0
Mississippi	366,511	7.9
Missouri	618,359	9.2
Montana	73,409	12.5
Nebraska	100,860	17.2
Nevada	117,829	19.0
New Hampshire	45,163	28.5
New Jersey	344,841	25.1
New Mexico	200,600	9.3
New York	1,454,490	13.2
North Carolina	658,555	12.8
North Dakota	40,752	15.6
Ohio	888,788	12.9
Oklahoma	386,382	9.1
Oregon	407,435	8.7
Pennsylvania	833,951	14.8
Rhode Island	75,921	14.2
South Carolina	460,145	9.0
South Dakota	52,545	14.5
Tennessee	754,055	7.7
Texas	1,941,101	11.4
Utah	108,281	21.7
Vermont	41,406	15.0
Virginia	398,777	18.5
Washington	418,379	14.7
West Virginia	248,033	7.3
Wisconsin	303,106	18.1
Wyoming	25,802	19.4
<b>US Total</b>	<b>21,745,798</b>	<b>13.4</b>

## Food Stamps... *continued...*

With the implementation of the Temporary Aid to Needy Families (TANF) program in late 1996, welfare caseloads dropped significantly. By 2000, caseloads leveled off at half of the prior level and remain there today.

The Food Stamp program caseload during this period is another story altogether. From October 1996 (the start of TANF) until July 2000, Food Stamp caseloads dropped steadily and significantly. In fact, caseload in July 2000 were down 31% from October 1996. When considering that a number of non-TANF groups receive Food Stamps, including the elderly, blind and disabled, and the working poor, it is fair to say that the Food Stamp caseload decline paralleled the caseload decline in TANF during this period.

However, changes were in the works to reverse this trend. In response to the huge decline in Food Stamp caseload, the Clinton Administration began an intensive Food Stamp program marketing effort combined with a general loosening of eligibility requirements. Unlike TANF, Food Stamps remained an entitlement program after the 1996 reform; therefore, income at sufficiently low levels automatically made one eligible for Food Stamps. In addition, while the TANF program had fairly strict work requirements, the Food Stamp program had few and very weak mandatory work requirements, and they only applied to a small segment of recipients.

By all measures the marketing program to boost Food Stamps succeeded. Food Stamp caseload declines reversed, and as of August 2003 Food Stamp caseloads had increased by 24%. Currently, over 22 million Americans, or one out of every 13 citizens, receive Food Stamps. Four years ago, only one in 17 received Food Stamps. Increased caseloads, combined with studies on the effectiveness of the program, show a program that is serving larger numbers but serving them poorly.

Despite its ineffectiveness, the Food Stamp program is popular with many special interest groups, including grocers, farmers, government workers, and poverty advocates. The program has also been highly inflexible, with Food Stamp administrators being very hesitant to allow program re-alignment to match the most successful components of TANF—even though current law and regulation allow these changes. The program is also expensive to administer. Federal regulators seem far more interested in fining states for errors than rewarding them for successfully moving people off of public assistance. Many states are forced to increase their administrative resources to improve error rates, even to the point of moving staff from their successful TANF and work-related public assistance programs to Food Stamp eligibility and verification units.

The Food Stamp Program: expensive, inefficient, and ineffective—three things taxpayers would find most objectionable in government programs. Perhaps states, instead of working to increase food stamp participation, should rally together and demand that the federal government make the Food Stamp program accountable for measurable results, not good intentions. If nothing else, states should require that Food Stamp benefit dollars not used to purchase food be used in the most effective way possible to help individuals and families improve their self-sufficiency. ■



## A Faith-based Program that Works

Businessman Chris Mangum and pastor Donald McCoy, started the Jobs Partnership “to bring churches and businesses together to mentor, train and employ our country’s neediest citizens moving them from dependency to self-sufficiency as productive citizens of the community and to true wellness.” The following is a letter from a Jobs Partnership mentor to the Executive Director of the Jobs Partnership Program Skip Long:

The Jobs Partnership model differs significantly from a job placement service. While a placement service screens people to meet known needs of employers, the Jobs Partnership addresses the individual needs of job seekers and maps a career path to meet their aspirations and skills.

The Jobs Partnership training consists of a 12-week biblical curriculum that teaches basic work principles and job readiness skills. Each student is sponsored by a local church, which provides a mentor. Mentors support students through the classes and first years of employment. This support helps participants overcome many obstacles such as childcare, transportation, low self-esteem, a lack of problem solving skills, and poor work ethic.

Though faith-based, the Jobs Partnership’s goal is not to convert people but to help them find jobs. Executive Director Skip Long stated, “We in the Jobs Partnership have a Christian, biblical world-view. That’s who we are. But how we operate, is that we will walk with any neighbor no matter what their faith background is and help them find employment.”

Operating in 27 cities, the Jobs Partnership serves as a unique model for faith-based organizations. More than 1,100 individuals have participated in the 12-week life and job skill classes. And since the program’s inception in 1995, 83% of participants are still working. The Jobs Partnership program is without question, a faith-based program that works. ■

*Dear Skip,*

*Mona came hopping into her first Jobs Partnership class. It was difficult to put an age to her but I knew she had a 14-year daughter and a husband that didn't treat her very well. I also knew right away that she had a chip on her shoulder from the jut of her jaw.*

*Mona was well read because she knew I was on a bank board and that's why she wanted to "talk business" with me during the break. She wanted a loan to start a 60-seat restaurant. Inquiring if she had any experience, she answered that she had been a cook in several retirement homes and, by the way, was an excellent cook.*

*Learning that she had no restaurant experience, no capital and no collateral, I suggested that she apply for a job to get experience with one of our business partners who owns several restaurants. Her response was quick and firm, "I don't want to work for anyone but myself." After some discussion, she admitted that she didn't think anyone would hire her. She fought back tears.*

*Week after week, Mona attended classes, always dominating the conversation, always "in the face" of the other students. The more Mona pushed the more distance she created between herself and everyone else. I talked with her about her "attitude," about how "hard" she comes across, about her need to be the center of attention. I asked her to be sensitive to others, to soften her own edges.*

*The tenth week, Mona prepared a meal for not only the students and mentors, but for all of the Steering Committee as her gift of thanks. For the entrée, she fixed roast beef and vegetables and roasted chicken with fresh rosemary and garlic. The food was delicious. She had found a positive way to be the center of attention.*

*At graduation last night, she said that she was actively looking for work. But what was the most important was that she learned about accountability and how her pride can get in her way. She closed with the fact that she was teaching her daughter what she had learned in Jobs Partnership and her daughter was now on the right path and looking for a job, too.*

*Mona's problems won't end when she finds a job. Her husband is still apt to abuse her. Her own personality will get in her way from time to time. And teenage daughters can always be difficult. But what Mona has is a framework for finding and keeping a job, built on the foundation of God's Word. With these, Mona will be better prepared to address anything that comes her way.*

*And what will her employer get? Well, she will probably always be a pretty "mouthy broad," but he'll get someone who respects his authority, who has integrity, who will work hard and wants to learn how to work better.*

*Please pray for Mona, that she finds a job that will give her the knowledge to one day own her own 60-seat restaurant.*

*By the way, this letter is my way of thanking of you and David for all you do to support Tucson and the rest of the 27 Jobs Partnership cities. But you really need more help and a new copier. So I've enclosed my check. Please put it where it's most needed.*

*Sincerely,*

*Beth Walkup*

For more information log on The National Jobs Partnership web site at [www.tjp.org](http://www.tjp.org)



John W. Courtney

# Re-Reed AND Write Again

## How Best to Re-Employ Unemployed Money

By John W. Courtney

In March 2002 the federal government distributed \$8 billion to the states for unemployment insurance programs. As of January 2003, it appeared that less than 15% of the funds had been appropriated by legislatures for use. But this could soon change as states are responding to difficult budget battles by creatively considering funds for unemployment programs.

### What is Reed Act Money?

Reed Act money comes from the trust funds created by the federal unemployment insurance tax (FUTA) levied on employers' payrolls. FUTA is collected by the federal government, and is supposed to be returned to the states to pay for administration of unemployment insurance and the employment service.

Recently these trust funds ballooned as Congress limited distributions to help keep the federal deficit down. In 2002, in response to the recession, Congress decided to make a large, lump-sum distribution back to the states called the Reed Act distribution.

### How Can States Use It?

Federal law allows a variety of uses for Reed Act funds, falling generally into two categories: 1) administrative

efforts and 2) unemployment insurance (UI) benefits.

**1. Administrative Efforts.** Reed Act funds generally can be used for administration in the same way as employment service dollars or administrative UI dollars. The funds can also be used to fund Workforce Investment Act (WIA) One Stop job finding activities and administration.

**2. UI benefits.** Reed Act money can flow into the state UI trust fund, which can only be used for UI benefits. While waiting to be spent, the money may shore up a low trust fund, or supplement a fund already flush. In the latter instance, the additional money may trigger lower state unemployment insurance tax rates in the future (either lower in absolute

levels, or lower than the tax rate would be in the absence of the Reed Act money).

Generally, use of the Reed Act money for benefits must follow current guidelines for unemployment insurance eligibility and can generally only be used to expand eligibility in two areas:

- People seeking or available only for part-time work.
- People who would be eligible under an "alternative base period."

### Priorities for Expenditures

Leaving the Reed Act funds in the state's trust fund is best in states that are handling their unemployment insurance effectively. Unfortunately, not many states can claim this distinction.

For the majority of states, especially

at a time of tight state budgets for economic development and higher unemployment, Reed Act money should be used to help create jobs and increase employment rather than pay people to stay out of work.

The last priority should be expanding benefits. Research shows that increased benefits would tend to have the perverse effect of increasing unemployment, which will also decrease gross state production.<sup>i</sup>

Priority recommendations are as follows:

### FIRST PRIORITY: Promote Employment.

The unemployment insurance system has come to be, in many states, an entitlement system rather than work-oriented system.

Many states are still focused primarily on cutting checks in a timely manner for the unemployed and paying paltry attention to the main tasks at hand – helping workers find jobs and helping employers find workers.

This lack of attention may be due to a drying up of funds for job search assistance and a heavy focus on efficiently and effectively *paying* benefits.

In any case, the opportunity remains to better help the unemployed find work. In the last year, UI claimants nationwide averaged over four months to find a job. Meanwhile, employers who eventually hire a claimant often are seeking that claimant for more than a month. The result is needless wasted time, money and productivity. Every single *week* lost in this connection nationwide had the following costs:

Unemployed Claimants	Wages	→ \$2.5 billion
Employers	Taxes	→ \$2.5 billion
US Economy	Production	→ \$2.5 billion

**Job Search.** An effective method to help the unemployed find jobs is to teach them where and how to look.

According to the research, mandatory job-search seminars help people find jobs faster without compromising earnings.<sup>ii</sup> Many states use this method, but it is limited in its scope, serving only a small portion of the claimants. Last year

over 40% of US claimants ran out of benefits before finding a job.

Motivation is also a factor. Research shows that the unemployed who are not eligible for UI benefits take half as long to find work as those who are eligible for benefits but must remain unemployed to collect. Other research shows that paying a \$500 bonus to claimants to find work faster was successful and did not compromise earnings.

So, because research seems to indicate that states can play a role in helping people find work faster, it appears that using Reed Act funds to audit and assist more claimants in their job search efforts would be an effective use of those funds. The icing on the cake is the reduced cost: the savings from reduced UI benefits can easily continue to fund the activity indefinitely.

Accompanying the use of Reed Act funds to help get people working should be a review of employment department rules regarding case management.

Consider the full time worker who is laid off and claims benefits. In most

states, the claimant is paid nearly 50% of his former wage, but required to work on a job search for less than 10% of his former work time (4 hours vs. 40 hours). The incentive creates an obvious "moral hazard" for the claimant not to actively look for work.

Many states do little monitoring of employee job search activities, often for reasons of limited administrative funds. Reed Act moneys can help states develop programs to better monitor employee job search activities.

**Leverage Employers.** States can also impact the other side of the equation – employers who are hiring. The current lost opportunity is striking. At any given time an employer is looking for an employee, most states control the income and pertinent hiring information of half its job seekers, primarily through their UI program. Why then do employers look to the state to fill less than ten percent of their job openings?<sup>iii</sup> When one considers the math, the result is that states are using less than 20% of their capacity to place employees.

The answer is simple. Many states make their job matching system devastatingly more cumbersome than newspapers make classified ads. States should require claimants filing for UI to simultaneously register with the state employment service. They should also work diligently to make their systems more user-friendly, to minimize user time and effort.





## REED ACT DISTRIBUTIONS

Their computer matching programs must also be made effective in matching job seekers to jobs. Finally, states should promote direct access by employers to job seekers without necessitating a cumbersome intermediary government step.

Using Reed Act money to strategically simplify and improve employer access to employees and vice versa through the state computer systems or otherwise has great promise for many states.

### **SECOND PRIORITY: Reduce Overpayments.**

Overpayment of unemployment insurance is a national problem of huge proportions. Overpayments in 2002 were \$3.68 billion, or 9.1% of all benefits. (Underpayments were less than one percent.)

For some states, overpayments account for over 20% of all benefit payments. The states with the highest overpayment rates in 2002 were: Virginia, Texas, Maryland, Montana and Nebraska. Vermont, at 1.7%, had the lowest rate of overpayment.

Part of the overpayment problem can be attributed to tight budgets. Tight budgets, though, don't explain why the state of Idaho has a 15.18% overpayment rate, while Oregon's rate is only 5.74%. All states, but especially states with high overpayment rates, have a great opportunity to reduce their overpayments. Spending some of

the Reed Act funds to help reduce overpayments should be a priority.

How can states use Reed Act funds to help reduce overpayments? The leading cause of overpayments was from claimants returning to work and continuing to claim benefits. By cross matching against Social Security, new hire, and other available records, states can eliminate these fraudulent payments.

The second leading cause of overpayments was not enforcing job search requirements. As discussed above, more stringent enforcement of this requirement will strongly reduce overpayments.

### **THIRD PRIORITY: Cut Tax Rates.**

Unemployment benefits and administrative costs are paid for with an employment tax. We have successfully used heavy taxation to reduce consumption of liquor and tobacco, and it seems we're taking the same approach to jobs.

If the Reed Act funds are left in the states' unemployment benefit trust funds, then tax rates can be cut by legislation, or automatically through the normal "trust fund adequacy" procedures. For states that have lower durations of employment, lower exhaustion rates, and lower overpayments (i.e. managing effectively and efficiently), keeping funds in the trust fund to keep taxes lower seems to be

the best approach to helping reduce unemployment. Cutting employment taxes makes it a little easier for employers to hire new workers.

### **LOWEST PRIORITY: Increase Benefits.**

Increasing benefits should be the last choice for use of Reed Act funds. As noted above, research has clearly documented that more generous benefits lead to longer spells of unemployment. Less diligent job search effort is the obvious culprit.

Using Reed Act moneys to extend benefits will only serve to increase unemployment and slow the transition back to meaningful work.

### **Conclusion**

The Reed Act distributions continue to present a real opportunity for states that want to do something meaningful for their unemployed, their employers and their economy. States can use the money to continue to promote dependency and entitlement by expanding UI benefits, or they can promote work and self-sufficiency by promoting employment, reducing overpayments, and cutting employment taxes. States do have a choice.

*For more information on The Reed Act, research or design of unemployment insurance programs contact us at (541) 322-9171. ■*

<sup>i</sup> See Yolanda K. Kodrzycki, "The Effects of Employer-Provided Severance Benefits on Reemployment Outcomes," *New England Economic Review*, November/December 1998, pp. 41-68; Card, David and Phillip B. Levine, "Extended Benefits and the Duration of UI Spells: Evidence from the New Jersey Extended Benefit Program," *Journal of Public Economics*, Vol. 78, No. 1-2 (October 2000), pp. 107-138; R. Mark Gritz and Thomas MaCurdy, "Measuring the Influence of Unemployment Insurance on Unemployment Experiences," *Journal of Business & Economic Statistics*, April 1997, Vol. 15, No. 2, pp. 130-152.

<sup>ii</sup> The results of various experimental programs are summarized in Bruce D. Meyer, "Lessons from the U.S. Unemployment Insurance Experiments," *Journal of Economic Literature*, 33(1), March 1995, pages 91-131.

<sup>iii</sup> Calculated by state job postings divided by new hires reported.

# Mr. Greenspan, What About Personal Accounts for Social Security?

By U.S. Sen. Larry Craig, Chairman of the U.S. Senate Special Committee on Aging

Federal Reserve Board Chairman Alan Greenspan recently raised a ruckus when he called for future Social Security benefit cuts to slow government spending. He sent a strong signal to Washington politicians to come to grips with a reality that is settling in around the world. Political promises alone cannot guarantee retirement security. But there is something that might – adding personal retirement accounts to Social Security.

Just two days before Chairman Greenspan's testimony, I had the honor of hosting a visit to the U.S. Capitol by Australian Senator Nick Sherry. A Labor Party leader, he made the persuasive, hopeful case of how the United States can, like Australia did, avoid going down the disastrous road to Social Security cuts.

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## We can learn from the experiences of other countries - what to do and what not to do.

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France and Italy recently braved street protests and transportation shutdowns to take steps to rein in soaring, unsustainable Social Security costs. Delaying reform over the past twenty years, with large budget deficits, double-digit unemployment, taxes heading from 40 to 60 percent, it became too late for France and Italy to do anything but cut their Social Security promises. Germany's left-of-center government has also reduced its benefits.

Japan likewise finds itself in financial problems that are driven, in part, by exploding benefits for its senior citizens. In just 11 years, one in four Japanese will be over age 65. Japan also has soaring budget deficits and a national debt soon to exceed 170 percent of national income. The inevitable answer for Japan's government has been to propose cutting Social Security benefits for future retirees.

Raising taxes on workers should not be part of the solution. As other nations are discovering, the harder you make life for young families – the fewer children are born. The fewer children born, the fewer workers there will be tomorrow to pay the taxes needed to sustain Social Security.

Tax hikes punish work, prevent saving, and depress economic activity. Increases in tax rates reduce economic growth. In short, higher taxes mean fewer jobs and lower wages.

Many of the world's most socialist nations have been waking up to these realities and are now beginning to rely on personal saving rather than taxes to bolster retirement security. Even socialist Sweden now has a two-tiered system with personal retirement accounts. England, Germany, Australia, Spain, Italy, Russia, China, Chile and a host of former Eastern Bloc and Latin American countries have all implemented some form of personal savings accounts in their social security systems.

Yet, in America nothing has happened, and the clock is ticking. While the benefits promised to today's seniors and those



Senator Larry Craig

nearing retirement are safe and will be fully paid by the U.S. Social Security system, our own date with destiny is almost as urgent as that of Europe and Japan – millions of American baby boomers will soon qualify for Social Security.

President Bush has pledged his commitment to a safer, stronger retirement system. His Bipartisan Commission to Strengthen Social Security offered three models for consideration. Two of the three models put the Social Security system on a permanently sustainable path. One of those plans protects seniors' benefits while saving taxpayers \$15 trillion – or almost \$150,000 per family. As they say at the coffee shop, "That's a lot of money" and something we should pursue.

In 1998, then – President Clinton said America had three options for the future of Social Security. He said we could raise taxes, cut benefits, or find a way to increase the rate of return. These options haven't changed. Adding personal accounts as a part of Social Security means increasing its rate of return – in other words, guaranteeing benefits by replacing political promises with ownership of real investments. ■



## Institute Mission

The Institute's goal is full employment - universal access to jobs with career potential for all who can work, especially those who are receiving public assistance as a substitute for the opportunities and rewards of paid work.

## Consulting

The Institute offers consulting to any state that wishes to implement a Full Employment Program. Consulting services include: program design, training workshops and establishment of performance criteria.

## Contact Us

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- A ladder of job opportunities, with rising spendable income at each step.
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### For Employers

- A larger workforce from which to recruit workers.
- The chance to try out new workers in new jobs at little or no wage cost.
- The opportunity to contribute to reducing the public assistance burden, and provide the unemployed with the many benefits that only employment provides.

### For the State

- A stronger state economy.
- Happier, more productive citizens.
- Reduced costs of welfare and other related social costs of unemployment and dependency.

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