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LESSONS LEARNED FROM WELFARE REFORMS IN OTHER COUNTRIES

HEARING

BEFORE THE

SUBCOMMITTEE ON HUMAN RESOURCES

OF THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTEENTH CONGRESS

FIRST SESSION

NOVEMBER 17, 2015

SERIAL NO. 114–HR08

Printed for the use of the Committee on Ways and Means

U.S. GOVERNMENT PUBLISHING OFFICE

22–103 WASHINGTON : 2017

For sale by the Superintendent of Documents, U.S. Government Publishing Office
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LESSONS LEARNED FROM WELFARE REFORMS IN OTHER COUNTRIES

TUESDAY, NOVEMBER 17, 2015

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON HUMAN RESOURCES,
Washington, DC.

The Subcommittee met, pursuant to call, at 2:03 p.m., in Room 1100, Longworth House Office Building, the Honorable Charles Boustany [Chairman of the Subcommittee] presiding.

[The advisory of the hearing follows:]

COMMITTEE ON
WAYS AND MEANS
CHAIRMAN KEVIN BRADY

Chairman Boustany Announces Hearing on Lessons Learned from Welfare Reforms in Other Countries

Today, Ways and Means Human Resources Subcommittee Chairman Charles Boustany (R-LA) announced that the subcommittee will hold a hearing titled "*Moving America's Families Forward: Lessons Learned from Welfare Reforms in Other Countries*." **The hearing will take place at 2:00 p.m. on Tuesday, November 17, in room 1100 of the Longworth House Office Building.**

In view of the limited time available, oral testimony at this hearing will be from invited witnesses only. Witnesses will include experts on how other countries have reformed social welfare programs to increase work and decrease poverty and dependence on government benefits. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the committee for inclusion in the printed record of the hearing.

In announcing the hearing, Chairman Boustany stated, **"In 1996, Congress passed work-focused welfare reforms that reduced poverty and dependency and increased work and earnings. Other countries took note of these changes, and in the years following many sought to replicate the success of the U.S. reforms by making similar changes to their own systems. Since that time, many countries have gone further in reforming their social safety nets to better promote and support work, and now it's time for the U.S. to learn from these modernization efforts so we can develop new policies that will help more Americans get ahead."**

FOCUS OF THE HEARING:

This hearing will review how other countries have reformed their social welfare programs to better support and encourage work and how these changes might inform efforts to modernize the safety net in the United States.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, http://waysandmeans.house.gov, select "Hearings." Select the hearing for which you would like to submit, and click on the link entitled, "Please click here to submit a statement or letter for the record." Once you have followed the online instructions, submit all requested information. Attach your submission as a Word document, in compliance with the formatting requirements listed below, **by December 1, 2015.** Finally, please note that the U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225-1721 or (202) 225-3625.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any supplementary materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission or supplementary item not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All submissions and supplementary materials must be provided in Word format and MUST NOT exceed a total of 10 pages, including attachments. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.
2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.
3. All submissions must include a list of all clients, persons, and/or organizations on whose behalf the witness appears. A supplemental sheet must accompany each submission listing the name, company, address, telephone, and fax numbers of each witness.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202-225-1721 or 202-226-3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Note: All Committee advisories and news releases are available online at http://www.waysandmeans.house.gov/

Chairman BOUSTANY. Good afternoon, everyone. Welcome to this hearing. This hearing is the final hearing in a series we began earlier this year on how we can move America's families forward. In February of this year, I announced that the subcommittee would undertake a top-to-bottom review of our Nation's safety net in how welfare policies can better support work, strengthen families, help individuals escape poverty, and move up the economic ladder.

In the months since, we have held hearings on using evidence to fund what works, reforming Temporary Assistance for Needy Families to make it more successful, and protecting taxpayers from fraud and waste. We have held our first joint hearing in at least 20 years with our colleagues on the Agriculture Committee to discuss how programs can better reward work. We reviewed the complicated array of programs designed to help people in need, highlighting how this maze makes the welfare system confusing for States to operate, and frustrating for families to navigate. But most importantly, we have actually heard from real people, those who are experiencing our safety net programs firsthand to find out what they really need to find work, to escape poverty, and hopefully move up the economic ladder.

In the mid-1990s, this subcommittee was instrumental in developing and passing legislation to reduce welfare dependence by supporting and encouraging work. The resulting 1996 welfare reforms, passed by a Republican Congress and signed by a Democratic

President, brought about major changes in how the Federal programs assisted those in need. As a result of those reforms, the number of people receiving welfare declined significantly, employment rates rose for those most likely to be in poverty, and the percentage of children living in poverty fell as well.

Other countries took note of these changes and many began experimenting with ways they could reform their systems as well to help more people move off of welfare and into work. While welfare reform in the United States spurred other countries to undertake their own reforms, in many cases other countries have now gone well beyond the reforms we have made in the 1990s.

For example, other countries have implemented policies such as requiring work or work preparation in exchange for benefits in multiple programs, revising eligibility standards to target benefits to those most in need, consolidating and coordinating programs to simplify their systems, working with nongovernmental groups to deliver key benefits and services, and holding programs accountable for achieving real outcomes.

Today's hearing will highlight specific changes other countries have made to modernize their safety net so more people get the help they need to get back on their feet. We will also hear how the lessons learned in other countries can help us develop ideas to further reform the welfare system here in the U.S.

So we certainly welcome our guests, our distinguished panel today, and look forward to their testimony.

At this time, I would like to yield to Mr. Davis for the purpose of an opening statement.

Mr. DAVIS. Thank you very much, Mr. Chairman. And I welcome this hearing, and I certainly want to thank our witnesses for being here with us this afternoon.

While there may be some promise in welfare, the work experiments going on around the world, our experiences offer a cautionary tale about declaring victory too soon. In the Temporary Assistance for Needy Families program, called TANF, for example, after an early burst of innovation and investment, States began to burden their welfare block grants to fill State budget holes instead of investing in work and getting families out of poverty.

In 2014, only 8 percent of TANF funds were used for work activities, and less than half supported its full purpose. TANF continues to measure caseload reduction but didn't hold States accountable for employment outcomes. As a result, more than three-fourths of families in poverty got no help at all from TANF. A recent study found that as many as 3 million American children live on less than $2 a day. There are lessons we can learn from other countries, and I hope my Republican colleagues will work with us to implement them. For example, Great Britain set a goal for cutting child poverty in half, and then they changed their public policies to meet that goal. My Child Poverty Reduction Act would allow us to follow their good example.

We can also learn a lot from other nations about public policies that support work. The United States is the only developed country that provides zero weeks of paid, parental leave. Just this year, our committee failed to even take up the Family and Medical Insurance Leave Act when it was referred to us. The United States ranks close to dead last in terms of investment in child welfare. As a percent of GDP, Denmark invests seven times more than we do in quality child care. The Netherlands, five times more; Great Britain, four times more.

Last year, Republicans have blocked the funding needed to make quality child care available to working families, leaving millions of families on waiting lists instead of at work.

We know health care is a key work support, one that is guaranteed around the world. But despite all advances the Affordable Care Act brought, Republican governors in 19 States are blocking health care for millions, and Republicans in Congress have voted 61 times to undermine or repeal the ACA. Democrats are serious about the work that lifts families out of poverty. That means building on successes like our earned-income tax credit, and it means providing real support to working parents as they try to make a better life for their families.

So we welcome this hearing. Thank you very much, Mr. Chairman, and I yield back.

Chairman BOUSTANY. Thank you, Mr. Davis.

At this time, I would like to welcome the newest member of our committee, the Ways and Means Committee, the gentleman from South Carolina, Mr. Rice. Tom, welcome. Glad to have you on the committee. I know we will work out subcommittee assignments, but we certainly welcome you here today.

Without objection, each member will have the opportunity to submit a written statement and have it included in the record. At this point, I would like to remind our witnesses to limit your oral statements to 5 minutes to keep us on time here with the—but your full written testimony will be made part of the record.

Chairman BOUSTANY. On the panel today, we have three very distinguished witnesses. We have Douglas Besharov, the Norman and Florence Brody Professor at the School of Public Policy, University of Maryland. Welcome. Melissa Boteach, vice president of the Poverty to Prosperity Program, Center for American Progress. Welcome. And Richard Burkhauser, Sarah Gibson Blanding Professor of Policy Analysis, Cornell University College of Human Ecology.

We welcome all three of you.

And, Mr. Besharov, thank you. You may begin your testimony. Please turn your microphone on.

STATEMENT OF DOUGLAS BESHAROV, PROFESSOR, SCHOOL OF PUBLIC POLICY, UNIVERSITY OF MARYLAND

Mr. BESHAROV. There we are. Sorry about that.

Thank you very much for having me. This is an important topic, because I think there is a great deal to learn from other countries. It is a tricky process, because some people like this part of a program, some people like that part of a program, and to get a fuller picture is extremely difficult, especially in 5 minutes. So I am going to pick one topic, and I am going to do what my wife suggested, which is no numbers.

I think you have heard that although unemployment is down, labor-force participation in all its ways is also down. It is a process that started long before the recession. In fact, for African-American men and for low-skilled white men it started in the 1970s. It is partially a function of our safety net, and the question is, what we do about it as the numbers get larger.

The Europeans face a similar situation. They have a much more generous safety net, or at least they did until recently. Unemployment benefits were for 5 years in some countries, in some countries unlimited. And what they found was, unfortunately, human nature being what it is, the temptation of unlimited unemployment benefits was a great attraction, even for the most productive members of our society. So starting about 15 years ago, they systematically started changing their social welfare system.

Now, as Melissa is going to point out, there is a little bit of a difference here, because their systems start more generously than ours do. But I think that is part of the lesson here, which is, you can't make our system more generous without addressing its negative effects on labor-force participation. It is a little bit like the immigration problem, do we close the borders first and then go to legalization and citizenship? Do we do them both at the same time? And that is for the politicians. What the Europeans had was a system of very generous benefits and decreasing labor force participation. So in my testimony—and I have a picture, nice little chart, with all the countries that do it—they have basically done three things: Number one, they have synchronized benefits. And this is both a left and a right issue.

In our country, someone runs out of unemployment benefits and it is a second step and often a different step to get on TANF. It is a second step and often a different step to get on food stamps and so forth. So what they are doing in return for limiting unemployment benefits, is making it easier to get on the equivalent welfare, and in welfare, imposing work requirements, what we call work requirements.

The second thing they are doing—so that is synchronization. The second thing they are doing is imposing across almost all of their programs, and you can see the countries that are doing it. France is actually close to doing it already, and that is mandating some kind of work-related activity in return for benefits.

The third thing they are doing is they are giving greater authority to localities, and they are allowing a greater use of private contractors. It is quite striking. I was in England when labor—when the government was labor, and labor was part of the process of contracting out to nonlabor—nonunion activities.

So three things: Synchronizing benefits, mandating some kind of work, and devolving authority. Each one extremely difficult in this country, I want to say, so please don't hear me saying this is a piece of cake. The worst problem, I think, is the committee structure of the Congress, I am afraid to say. I was so glad, Mr. Chairman, that you mentioned a joint hearing with Agriculture. My own view of SNAP is not where our major welfare program—I have a chart in my testimony that shows how SNAP recipiency is way up. That is our major welfare program. If it is not coordinated with TANF, we will never make any progress in my opinion.

In terms of the ability to devolve, we are a Federal system. We don't exactly trust the States. Sometimes the States, whether led by Republicans or Democrats, are very good at milking the Federal

Government for whatever they can, and I think that is a reality as well.

However—and I have 9 seconds. However, I think this points to the direction we have to take; synchronize benefits, mandate work, and devolve authority. There are loads of lessons in this country as well as abroad on how to do that.

Chairman BOUSTANY. Well, thank you.

[The prepared statement of Mr. Besharov follows:]

SCHOOL *of* PUBLIC POLICY

Douglas J. Besharov

The Atlantic Council

School of Public Policy
University of Maryland

Testimony

Subcommittee on Human Resources
Committee on Ways and Means
U.S. House of Representatives

November 17, 2015

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

My name is Douglas Besharov, and I am a Senior Fellow at the Atlantic Council, where I conduct research on international competitiveness and comparative domestic policy. I am also a professor at the University of Maryland School of Public Policy, where I teach courses on poverty alleviation and program evaluation. I also direct our Welfare Reform Academy (WRA) and our Center for International Policy Exchanges (CIPE).

The Financial Crisis and subsequent recession of 2007–2009 have left many economic problems in their wake. One of the most worrisome has been a weak labor market—with high levels of joblessness (though not technically "unemployment") and declining wages—that shows little indication of more than modest improvement for some time to come. Other developed countries have been grappling with these same issues and I have been asked to describe the policies they have implemented in response. (I will do so on the basis of ongoing projects at the Atlantic Council and the University of Maryland.)

Declining labor force participation

Post-recession unemployment has finally fallen from its high of 10 percent in October 2009 to a welcome decline to about 5.0 percent at this writing. But the unemployment rate is only one measure of the labor market's health, and other indicators continue to be worrisome.

- **More long-term unemployment.** In October 2015, about 25.8 percent of the unemployed had been without a job for six months (down from a high of about 45 percent in September 2011, the highest since World War II) compared to about 11.4 percent in 2000.[1]

- **Less employment.** In August 2015,[2] only about 68.9 percent of working age Americans (ages 16-64) were actually employed (compared to its high of about 74.1 percent in 2000). Some attribute this decrease to the growth in the number of Americans attending college and retiring early. However, the pattern is also true for Americans in their "prime" working age (ages 25-54). Between January 2000 and October 2015, the percent of employed Americans of prime working age declined from about 81.8 percent to about 77.2 percent.[3]

- **More part-time employment.** In August 2015, only about 79 percent of those of working age were working full-time (compared to about 81 percent in 2007, before the beginning of the economic downturn).[4] Between August 2007 and August 2015, the number of full-time workers slightly declined (from about 118.8 million to about 117.1 million), while the number of part-time workers increased from about 22.4 million to about 23.8 million.[5] The number of individuals working part-time either because they were unable to find full-time work or because of "slack work or business conditions"[6] increased by about 1.8 million over this period (from about 4.4 million to about 6.2 million), or about 41 percent.[7]

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[1] Bureau of Labor Statistics, "Table A-12. Unemployed Persons by Duration of Unemployment," http://www.bls.gov/webapps/legacy/cpsatab12.htm (accessed October 8, 2015).

[2] Data from the most recent month of the CPS are not yet available for working age individuals.

[3] Bureau of Labor Statistics, "Employment-Population Ratio - 25-54 yrs," http://data.bls.gov/pdq/querytool.jsp?survey=ln (accessed October 2015).

[4] Full-time workers include those who worked thirty-five or more hours a week, worked part-time for noneconomic reasons but who usually work full-time, did not work in a week but who usually work full time, and worked full time but usually work part time for economic reasons.

[5] Authors' calculations from U.S. Census Bureau, Current Population Survey.

[6] Bureau of Labor Statistics, "Table A-8. Employed Persons by Class of Worker and Part-time Status," http://www.bls.gov/webapps/legacy/cpsatab8.htm (accessed November 2, 2015).

[7] Authors' calculations from U.S. Census Bureau, Current Population Survey.

- **Stagnant wages.** Wages were also weak, although that depends on the period measured. The 2014 median hourly wage was $17.09, roughly the same as 2001's $17.11.[8] (Total median compensation might be modestly higher if fringe benefits are included.)[9] Another measure, average weekly earnings, seems to show more progress. Between October 2007 and October 2015, average weekly earnings increased from about $24.23 to $25.20.

- **Less job seeking.** Although unemployment rates have slowly inched downward, so have the number of people *looking for jobs*, resulting in a decline in the labor force participation, that is, those looking for a job as well as in a job.) In August 2015, the labor force participation rate was only about 72.3 percent (compared to its high of about 77.6 percent in January 1999).[10] About 5.2 million working age Americans (about 2.5 percent) did not have a job and were not looking for one (even as they said they wanted one). That took them out of the "labor force," and, hence, not officially "unemployed."[11]

All told, in August 2015, about 68.8 million Americans of working age were underemployed (about 6.1 million), unemployed (about 4.6 million), or out of the labor force (about 55.8 million); that is about 33.7 percent of the population. In that same month, there were about 31.8 million Americans of *prime working age* who were underemployed (about 3.6 million), unemployed (about 3.9 million), or out of the labor force (about 24.3 million) or about 25.4 percent of this segment of the population.[12] (See figures 1 and 2.)

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[8] U.S. Department of Labor, Bureau of Labor Statistics, "May 2001 National Occupational Employment and Wage Estimates: All Occupations," http://www.bls.gov/oes/2001/may/oes_00Al.htm (accessed October 23, 2015); and U.S. Department of Labor, Bureau of Labor Statistics, "May 2014 National Occupational Employment and Wage Estimates United States," http://www.bls.gov/oes/current/oes_nat.htm#00-0000 (accessed October 23, 2015).

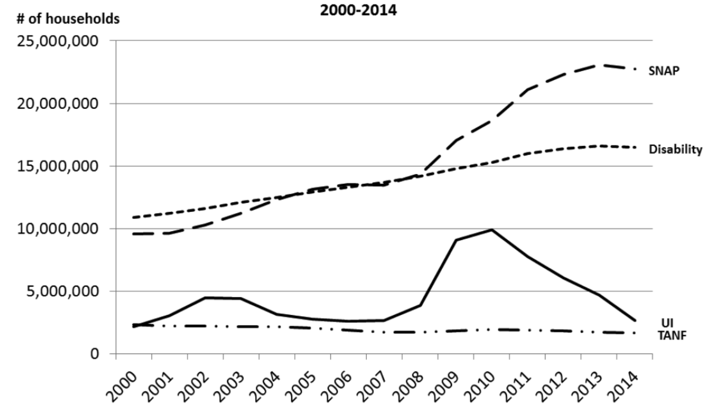
[9] Lawrence Mishel and Kar-Fai Gee, "Why Aren't Workers Benefitting from Labour Productivity Growth in the United States," *International Productivity Monitor* 23 (Spring 2012): 31–43, http://www.csls.ca/ipm/23/IPM-23-Mishel-Gee.pdf (accessed October 23, 2015).

[10] Authors' calculations from U.S. Census Bureau, Current Population Survey.

[11] "Unemployment" is defined by the federal government as being without a job *and also* looking for one.

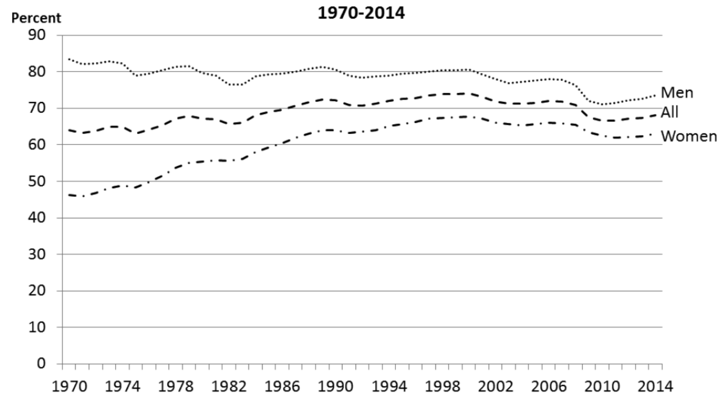
[12] Authors' calculations from U.S. Census Bureau, Current Population Survey.

Figure 1
Enrollment in Select
U.S. Cash and Noncash Government Programs
2000-2014



Note: All data are from most recent year available

Figure 2
Employment/Population Ratio
United States by Sex
1970-2014



Starting in the 1970s, many European countries experienced similarly worrisome declines in employment and labor force participation. Across the original fifteen members of the European Union (EU-15),[13] between 1970 and 1982, the percentage of the population employed fell from about 61 percent to about 57.8 percent (before beginning a slow increase). For men, the decline was much longer and steeper, from about 83.7 percent in 1970 to about 70.5 percent in 1994.[14] The labor force participation of individuals of working age increased from about 62.1 percent to about 67.6 percent during this period, but only because more women were entering the labor force. For men, the labor force participation rate declined from about 85.2 percent to about 78.5 percent. At the same time, in most countries, new highs were reached in the percent of the population receiving government benefits from unemployment, disability, and social assistance programs.

In response, a growing number of developed countries introduced policy reforms aimed at "activating" the recipients of safety net benefits who might be able to work, that is, requiring them to perform work-related activities while receiving benefits. (The US welfare reforms of the 1990s were an early part of this movement, but since then, some other developed countries have made more fundamental reforms to their labor activation policies.) Since the 1990s, one country after another has modified its safety net programs, as described in this policy brief. The countries that made the most extensive changes are Australia, Denmark, Germany, the Netherlands, the United Kingdom, and, to a lesser extent, Austria, Finland, France, Ireland, Italy, Japan, Norway, Spain, and Sweden. These countries made both substantive changes (tightening eligibility, limiting the duration of benefit receipt, and mandating job search and other work-first activities) and administrative changes (consolidating programs, decentralizing authority, outsourcing services, and incentivizing systems of financing and reimbursement).[15] The key aspects of the changes can be summarized under three overarching themes:

- **Synchronizing benefits** across safety-net programs to facilitate seamless benefit receipt over time as well as activation efforts, so that, as individuals were time-limited off UI and Disability programs, they were transitioned to cash welfare or subsistence programs;

- **Encouraging work** by embedding coordinated activation requirements, phase outs and time limits on benefits (before transfers to other programs), and workforce development services in most major safety-net programs and, when possible, by reducing high marginal tax rates and other disincentives to work; and

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[13] Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, and the United Kingdom.

[14] Organisation for Economic Co-operation and Development, "OECD Stats Database," http://stats.oecd.org/# (accessed August 6, 2014).

[15] Many, but not all, of these changes were discussed at a joint University of Maryland/OECD conference titled "Labour Activation in a Time of High Unemployment" held at the OECD headquarters in Paris, France on November 14–15, 2011.

- **Decentralizing authority while strengthening accountability** in order to facilitate programmatic innovation and experimentation within ongoing performance measurement systems, often operated using performance-based funding mechanisms.

  (See table 1.)

Table 1
European Social Welfare Program Changes

	Tighten eligibility (income or categorical)	Limit duration of full benefits (reduce or end)	Require work-first activities	Consolidate/ synchronize programs	Devolve authority	Outsource services (privatization)	Incentive systems of financing and reimbursement
Australia	W	W	UI	UI, D, W		UI, W	UI, W
Austria			D				
Denmark	UI, W	UI, D	UI, D	UI, D, W			D, W
Finland							D
France	W		W	UI, W			
Germany		UI	UI, W	UI, W	UI, W	UI, W	
Ireland			UI, W			UI, W	
Italy			UI		UI		
Nether-lands	UI, D	UI, D	W		W	W	D
Norway				UI, D, W			
Spain						UI	
Sweden	D	D	D				
UK	D	UI, D	UI, D, W	UI, D, W		UI, W	

Between 1994 and 2008, the employment population ratio in the EU-15 increased dramatically from about 60.0 percent to about 67.5 percent. The rate subsequently fell during the economic crisis and in 2014 was about 65.9 percent, or about 9.8 percent higher than in 1994. Similarly, the overall labor force participation of the EU-15 continued to rise (even during the economic downturn) up to about 73.8 in 2014. As with the 1970-1994 period, the increase in the labor force participation rate was driven by more women joining the labor force. However, unlike the 1970-1994 period, the labor force participation rate for men has slightly increased, from about 78.5 percent to about 79.4 percent.[16] Some countries, such as Germany and the United Kingdom, have experienced more substantial increases in the male labor force participation rate over the last five or ten years.

Few of the more recent policy changes have been rigorously evaluated. However, there is some evidence from econometric and time series evaluations that tend to show that these policies can have a positive effect on lowering long-term recipients and increasing labor force participation. The OECD, for example, examined the unemployment data for countries with "strong activation approaches" (Australia, Austria, Denmark, New Zealand, Norway, Switzerland and the United Kingdom) during the recent economic downturn and found that, while unemployment rates increased, they stayed "below former peaks."[17] In addition, the OECD's review of the literature finds both historical and current examples of the implementation of activation programs during times of high unemployment lowering the receipt of unemployment benefits and increasing employment.[18] For example, although caseloads began to decline before Germany's reform of its unemployment assistance social assistance programs and the Netherlands's reform of its disability program, the declines in both countries persisted and did not revert upward to previous levels with the onset of the Financial Crisis in 2007 (see figures 3, 4, and 5).

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[16]Organisation for Economic Co-operation and Development, "OECD Stats Database," http://stats.oecd.org/# (accessed October 23, 2015).

[17]Organisation for Economic Co-operation and Development, *Employment Outlook 2015* (Paris, Organisation for Economic Co-operation and Development, July 2015).

[18]Organisation for Economic Co-operation and Development, *Employment Outlook 2015* (Paris, Organisation for Economic Co-operation and Development, July 2015).

Figure 3
Employment/Population Ratios
in the US and EU-15
1979-2014

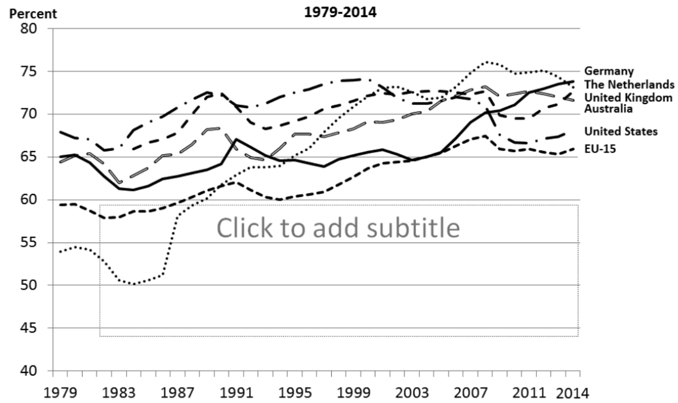


Figure 4
Employment/Population Ratio
EU-15 by Sex
1970-2014

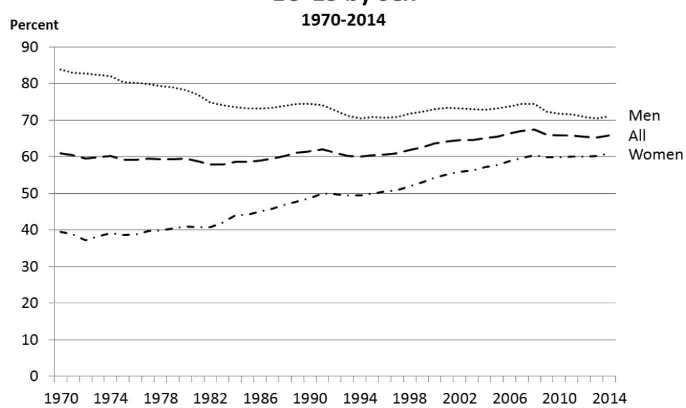
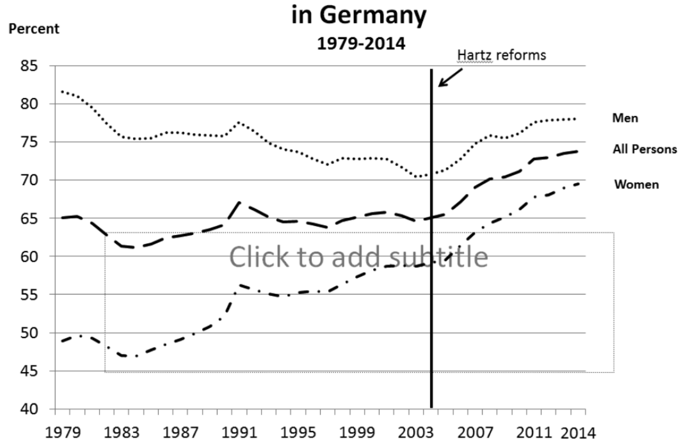


Figure 5
Employment/Population Ratios in Germany
1979-2014



A word of warning from the World Bank, however. A World Bank review of labor activation programs concludes: "that well-designed policies can have a positive impact on employment outcomes for participants, but that many existing policies have in fact failed to prove effective or cost efficient."[19] Moreover, the changes seem to enjoy reasonable political acceptance from the left and right. If not initially, over time. And they seem to have maintained the essentials of that nation's safety-net.

Hence, it is worthwhile reviewing what these countries have done to adjust their safety nets to encourage labor force participation at a time of labor market weakness. It is not that their programs should be simply transplanted here; there are surely too many economic, social, and political differences for that to be possible, let along make sense. But just as certainly, the general approaches they adopted are worthy of consideration.

[19] Herwig Immervoll, *Activation Policies in OECD Countries: An Overview of Current Approaches* (Washington, DC: World Bank, 2012), 8, http://siteresources.worldbank.org/SOCIALPROTECTION/Resources/280558-1334441996287/SPL_Policy_Note_14.pdf (accessed August 8, 2014).

Appendix
European Social Welfare Program Area Changes

Encouraging work-related activities ("activation") for those receiving social benefits

Over the past two decades, many OECD countries have instituted labor activation requirements in their unemployment insurance and cash welfare ("social assistance") programs and other countries are contemplating making similar changes. These policies (including time limits, phase outs, work-related activities, and suitable job provisions) are all designed to encourage recipients to move off of unemployment insurance and into employment sooner than they might otherwise do. This is generally done by either reducing or ending benefits, or by requiring recipients to participate in activities that can help find employment or that can make employment seem preferable.

Denmark. Between 1994 and 2010, Denmark reduced the maximum number of years that persons could receive unemployment benefits (from seven years to two years), after which they are transferred to social assistance and receive lower benefits. It also added requirements that recipients must participate in activation activities (job search and job counseling, job training, or subsidized employment) for at least a month for every six months of benefit receipt and also attend quarterly interviews with Public Employment Service staff to discuss their job search activities. It also reduced the time after initial receipt of benefits that recipients are required to begin participating in activation programs (from fifty-two weeks to thirteen weeks for those under thirty, and from fifty-two weeks to thirty-six weeks for those thirty and older), and added partial and full benefit sanctions for noncompliance (depending on the degree of noncompliance).[20] After two years, recipients are transferred to the social assistance program.

During this same period of time, Denmark made a number of changes to its social assistance program by requiring recipients of social assistance to participate in activation programs, including job counseling, job training, and subsidized employment; establishing a time period for when recipients are required to being participating in activation programs (after thirteen weeks of receipt for those younger than thirty and after nine months of receipt for those thirty and older); adding a requirement that parents in two-parent households must each have worked 450 hours in the previous two years to remain eligible for benefits, and reducing the amount of social assistance benefits for married couples and recipients under twenty-five if they have received benefits for longer than six months.

Activation programs include job counseling (with as skills assessments), job training (either placement in public or private programs for those who lack qualifications or skills), and subsidized employment (either

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[20] European Commission, *Assessment of the 2011 National Reform Programme and Convergence Programme for Denmark* (Brussels: European Commission, 2011), http://ec.europa.eu/europe2020/pdf/recommendations_2011/swp_denmark_en.pdf (accessed October 27, 2015); and European Foundation for the Improvement of Living and Working Conditions, "Denmark: Social Partner's Involvement in Unemployment Benefit Regimes," http://www.eurofound.europa.eu/eiro/studies/tn1206018s/dk1206019q.htm (accessed October 27, 2015).

public or private and typically used as on-the-job training to retrain or upgrade skills).[21]

France. In 2009, France replaced its existing social assistance scheme (a combination of a single parent allowance and "minimum insertion income") with the *Revenu de Solidarité Active* (RSA), which "represents a stronger emphasis on obligations (on part of the recipient) and a higher benefit for those who have been combining benefits with low-paid work."[22]

The RSA emphasizes work and work-related activities through incentives and requirements. Under the previous cash welfare scheme, earnings above a certain threshold led to a complete loss of cash welfare benefits. Under the RSA, benefits are only reduced by 38 cents for each additional dollar earned up to a maximum monthly income of about 1,300 euros for single parents with one child, and about 2,200 euros for a couple with two children (a structure that is similar to the US Earned Income Tax Credit).[23]

New RSA recipients are now subject to work and work-related activities requirements. Recipients must meet with local government councils that are responsible for the training and support of RSA recipients for assessments on their ability to work. The local councils determine if the recipients are to be placed on the "employment path" or the "social path." The "employment path" is for those recipients who are deemed capable of work. They are assigned either to the local *Pole Emploi* (Public Employment Service) or to another organization that will provide them with activation services (such as job training). The "social path" is for those recipients who are deemed not ready for employment, and they are provided services, including family counseling and mental health services, to assist them in becoming ready for work.[24]

The recipients who are assigned to the *Pole Emploi* are obligated to search for suitable employment, with an increasingly restrictive set of rules on the jobs they may consider unsuitable (and therefore refuse). In the first three months of assistance, recipients may reject employment opportunities that pay less than their previous job. Between three and six months, they may reject employment opportunities that pay less than 95 percent of their previous jobs. Between six and twelve months, they may reject employment opportunities that pay less than 85 percent of their previous job. After twelve months, however, they may only reject employment opportunities that pay less than their current RSA benefit.[25]

If recipients fail to appear at the *Pole Emploi*, fail to accept suitable employment, or fail to meet the work-related requirements set by another organization to which they may be assigned, the local councils may either reduce or suspend their recipients' RSA benefits until they are in compliance.

According to government reports, the process of implementation of the RSA's activation requirements

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

[22] Ivar Lodemel and Amilcar Moreira, "The Activation of Minimum Income Recipients in Eight European Nations: A Decade of Reform and Early Impacts of the Economic Crisis," (paper presented at Labour Activation in Times of High Unemployment conference, Paris, France, November 14-15, 2011), 14.

[23] Ministère de l'Économie, de l'Industrie et de l'Emploi, The 'Revenu de Solidarité Active' or "Earned Income Supplement: Its Design and Expected Outcomes," *Tresor-Economics* no. 61 (July 2009).

[24] Sandrine Gineste, *Adapting Unemployment Benefit Systems to the Economic Cycle, 2011: France* (Brussels, European Employment Observatory, 2012).

[25] Ivar Lodemel and Amilcar Moreira, "The Activation of Minimum Income Recipients in Eight European Nations: A Decade of Reform and Early Impacts of the Economic Crisis," (paper presented at Labour Activation in Times of High Unemployment conference, Paris, France, November 14-15, 2011).

and sanctions at the local level is still incomplete and program improvement efforts are ongoing.[26]

Germany. In the early- to mid-2000s, Germany's "Hartz reforms" formally linked its UI and social assistance programs so that, after one year on UI, recipients are transferred to social assistance.

Prior to the Hartz reforms, Germany had two forms of unemployment benefits: "unemployment insurance" and "unemployment assistance." "Unemployment insurance" was for workers who had paid into the unemployment insurance fund for a minimum of twelve months. Workers were eligible to receive benefits for up to thirty-two months at a replacement rate of 67 percent of their previous wages. Workers who reached the thirty-two month time limit were eligible to receive "unemployment assistance" which had no time limit but a replacement rate of 57 percent of their prior wages.[27]

The Hartz reforms created a two-step and two-tiered program for unemployment and social assistance benefits:

- Unemployment Benefits I (UB I), under which the unemployed who have paid into the unemployment insurance fund for twelve of the previous twenty-four months receive benefits for up to one year, with the benefits replacing about 67 percent of previous net income;

- Unemployment Benefits II (UB II), under which the able-bodied low-income, and UB I recipients who have reached their time limits receive benefits. These benefits are means-tested and provide a standardized amount of benefits that are much lower than UB I. (Some estimates put it at 40 percent lower.)[28]

UB II recipients are subject to a 30 percent reduction in benefits if they do not take "acceptable work," including community service or job training, that is offered them. After what seems to have been slow implementation immediately after the passage of the Hartz reforms,[29] it appears that the programs are operating as intended, although there are continuing concerns of the localities focusing on providing services to those recipients who are easier to assist to the detriment of the more difficult to assist recipients.[30]

The Netherlands. In the early- and mid-2000s, the Netherlands reduced the maximum duration of UI benefit receipt (from sixty months to thirty-eight months), increased the number of months of work needed to be eligible to receive benefits (from twenty-six weeks to thirty-six weeks), and required all unemployment insurance recipients to participate in job search (and take "suitable" employment when offered) or else receive a reduction in benefits (25 percent reduction for four months after the first incident of noncompliance, going to 50

[26] Cyril Nouveau to Douglas Call, personal communication, February 20, 2013.

[27] Burkhard Heer, "The German Unemployment Compensation System: Effects on Aggregate Savings and Wealth Distribution," *Review of Income and Wealth* 48, 3 (September 2002): 371–394, http://www.roiw.org/2002/371.pdf (accessed June 8, 2012); and Werner Eichhorst, Maria Grienberger-Zingerle, and Regina Konl-Siedl, "Activating Labor Market and Social Policies in Germany: From Status Protection to Basic Income Support," *German Policy Studies* 6, no. 1 (2010): 65–106.

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

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

[30] Timo Weishaupt, Henning Jorgensen, and Alex Nunn, "Delivering Activation: The Perpetual Reform of Public Employment Services in Europe," in *Labor Activation in a Time of High Unemployment: Encouraging Work While Preserving the Social Safety Net* (New York: Oxford University Press, forthcoming).

percent for every incident of noncompliance thereafter). Finally, UI recipients who reach the time limit are to be moved to social assistance.

For its social assistance program, in 2004, the Netherlands imposed the Netherlands imposed activation requirements on social assistance recipients (low-income adults who do not qualify for Unemployment Insurance). Recipients are required to register as "job seekers," take any "acceptable" employment that is offered, and participate in any activation program required by the municipality. Recipients who do not comply are subject to a benefit sanction. Municipalities are not required by the national government to mandate activation services, but more than 80 percent do so,[31] presumably because they get to keep any savings from reduced caseloads and have to pay for any increases. Many municipalities use a "work first" approach, requiring individuals to either work for the municipality or placing them with a for-profit company while providing job search and job readiness services.[32]

United Kingdom. Starting in 1997, the UK progressively added additional activation requirements (such as mandatory job search, work experience, and subsidized employment) to the receipt of unemployment benefits and coupled them with sanctions for noncompliance.

In 2010, the UK implemented the Work Programme, which imposed activation requirements for those receiving Employment and Support Allowance (for the disabled) or Job Seekers Allowance (for the unemployed). Participation was made mandatory for the long-term unemployed (recipients ages eighteen to twenty-four who have received benefits for nine months and recipients ages twenty-five and above who have received benefits for twelve months) and disability recipients who are deemed eligible for work.[33]

In addition, a separate program, "Mandatory Work Activity," was established to provide a four-week work experience program for the recipients of unemployment benefits (under the "Job Seeker's Allowance") who are not yet required to participate in the Work Programme but who are deemed to not be committed to looking for employment.[34]

Failure to participate in the Work Programme or Mandatory Work Activity can lead to a reduction or termination of benefits.[35] Sanctioning occurs under any of the following conditions: refusing to sign Jobseeker's

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

[32] Bunt, M. Grootscholte, D.R. Kemper, and C. van der Werf, *Work First and the Prospects on the Labour Market: Research into the Effects of Work First in the Netherlands* (The Hague: Council for Work and Income, 2008), http://rwi.nl/CmsData/Work_First_Engelse_vertaling_RWI_febr_2008.pdf (accessed June 14, 2012).

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

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

[35] Newcastle City Council, "Welfare to Work Plans and Changes," http://www.newcastle.gov.uk/core.nsf/a/wr_bbi_welfaretowork#Mandatory (accessed October 27, 2015).

Agreement,[36] leaving job voluntarily (but not in the case of voluntary redundancy), losing job due to misconduct, failure to apply for or accept a job that is offered, failure to show availability for and actively seeking work, failure to attend a compulsory training or employment scheme, failure to carry out a direction from a Jobcentre Plus adviser. JSA recipients who have activated one of these conditions may avoid sanctions provided they give good reason.[37] The length and amount of the sanction varies depending upon the nature of the offense, and the claimant's prior history of sanctions.

Work experience in the Mandatory Work Activity may be performed for the government or a non-profit and must make "a contribution to the community."[38] Examples of work experience include working at a charity shop, performing maintenance work for public housing, renovating and recycling old furniture, and providing office assistance at a government job training facility.[39]

Outsourcing activation and employment services

To increase programmatic flexibility and accountability by escaping the strictures of government agencies, some OECD countries have outsourced (contracted out) various activation services.

Australia. Between 1998 and 2009, Australia replaced its government-run Public Employment Service for the low-income and unemployed (Commonwealth Employment Service) with a system of contracted-out activation service providers called Job Services Australia. Service providers are rated using a star system to assess how well they do at meeting outcome objectives, and payments are made to service providers based on the employment outcomes of recipients (with providers receiving higher payments for more difficult-to-serve recipients).

In 2009, Australia modified its profiling system for recipients of Newstart Allowance by creating "streams" of activation services based on recipients' level of disadvantage; less disadvantaged recipients receive less-intensive services and the more disadvantaged receive more-intensive services. Recipients who do not find employment after being in a stream for a defined period of time are moved to a more-intensive stream.

Because Australia does not have a separate social assistance system, both the unemployed and the low-income receive benefits from the Newstart Allowance program. Prior to 2009, Newstart Allowance recipients themselves selected the service providers of job search assistance and, if necessary, more intensive training. Service providers received payments based on the employment outcomes of the recipients. This created incentives for providers to make greater efforts to help those easiest to serve ("creaming") and make less efforts with those more difficult to serve

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[36] An agreement essentially outlining what actions the job seeker will do in his or her employment search. Number of calls per week, etc.

[37] UK Department of Work and Pensions, *Jobseeker's Allowance: Overview of Revised Sanctions Regime* (London: UK Department of Work and Pensions, 2013), https://www.gov.uk/government/publications/jobseekers-allowance-overview-of-sanctions-rules (accessed October 27, 2015).

[38] Department for Work and Pensions, *Mandatory Work Activity: Equality Impact Assessment* (London: Department for Work and Pensions, March 2011), http://www.dwp.gov.uk/docs/eia-mandatory-work-activity.pdf (accessed June 14, 2012).

[39] Centre for Economic and Social Inclusion, "Government Work Experience Schemes: What are the Differences?" http://www.cesi.org.uk/keypolicy/government-work-experience-schemes-what-are-differences (accessed June 13, 2012).

("parking").[40]

Since 2009, all recipients of Newstart Allowance have been assigned to one of four activation "streams" in the new Job Services Australia (JSA) program. The streams are based on the level of disadvantage, with the less disadvantaged recipients being assigned to stream 1 and the most disadvantaged to stream 4. The services provided to recipients increase in intensity by stream: recipients in stream 1 are required to complete an employment plan and then perform an independent job search; recipients in higher numbered streams are required to participate in increasingly more intense job training and more frequent meetings with job counselors.[41] All recipients (excepting parents with dependent children under six) are required to meet an "activity test" indicating that they are searching for employment and willing to take "suitable" employment[42] or participate in an activation program.

Recipients who refuse to participate in employment or an activity lose their benefits until they comply.[43] Recipients who have not found employment after twelve months in a stream "can be allocated to a higher stream or, more frequently, enter the work experience phase where they continue until they cease claiming benefit."[44] As described below, service providers receive higher payments for designated employment outcomes for hard-to-serve recipients.

The Netherlands. The Netherlands devolved the responsibility for providing activation services for social assistance recipients to municipalities. The national government remained responsible for providing activation services to the unemployed and the disabled, but does so through contracts to for-profit providers.

As part of the new scheme, municipalities were instructed to contract out up to 70 percent of activation services

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[40] Dan Finn, *Job Services Australia: Design and Implementation Lessons for the British Context* (London: Department of Work and Pensions, 2011), http://research.dwp.gov.uk/asd/asd5/rports2011-2012/rrep752.pdf (accessed June 7, 2012).

[41] Dan Finn, *Job Services Australia: Design and Implementation Lessons for the British Context* (London: Department of Work and Pensions, 2011), 15, http://research.dwp.gov.uk/asd/asd5/rports2011-2012/rrep752.pdf (accessed June 4, 2012).

[42] "Suitable" employment "must take into account other circumstances, including (but not limited to) whether the:

- location of either the workplace or the child care venue makes the total travel time to work unreasonable;
- cost of travel to and from work is unreasonable;
- parent will be financially better off as a result of undertaking the work; and/or
- work is unsuitable on the basis of moral, cultural, or religious grounds.

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

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

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

for social assistance recipients to for-profit providers.[45] The reason was because of the perceived "expense, inflexibility and poorer results" of services provided through the national government.[46] (The national department that had been responsible for providing activation services to the unemployed and disabled was privatized and allowed to compete against the for-profit providers for contracts. It did not successfully compete and so went out of business.)

United Kingdom. The UK created a national bidding system ("Invitation to Tender") for private vendors (nonprofit and for-profit) to provide Work Programme services in eleven regions of the country.[47] Forty contracts were awarded in April 2011, with two or three vendors in each region, based on their size, financial strength, and ability to deliver services (including working with smaller local subcontractors).

These contracts are a form of "pay-for-success" funding, that is, vendors receive payments only if they successfully place their clients into jobs and the clients stay employed. In the first three years of the contract, the government makes small upfront payments for new clients (in addition to payments for successful placements and longer-term employment). The upfront payments will be discontinued after the third year. After that, payments to vendors will be made only when clients have been employed for between three months (for more difficult-to-serve clients) and six months (for less-difficult-to-serve clients) and receive payments for the additional months that clients stay employed (up to two years, depending on the type of client).[48] For example, vendors will receive the highest compensation for clients who had been receiving disability benefits for longer than a year and who remain employed for more than two years after receiving services.[49] Because of unforeseen challenges in implementation, various contract arrangements were modified between 2011 and 2014. For example, because so many providers were having difficulty in meeting the minimum performance standards required to maintain the contracts, the Department of Work and Pensions eliminated the minimum performance standards and is instead reviewing the performance of providers in the bottom 25 percent.[50]

Coordinating welfare, employment, and disability systems

To avoid the duplication of service provision some countries have combined the operations and activation rules of their unemployment and social assistance and/or disability programs.

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

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

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

[48]Department of Work and Pensions, *The Work Programme* (London: Department of Work and Pensions, 2012), http://www.dwp.gov.uk/docs/the-work-programme.pdf (accessed June 7, 2012).

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

[50]National Audit Office, *Department for Work & Pensions: The Work Programme* (London: National Audit Office, July 2014), http://www.nao.org.uk/wp-content/uploads/2014/07/The-work-programme.pdf (accessed August 12, 2014).

Australia. In 1996, Australia consolidated the administration and provision of unemployment benefits, social assistance to lone (single) mothers, disability payments, pensions, and other social benefits into one agency called Centrelink. In one-stop offices around the country, Centrelink staff determine eligibility for benefits and link recipients to activation programs.[51]

Denmark. In 2007, Denmark combined the services for unemployment insurance, social assistance, and disability recipients into one-stop job centers in each municipality. The job centers are run jointly by the municipalities and the national Public Employment Service and provide labor activation services.[52] These job centers are "responsible for all people seeking to stay in or return to employment, irrespective of the type of benefit they receive, their insurance and employment status, and their distance to the labour market."[53] Those recipients who go to the job center are put into one of three groups: the first group are those who are job ready, the second group are those who are not currently job ready but may move into employment in the future, and the third group are those who are determined to be unlikely to return to work. Recipient placement in these groups is reassessed every three months.[54]

France. In 2009, France combined its services for unemployment insurance and social assistance recipients by merging the preexisting separate agencies into a new agency, called the *Pole Emploi* (or Public Employment Service).[55]

Germany. As mentioned above, Germany's "Hartz reforms" formally linked its UI and social assistance programs so that, after one year on UI, recipients are transferred to social assistance. Previously, there was no time limit for receiving benefits, but after thirty-two months of benefit receipt, benefits were reduced from 67 percent of prior wages to 57 percent. Under both programs, they face heightened activation requirements, including job search, job counseling, job training, and work experience ("one euro jobs").

As part of the Hartz reforms, Germany created one-stop centers that were jointly operated by the national government and local governments. This was an effort to reduce the fragmentation of services as unemployment benefits had been provided through the national government and social assistance provided through the local governments.[56],[57]

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

[52] OECD, *Sickness, Disability, and Work: Breaking the Barriers, Denmark, Finland, Ireland, and the Netherlands* (Paris: OECD, 2008).

[53] Christopher Prinz, "Chapter 4: Sickness, Unemployment, and Return to Work in Denmark," in *Mental Health and Work: Denmark* (Paris: OECD, 2013), 73, http://www.oecd-ilibrary.org/docserver/download/8113061ec006.pdf?expires=1363793491&id=id&accname=ocid194091a&checksum=93A4A98B77504A49C724F4939233A6F0 (accessed March 20, 2013).

[54] Christopher Prinz, "Chapter 4: Sickness, Unemployment, and Return to Work in Denmark," in *Mental Health and Work: Denmark* (Paris: OECD, 2013), http://www.oecd-ilibrary.org/docserver/download/8113061ec006.pdf?expires=1363793491&id=id&accname=ocid194091a&checksum=93A4A98B77504A49C724F4939233A6F0 (accessed March 20, 2013).

[55] Antoine Magnier, "A French Policy Perspective," (presentation, Labour Activation in Times of High Unemployment conference, Paris, France, November 14-15, 2011).

[56] Willem Adema, Donald Gray, and Sigrun Kahl, *Social Assistance in Germany* (Paris: OECD, January 2003), http://www.oecd-ilibrary.org/docserver/download/fulltext/5lgsjhvj7pzn.pdf?expires=1309964577&id=id&accname=guest&checksum=3F7D3C8D53BDC1D8065F2CF6B60DE4C4 (accessed July 6, 2011).

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

Norway. In 2006, Norway consolidated its unemployment insurance, disability, social assistance, and old-age pension programs into the Norwegian Labor and Welfare Administration (NAV). Because a significant share of those receiving benefits had received them from multiple programs, condensing to one agency was meant to streamline applications and make service provision easier.[58] Although the funding streams remain separate, all are administered within the same agency. The national government and local municipalities created joint NAV offices to streamline administration and provision of services, and to create an easy interface for recipients needing more than one kind of benefit.

United Kingdom. As part of the 2010 package of changes to its unemployment, disability, and social assistance programs, the UK created the "Universal Credit." As an integrated working-age credit, it provides a basic allowance with additional elements for children, disability, housing, and caring to support people both in and out of work. As such, it replaced the working tax credit, the child tax credit, the housing benefit, income support, income-based Jobseeker's Allowance, income-related Employment and Support Allowance. The purpose is to create a single phase-out rate for benefits, reduce the high marginal tax rate for workers, and radically reduce the duplication and complexity of previously existing benefit programs. The government estimates that combining these programs resulted in a maximum marginal tax rate of 65 percent, compared to the previous rates of between 75 and 96 percent.

Incentivized systems of financing and reimbursement.

To encourage employers to internalize the costs of unemployment and disability payments (and thus take actions to prevent both) and to encourage government agencies to target benefit payments to the truly needful (and thus reduce the number of recipients), some countries have deliberately embedded financial incentives in the way they tax employers to pay for benefits and in the way they reimburse local programs for benefits distributed.

Finland. In 2006, Finland created incentives for employers to reduce the number of disability recipients by making them responsible for a substantial portion of disability benefits. To encourage employers to reduce the likelihood that their workers will become disabled and to provide continued employment for sick or disabled employees, in 2006, Finland mandated that large employers pay as much as 80 percent of the total disability bill through experience-rated insurance premiums.[59] (Experience rating is the process by which premiums vary according to the employer's history of claims, in this case disability.) Large companies are divided into eleven contribution categories each with a different contribution level based on their history of disability cases. Since 2007, company size is determined by payroll amount. Prior to that, company size was determined by the number of employees. About 51 percent of employees are working for "large" employers, measured by payroll over 1,788 million euros (in 2009).[60]

Eligibility for disability begins with sick pay resulting from a doctor or hospital evaluation. For the first nine days, the applicant is fully compensated by the employer. At this point, the applicant may claim sick pay from KELA, Finland's social insurance institution. Depending on the circumstances, the claimant may receive sick pay for up to three hundred working days.[61] Upon a more extensive medical examination, the claimant may receive one of two disability

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

[59] OECD, *Sickness, Disability, and Work: Breaking Barriers: A Synthesis of findings across OECD Countries* (Paris: OECD Publishing, 2010), http://www.oecd-ilibrary.org/social-issues-migration-health/sickness-disability-and-work-breaking-the-barriers_9789264088856-en (accessed November 23, 2011).

[60] Marjukka Hietaniemi, Finnish Centre for Pensions, email message to author, November 23, 2011.

[61] OECD, *Sickness, Disability, and Work: Breaking Barriers: A Synthesis of findings across OECD Countries* (Paris: OECD Publishing, 2010), http://www.oecd-ilibrary.org/social-issues-migration-health/sickness-disability-and-work-breaking-the-barriers_9789264088856-en (accessed November 23, 2011).

benefits: an ordinary disability pension or an individual early retirement pension. If there is a work capacity loss of 40 percent to 59 percent, a partial benefit may be rewarded for an ordinary disability pension.[62]

The Netherlands. In 2004, the Netherlands devolved the provision of social assistance and activation programs (job counseling, job training, and subsidized employment) to municipalities. The national government determines the amount of funding municipalities receive for social assistance through an econometric model that takes into account the past number of recipients and, in larger municipalities, other demographic and regional labor market factors to estimate how many social assistance claimants the municipality *should* have. If the number of recipients exceeds the estimated number, the municipality has to pay the difference out of municipal funds. If the number is lower, the municipality keeps the excess (much like the US TANF block grant).[63]

[62] Tomi Kyyra, "Early Retirement Policy in the Presence of Competing Exit Pathways: Evidence from Policy Reforms in Finland," (discussion paper, Network for Studies on Pensions, Aging and Retirement, 2010), http://arno.uvt.nl/show.cgi?fid=111138 (accessed November 29, 2011).

[63] Peter Tergeist and David Grubb, *Activation Strategies and the Performance of Employment Services in Germany, the Netherlands and the United Kingdom* (Paris:OECD, December 2006), http://www.oecd.org/dataoecd/32/22/37848464.pdf (accessed July 6, 2011).

Chairman BOUSTANY. Ms. Boteach, you may proceed.

STATEMENT OF MELISSA BOTEACH, VICE PRESIDENT, POVERTY TO PROSPERITY PROGRAM, CENTER FOR AMERICAN PROGRESS

Ms. BOTEACH. Thank you, Chairman Boustany, Congressman Davis, and Members of the Subcommittee for the invitation to appear before you today. My name is Melissa Boteach, and I am the vice president of the Poverty to Prosperity Program at the Center for American Progress.

As I am sure we can all agree, the surest pathway out of poverty is a good job. Unfortunately, over the past four decades the gains from rising profits and productivity have gone mainly to those at the top of the income ladder, while low- and middle-income Americans have seen their wages stagnate or decline. Even in good economic times, events such as job loss, disability, or birth of a child are common triggers of a spell of poverty or hardship. In fact, four in five Americans will experience at least one year of significant economic insecurity during their working years.

Economic inequality and family income shocks are not unique realities to the United States. Yet, the U.S. consistently ranks among the worst compared to other developed economies on comparable measures of poverty. As we look to other OECD nations to determine how we can learn from their experiences, I will make two key points today.

First, we must take care not to cherry pick lessons from these countries as to the context of the broader policy framework. And second, there are important lessons that we should take from other countries; namely, stronger labor protections, more modern work-family policies, and more adequate income security programs. Both of these points have important implications as we seek to strengthen work and income supports in the United States.

On the first point, some have lifted up examples such as the universal credit in the United Kingdom as the inspiration for efforts to consolidate or block grant multiple anti-poverty programs in the United States. Yet, the universal credit guarantees benefits to all eligible low-income people and is administered centrally by the national government.

In contrast, we have seen what happens here when you block grant a program and send it to the States. Temporary Assistance for Needy Families, as discussed more fully in my written testimony, only serves one in four poor families with children, has been unresponsive during recessions, and requires virtually no State accountability for results.

In fact, recent data shows that States only spend an average of 8 percent of the block grant on work-related activities. It would be a terrible mistake to view TANF as a model for any of our vital income security programs.

Moreover, one of the main problems that the United Kingdom is trying to address, financial penalties for work, is far less of an issue in the United States in part due to our earned-income tax credit. Together, the earned income and child tax credits reward work and lifted approximately 10 million people out of poverty last year. That is one of the reasons why it is so important that as Congress considers tax extenders that we build upon what works and not make any business tax breaks permanent without also making permanent parts of the EITC and child tax credits set to expire in 2017.

Moreover, there is growing bipartisan support, including among members of the panel testifying today, for expanding the EITC for childless adults. So what lesson should we draw from other wealthy nations to cut poverty and promote economic mobility? First, other developed nations recognize that supporting people in work means adopting stronger labor standards. In the United States, the Federal minimum wage is a poverty wage. Low-wage workers often face unpredictable or inflexible schedules, and only about 7 percent of private-sector workers belong to a union.

In contrast, even as the United Kingdom's conservative government is implementing the universal credit, they are moving forward to increase their already more generous minimum wage with a goal of reaching 60 percent of median earnings by 2020. Workers in the United Kingdom also enjoy a right to request flexible and predictable schedules. And in Denmark, collective agreements between trade unions and employer organizations are the norm and not the exception.

Second, other OECD nations have more robust work-family policies that support women's labor force participation such as paid sick days and paid family leave. In contrast, the U.S. is the only developed Nation in the entire world that fails to provide paid family or parental leave.

Finally, other OECD nations tend to have much more adequate income insurance policies than the U.S. for the income shocks that can rock a family. Nearly all OECD nations guarantee healthcare coverage to their citizens. Nearly all OECD nations provide a child benefit that significantly reduces child poverty. And most countries offer significantly more adequate unemployment insurance than the United States, for only about one in four unemployed workers currently receive benefits.

Even with recent disability reforms, countries such as the United Kingdom, Australia, and the Netherlands, these countries still have higher recipiency rates, more adequate benefits, and spend more of the shared GDP on their disability programs than we do here in the U.S. These ideas are not just international standards. Policies such as raising the minimum wage and enacting paid family leave command the support of the vast majority of Americans across the ideological spectrum. Not only that, they are proven methods to reduce usage of the safety net in the first place. Raising the minimum wage at $12 an hour by 2020 would save $53 billion in nutrition assistance over the next 10 years.

We must build on this body of evidence from both the U.S. and abroad to advance these types of policies with the proven track record of cutting poverty and boosting the middle class. Thank you.

Chairman BOUSTANY. We thank you.

[The prepared statement of Ms. Boteach follows:]

Center for American Progress

Testimony before the U.S. House of Representatives
Committee on Ways and Means
Subcommittee on Human Resources

"Moving America's Families Forward: Lessons Learned from Other Countries"

Melissa Boteach
Vice President, Poverty to Prosperity Program
Center for American Progress

November 17, 2015

Thank you, Chairman Boustany, Ranking Member Doggett, and Members of the Subcommittee for the invitation to appear before you today. My name is Melissa Boteach, and I am the Vice President of the Poverty to Prosperity Program at the Center for American Progress.

I am excited to join you today to talk about lessons the United States can take from other countries in terms of cutting poverty and promoting shared prosperity. There are a number of innovations across OECD countries from which the U.S. can learn. In today's testimony I will underscore two main points:

- First, one of the most important lessons the United States can take from other advanced economies is that policies that improve basic labor standards, increase women's labor force participation through stronger work-family policies, and strengthen social insurance have been critical for cutting poverty, mitigating inequality, and ensuring people can find and keep good jobs. I will provide specific examples of how other countries are using these policies to promote greater economic security and opportunity;
- Second, efforts to examine individual reforms in other countries cannot be divorced from this broader policy framework. It is important not to cherry-pick lessons from other countries absent the context of their stronger labor market protections, work-family policies, and more adequate income security programs for families who struggle to make ends meet. This lesson has important implications as Congress seeks to reform work and income supports in the United States.

Background:

As I'm sure we can all agree, the surest pathway out of poverty is a well-paying job. Unfortunately, even as the employment numbers have improved in the past year, the poverty rate has declined only slowly because many Americans remain stuck with flat or declining wages, reduced hours, and inadequate labor protections. This is not a new trend. Except for a brief period in the late 1990s, over the past four decades, the gains from rising profits and productivity have gone mainly to those at the top of income ladder, while average Americans have seen their wages remain flat or even decline in real terms. In fact, the real hourly wage of a worker at the 10^{th} percentile of the wage distribution in 2013 was 5.3 percent less than in 1979. By contrast, the real hourly wage of a worker at the 95^{th} percentile grew by 40.6 percent over the same period[i].

Women's labor force participation is an important tool to mitigate these trends and make all families better off. Nearly all of the rise in U.S. family income between 1970 and 2013 was due to women's increased earnings, and according to the Council of Economic Advisors, if women's labor force participation had not increased since 1970, "median family income would be about $13,000 less than what it is today[ii]." Yet the United States is woefully behind its international counterparts in offering workplace policies that support women's labor force participation and a persistent gender wage gap means that women still earn on average only about 79 percent of what the average man makes, with significantly larger disparities for women of color[iii]. Closing this gender wage gap would cut the poverty rate for working women and their families in half[iv], with fewer families needing to turn to the safety net in the first place.

Finally, even in good economic times, events such as a lost job or cutbacks in hours, divorce, disability, birth of a child, new caregiving responsibilities, and other life events are common triggers of a spell of poverty or hardship[v], underscoring that social insurance and assistance programs offer important protections from hardship that we all need. In fact, half of all Americans will experience at least one year of poverty or near-poverty at some point during their working years. Adding in those who experience unemployment or need to turn to the safety net for a year or more, and that figure rises to 4 in 5 Americans[vi].

These experiences are not unique to the United States. Across the Organisation for Economic Co-operation and Development (OECD) nations, rising inequality presents a challenge, though it is more acute in the United States than in most other nations[vii]. Across OECD nations, people have to balance breadwinning and caregiving responsibilities, and face income shocks such as job loss or onset of a disability.

Yet the United States consistently ranks near the bottom when compared to other advanced nations on comparable measures of poverty and child poverty[viii]. Moreover, despite rhetorical nods to the American Dream, a U.S. child born in the bottom income quintile of the income distribution has a lower probability of making it to the top income quintile than their counterparts in Denmark and Canada[ix]. The remainder of my testimony will explore policy differences that help explain these gaps and what the United States can learn from other nations in this regard.

I. What do other countries do to cut poverty and strengthen the middle-class?

A key difference between the United States and other advanced nations is that their policies commit to supporting people in work through stronger labor standards, facilitating women's labor force participation through policies such as paid family leave, and providing greater economic security through a more adequate social insurance system when work is unavailable, impossible, or pays too little to make ends meet.

Basic Labor Standards:

First, other advanced nations tend to have stronger basic labor protections for workers. In the United States today, more than 1 in 3 people struggles to make ends meet, living below twice the poverty line[x]. This is due in part to the fact that the United States tolerates lower levels of basic labor standards and worker rights than most other rich nations. Our minimum wage is a poverty wage, leaving a parent of two children who works full-time in poverty. Low-wage workers are often subjected to scheduling practices that leave them no flexibility or certainty about their hours. And only about 7 percent of private sector workers belong to a union.[xi] These trends have implications for usage of our safety net and families' long-term economic mobility.

For example, "Nearly three-quarters (73 percent) of enrollments in America's major public benefits programs are from working families."[xii]. In the fast food industry alone, over half of frontline workers are unable to support their families without food or other assistance, and the cost of public assistance for these working families is nearly $7 billion a year[xiii]. In contrast, raising the minimum wage to $12/hour by 2020, as proposed in Representative Bobby Scott's and Senator Patty Murray's "Raise the Wage Act" would save nearly $53 billion in expenditures on the Supplemental Nutrition Assistance Program, or SNAP, over the next 10 years.[xiv]

In terms of scheduling practices, approximately half of low-wage workers report having minimal control over the timing of their work hours[xv]. In fact, in a study of low-skill, non-production jobs of 17 corporations in the hospitality, retail, transportation, and financial services industries, only 3 of the companies provided worker schedules more than one week in advance[xvi]. When workers don't know when or for how long they are working on a regular basis, it can wreak havoc on their ability to budget, take on a second job to help pay the bills, make child care and transportation arrangements, or move up the economic ladder by enrolling in education or training.

Finally, the barriers to joining a union in the United States limit workers' ability to bargain collectively for better wages and health benefits, which puts additional pressure on Medicaid and other safety net programs that help low-wage workers make ends meet. Moreover, union membership has long-term positive consequences for children and families. Recently published research finds that "controlling for many factors, union membership is positively and significantly associated with marriage"—a relationship that is "largely explained by the increased income, regularity and stability of employment and fringe benefits that come with union membership[xvii]." And areas with higher union membership demonstrate more mobility for low-income children. Controlling for many factors, the relationship between union density and the mobility of low-income children is at least as strong as the relationship between mobility and high school dropout rates—a variable that is widely recognized as an important factor in a child's long-term prospects[xviii].

Looking across the pond, in countries such as Denmark, collective agreements between trade unions and employer organizations are the norm, not the exception.[xix] In the United Kingdom, the national minimum wage, updated annually, is just over $10 an hour and the current conservative government is moving to increase it with the goal of reaching 60 percent of median earnings by 2020.[xx] In addition to a much higher minimum wage, UK workers also have a guarantee of 28 days of paid time off each year and have stronger job security protections.[xxi]

In terms of addressing scheduling standards, workers in the United Kingdom enjoy a "right to request" flexible and predictable schedules, and in turn, employers have an obligation to respond in a "reasonable manner" such as evaluating the pros and cons of the application, discussing the request with the employee, and providing an appeal process[xxii]. The law is showing results. Surveys have found that the number of requests refused by employers dropped after passage of the legislation, and three years after the law was enacted, a survey in 2006 shows that there was increased availability of flexible working arrangements, and a seven percentage point increase in workplaces offering at least one of six flexible working arrangements to their employees[xxiii]. Already, this idea is gaining momentum stateside, with Vermont and San Francisco adopting "right to request" laws, and the "Schedules that Work Act," introduced in the House and Senate to address these issues.

Work-Family Policies

A second area where the U.S. could learn from its neighbors is in the area of work-family balance and encouraging women's labor force participation. Between 1990 and 2010, US female labor force participation fell from 6th to 17th among 22 OECD countries.[xxiv] Research by Francine Blau and Lawrence Kahn has found that 28-29 percent of this decrease could be explained by other countries' expansion of "family-friendly" policies including parental leave and part-time work entitlements[xxv], whereas the U.S guarantees no paid sick days and stands alone in failing to offer any form of paid family leave.[xxvi]

In contrast, the United Kingdom gives almost all workers a legal entitlement to paid sick days, provides paid family leave and has a comparatively expansive system of pre-K and child-care assistance.[xxvii] Denmark offers 12 months of paid family leave.[xxviii] And in Canada, parental leave constitutes up to 15 weeks of maternity benefits, plus an additional 35 weeks for parental care by either parent after the birth or adoption of a child.[xxix]

In the United States, our lack of paid family leave has implications for usage of the safety net. In New Jersey, for example, where there is a state paid family leave program in place, a recent study conducted by Rutgers University found that women who use paid leave are significantly more likely to be working nine to 12 months after a child's birth than those who do not take any leave.[xxx] Moreover, women in New Jersey taking paid leave reported wage increases from pre to post birth and were 39 percent less likely to receive public assistance and 40 percent less likely to receive the Supplemental Nutrition Assistance Program (formerly known as food stamps) in the year after the child's birth, compared to women who did not take leave.[xxxi]

More adequate social insurance

Finally, other OECD countries tend to have significantly more adequate social insurance regimes that the United States for the messy ups and down of life such as a health crisis, unemployment, birth of a child, or onset of a disability. I will briefly review several examples below:

Health Insurance: Nearly all advanced nations offer universal health care coverage.[xxxii] In contrast, in the United States, 19 states have refused to implement the Affordable Care Act's Medicaid expansion, leaving millions of low-income adults without access to care and unable to purchase insurance on the healthcare exchanges.[xxxiii]

Child Benefit: Another common thread across many rich nations is a child benefit that significantly reduces child poverty.[xxxiv] For example, the new government is Canada is slated to significantly expand their child benefit for low and moderate income families, and the UK provides a family allowance[xxxv] to all low- and middle-income families with children through its Child Benefit[xxxvi] and Child Tax Credit[xxxvii].

The United States has a Child Tax Credit, which offers up to $1,000 per child. The refundable portion phases in at a rate of 15 cents per dollar starting at $3,000 of earnings so that a family with 2 children earning a full-time minimum wage salary would receive approximately $1,800 instead of the full $2,000.[xxxviii] However, if Congress fails to act to make permanent the 2009 provisions of the Child Tax Credit, slated to expire in 2017, that same working family would only receive $57 from the Child Tax Credit moving forward.[xxxix] The Child Tax Credit is an important antipoverty tool in the United States, but it could be strengthened by: ensuring that the full credit reaches all low and moderate income families, indexing the credit to inflation so that it keeps pace with the rising cost of childrearing, and adding a "Young Child Tax Credit" of $1500 for children under 3, available in monthly installments, in recognition of the particular squeeze that parents of young children face and the elevated importance of income in the early years for children's long-term outcomes.[xl]

Unemployment Insurance:[xli] While the United States' Unemployment Insurance (UI) system has played an important role in mitigating poverty and providing macroeconomic stabilization, compared to other nations, the United States has one of the least generous UI systems in the developed world.[xlii] Jobless benefit programs in European nations and most other OECD member countries programs generally serve significantly larger shares of their unemployed populations, provide benefits that replace a significantly higher share of worker's previous earnings, and offer benefits for far longer durations than the United States' UI program.[xliii] Additionally, most other countries require employers to offer severance pay, which comes in addition to jobless benefits.[xliv]

For example, the vast majority workers in Denmark are guaranteed two years of unemployment insurance at a 90 percent wage replacement,[xlv] and in addition to its contributory insurance, the United Kingdom guarantees means-tested unemployment assistance to low-income people who are unemployed.[xlvi]

In the United States, our unemployment insurance system protects workers and their families against hardship in the event of job loss by temporarily replacing a portion of their lost wages while they seek reemployment. UI is a federal-state program with minimal federal requirements and tremendous state flexibility. Historically states have had maximum benefit durations of 26 weeks or longer. However, in a recent trend, eight states have reduced the number of weeks of benefits available to fewer than 26 weeks, with Florida cutting off benefits at just 14 weeks.[xlvii]

The recent economic downturn offers a stark reminder of the critical importance of the UI system. While benefits are modest, averaging just over $300 per week and replacing 46 percent of wages for the typical worker,[xlviii] UI protected more than 5 million Americans from poverty in 2009, when unemployment was at historic heights.[xlix] In addition to mitigating poverty and hardship, UI also functions as a powerful macroeconomic stabilizer during recessions, by putting dollars in the pockets of hard-hit unemployed workers who will then go out and spend them in their local communities.

Yet effective as UI is, it fails to reach many unemployed workers in their time of need. As of December 2014, the UI recipiency rate—or the share of jobless workers receiving UI benefits—fell to a historic low of 23.1 percent.[l]

Disability Benefits:[li] The U.S. offers modest but vital disability benefits in a regime in which it is incredibly difficult to qualify for aid. In fact, the United States has the strictest disability standard in the developed world,[lii] and our Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI) programs include strong work incentives.[liii] SSDI benefits are modest, typically replacing half or less of a worker's earnings. The average SSDI benefit for disabled workers in 2015 is about $1,165 per month—not far above the federal poverty level for an individual.[liv] SSDI benefits are so modest that many beneficiaries struggle to make ends meet; nearly one in five, or about 1.6 million, disabled-worker beneficiaries live in poverty. But without SSDI, this figure would more than double, and more than 4 million beneficiaries would be poor.[lv] SSI benefits are even more meager, at a maximum of $733 per month in 2015, just three-quarters of the federal poverty level for an individual.

As long projected by Social Security's actuaries, the number of workers receiving SSDI has increased over time, due mostly to demographic and labor-market shifts. According to recent analysis by Social Security Administration researchers, the growth in the SSDI program between 1972 and 2008 is due almost entirely (90 percent) to the Baby Boomers aging into the high-disability years of their 50s and 60s, the rise in women's labor-force participation, and population growth.[lvi] The increase in the Social Security retirement age has been another significant factor. Importantly, as the Baby Boomers have begun to age into retirement, the program's growth has already leveled off to its lowest level in 30 years, and is projected to decline further in the coming years as Boomers continue to retire.[lvii]

Efforts to point to "disability reform" in countries such as the United Kingdom, Australia, and the Netherlands, as models for the US ignore the fact that even after these reforms, these countries still have higher recipiency rates, more adequate benefits, and spend more as a share of GDP on their programs than we do.[lviii] Rather, by emulating other countries' policies such as paid leave, better access to long term services and supports, and universal health coverage, we could build upon our current system and give workers with disabilities a fairer shot at economic opportunity.[lix]

A Note on The "Submerged" Welfare State

While other OECD countries tend to spend more as a share of GDP in terms of public social expenditures, looking at *net* social expenditures, which include expenditures subsidized through the tax code, such as employer-subsidized healthcare for higher-income families, the United States actually spends *more* as a share of GDP than many other OECD countries.[lx] This "submerged welfare state" underscores that social expenditures do not just benefit struggling families, but extend up to include many wealthy families in the United States.[lxi] Thus, as we seek to discuss welfare reforms, it is important to note that while the United States is relatively ungenerous when it comes to helping lower-income families, looking at our net social expenditures we are considerably more generous to upper-income families than other nations.

More broadly, as we discuss welfare reform, it is important to consider reform of corporate welfare and tax expenditures that primarily benefit the wealthy. Although the top 0.1 percent holds as much wealth as the bottom 90 percent in the United States, a typical person in top 0.1 percent received $33,391[lxii] last year from the largest of these federal tax programs, while an American in the bottom 20 percent received about $77.[lxiii] It is important to keep this context in mind as Congress considers tax and budget decisions regarding low-income families.

II. The Dangers of Cherry-Picking Lessons

While there are many importance lessons to take from other nation's policies, there is a danger in cherry-picking reforms from other countries that feed into their preconceived notion that block-granting and cutting core income security programs is the best path forward. These policy lessons are often divorced from the broader framework these countries have in place with regards to labor rights, work-family balance, and social insurance.

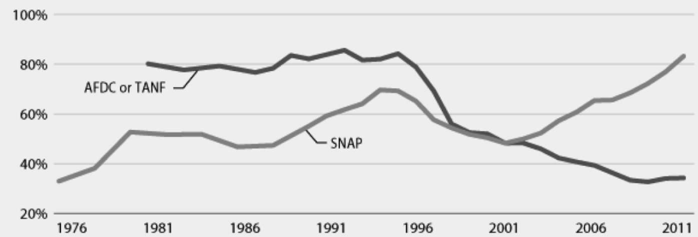
For example, some have pointed to the Universal Credit in the United Kingdom, a policy that combines several means-tested benefits into one payment to families, as the inspiration for efforts to consolidate and block-grant multiple antipoverty programs in the United States. Yet the Universal Credit bears little resemblance to these proposals and is situated in a much different policy regime, as noted above, with higher wages, stronger work-family policies, and more adequate income security programs.[lxiv]

For one thing, the United Kingdom's Universal Credit is structured as a legal entitlement—meaning that all eligible low-income people have a right to receive it—and one that is administered centrally by a single government agency. In contrast, block-grant proposals here in the United States limit the extent to which eligible families can access needed help. They also decentralize administration of funds to states, who have a long history of diverting those funds away from the core purposes of the block grant.[lxv]

For example, Temporary Assistance for Needy Families[lxvi] (TANF), which some lift up as a model for other programs, has failed to respond to the recession or the increase in child poverty in recent years, rising by just 16 percent[lxvii] between the onset of the recession and December 2010, while the number of unemployed workers rose by 88 percent during the same period.[lxviii] The block-grant has lost approximately one-third of its value since 1996, and even more in states that used to receive supplemental grants. Whereas it used to serve approximately two-thirds of poor families with children, today the program only serves about 1 in 4 poor families with children – and in many states it serves far fewer.[lxix] In comparison, the Supplemental Nutrition Assistance Program is highly effective at reaching struggling individuals and families, with 8 in 10 eligible households receiving needed nutrition assistance.[lxx]

FIGURE 1

Share of the eligible U.S. population participating in Aid to Families with Dependent Children, or AFDC; Temporary Assistance for Needy Families, or TANF; and the Supplemental Nutrition Assistance Program, or SNAP



Source: U.S. Department of Health and Human Services, *Welfare Indicators and Risk Factors, Annual Report to Congress* (2014), available at http://aspe.hhs.gov/hsp/indicators-rtc/index.cfm.

Moreover, states have little to no accountability for spending the funds towards TANF's core purposes, with recent data showing that states only spent an average of 8 percent of the block grant on work-related activities and less than half of the block grant on "core purposes."[lxxi] In contrast, in programs such as SNAP, approximately 95 percent of program dollars go to helping struggling families purchase food.[lxxii] The error rate for SNAP is among the lowest of all government programs, with fewer than 1 percent of SNAP benefits going to households that do not meet the program's criteria.[lxxiii] Research also shows that SNAP boosts health and educational outcomes in the long term.[lxxiv]

Rather than model other programs after TANF, policymakers should be seeking ways to boost the program's reach, effectiveness, and transparency to ensure that dollars are going toward providing income and employment support to struggling families. Indeed, as Ron Haskins, a long-time former Republican staffer and one of the chief architects of TANF, said recently about the program, "States did not uphold their end of the bargain. So why do something like this again?"[lxxv]

Another reason the Universal Credit offers a poor example for the United States is that one of the main problems the United Kingdom is trying to address—financial penalties for work—is far less of an issue in the United States, in part due to the design of our Earned Income Tax Credit (EITC)—which kicks in at the first dollar of earnings.[lxxvi] In fact, this is one area where other countries seeking to address work disincentives caused by loss of benefits can learn from the United States.

Together the earned income and child tax credits reward work and lifted approximately 10 million people out of poverty last year.[lxxvii] Not only do these credits improve the short-term well-being of children through mitigating poverty, but they also improve long-term education[lxxviii] outcomes for children.

As Congress debates tax extenders, they should protect and build upon EITC's bipartisan success. If fact, Congress should not make any provision permanent for businesses without making permanent provisions of the EITC and

CTC set to expire in 2017. Allowing these key parts of the credits to expire would push approximately 16 million people, including 8 million children, into or more deeply into poverty.[lxxix] Moreover, there is growing bipartisan support, from Speaker Ryan to President Obama, for expanding the EITC for childless adults, the only group our country currently taxes more deeply into poverty.[lxxx]

Regarding concerns about the U.S. safety net penalizing work, the biggest issue in this regard is states that have not yet expanded Medicaid. In these 19 states, a family who earns too much to qualify for traditional Medicaid, but not enough to qualify for subsidies to purchase on the exchanges falls into a health coverage gap[lxxxi]. The answer to this, rather than consolidation and block-granting of programs, is for all states to expand Medicaid.

Policy Implications and Conclusion

How do the lessons from other countries translate into policy implications for the United States?

First, it is important not to go backwards. In general, the OECD nations with the best outcomes have increased the share of their GDP they commit to public social insurance and investments over the last two decades.[lxxxii] While many OECD nations have undertaken active labor market policies, these same nations continue to provide a more adequate floor than we have in the United States. And what the United States does have in place, while in need of improvement, plays a significant role in mitigating poverty and hardship. In fact, without the safety net we currently have in this country, poverty rates would be nearly twice as high[lxxxiii]. Rather than turn to TANF as a model for other safety net programs, we should protect and strengthen programs such as SNAP, tax credits for working families, and Medicaid.

Second, while the United States doesn't need to emulate the exact policies of our OECD counterparts, we can customize uniquely American solutions that move toward the same values of rewarding and valuing work through strong labor standards, encouraging women's labor force participation through improved work-family policies, and bolstering our social insurance system to better account for the messy ups and downs of life. This includes policies[lxxxiv] such as raising the minimum wage; making permanent the 2009 provisions of the earned income and child tax credits slated to expire in 2017 and expanding EITC for childless adults; enacting universal paid family and medical leave and paid sick days; enacting the right to request a flexible and predictable work schedule; investing in child care and early education; expanding Medicaid; strengthening our unemployment insurance system; enabling all low and moderate income families to claim the full child tax credit; and adding on a young child tax credit for families with children under 3 to account for the importance these early years play in children's long-term outcomes[lxxxv].

Such policies would not only cut poverty and economic mobility through better employment, educational and health outcomes; in many cases they would also reduce the need of families to turn to the safety net in the first place because policies that bolster wages, improve working conditions, and offer the work supports such as child care and health insurance increase the likelihood that families can support themselves in the labor market.

These ideas noted above are not just international standards. Policies such as raising the minimum wage and enacting paid family leave command the supports of the vast majority of Americans across the ideological spectrum[lxxxvi]. Efforts to stymie the enactment of such policies ignore evidence from both abroad and from U.S. states that these initiatives are effective in cutting poverty and boosting middle-class security.

[i] Elise Gould, "Why America's Workers Need Faster Wage Growth – And What We Can Do About It" (Washington: Economic Policy Institute, 2014), available at http://www.epi.org/publication/why-americas-workers-need-faster-wage-growth/.
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Chairman BOUSTANY. Mr. Burkhauser, you are recognized.

STATEMENT OF RICHARD BURKHAUSER, SARAH GIBSON BLANDING PROFESSOR OF POLICY ANALYSIS, CORNELL UNIVERSITY COLLEGE OF HUMAN ECOLOGY

Mr. BURKHAUSER. Thank you for the opportunity to speak to you today in this iconic American room.

I have one figure, which I would like to put up here that comes from my co-authored work with Mary Daly and Nicholas Ziebarth, that shows the dramatic growth and eventual decline in disability caseloads of a working-age person in Germany, Netherlands, and Sweden over the past 40 years and the rise in the United States especially since 1990.

We argue that neither changes in underlying health nor in population characteristics can account for this cross-country difference. A systematic look at the policies in place during the growth years in these European countries and in the United States today, reveals disability programs focused on providing cash assistance rather than full-time work. This policy design was based on several assumptions.

One, people with disabilities are unable to work. Two, it is easy to determine who is and is not disabled, and three, the behavior of individuals, program managers, and employers is not affected by program rules or incentives. None of these assumptions are correct. The single most important factor in reducing caseloads in all three European countries was a shift to work-first policies. These policies slowed the movement of disabled workers onto the rolls by ensuring the accommodation and rehabilitation were first tried before workers were considered for long-term disability cash payments.

Germany accomplished this by substantially increasing the bar for entry onto their disability program and reducing benefits, but also by requiring employers to implement a workplace integration program. This ratcheting up of eligibility criteria, of government disability benefits, resulted in major growth in private disability market. In 2012, for instance, 61 percent of employed men and 42 percent of employed women were covered by the private disability insurance system, more than twice that in the United States. Because private disability payments are experience rated, this encouraged workers and employers to look to rehabilitation and accommodation first, since they now more directly bear the cost of the movement onto the disability rolls.

In the Netherlands, disability standards were also raised and benefits reduced, but an even larger shift to workforce policies took place. Employers are now mandated to provide the first 2 years of disability benefits to their disabled workers. In addition, employers must demonstrate an effort to provide accommodation and rehabilitation to their works, and these workers must show a willingness to use them. This policy change also resulted in major growth in private disability markets, and these experienced-rated payments further ensure that accommodation and rehabilitation are tried before workers move on to disability rolls.

In Sweden, the government merged their sickness program with their disability program and began a series of changes to standardize and enforce the administration of these now joint systems.

Most notably was the centralization of screening processes. This allowed policymakers to better regulate the gatekeepers and enforce the strategy of promoting participation in work before offering cash benefits.

So what lessons can the United States learn from these experiences? European policy outcomes show that it is not the case in the absence of benefits individuals with disabilities would remain out of the labor force dependent on other forms of public or private assistance for support.

Disability reforms over the last decade provide evidence that employment will increase and the pro-work policies replace policies that had the opposite effect. People with disabilities would otherwise have moved on to long-term cash benefits were able with reasonable levels of support to return to work. Critics of these reforms argue that the disability insurance is especially important in economic downturns or individuals with limited work capacities are more likely to be laid off and less likely to find a job.

Past experience, especially in Germany and the Netherlands, who choose this logic to turn their long-term disability program into unemployment programs suggest that it can be a very expensive and untimely and ultimately ineffective policy decision.

The key message from the EU experience is that exclusively divorcing long-term unemployability insurance, from disability insurance, is critical to effectively targeting resources for its old populations. The experience of the EU nations suggest that it is possible to balance competitive goals of providing social insurance against adverse health shocks and maximizing the work effort of all working-age adults.

Past disability policies in both the United States and EU countries have focused more on the former than the latter resulting in rapid growth of disability caseloads to outpace growth in the economy. Efforts to shift to more pro-work policies in Europe suggests that fundamental disability reforms that can lower long-term costs for taxpayers, that can make the job of disability administrators less difficult and approve the opportunities of Americans with disabilities to work. Thank you.

Chairman BOUSTANY. We thank you for your testimony.

[The prepared statement of Mr. Burkhauser follows:]

Testimony before the Ways and Means Human Resources Subcommittee

U.S. House of Representatives

Hearing on "Moving America's Families Forward: Lessons Learned from Other Countries"

Increasing the Market Income of Working-Age People with Disabilities via Work-First Policies

This testimony is based on:

Burkhauser, Richard V., Mary C. Daly, and Nicolas Ziebarth. 2015. "Protecting Working-Age People with Disabilities: Experiences of Four Industrialized Nations." (July) IZA Discussion Paper No. 9186.

Burkhauser, Richard V., Jeff Larrimore and Sean Lyons. "Measuring Health Insurance Benefits: The Case of People with Disabilities." October 2015. NBER Working Paper w21629.

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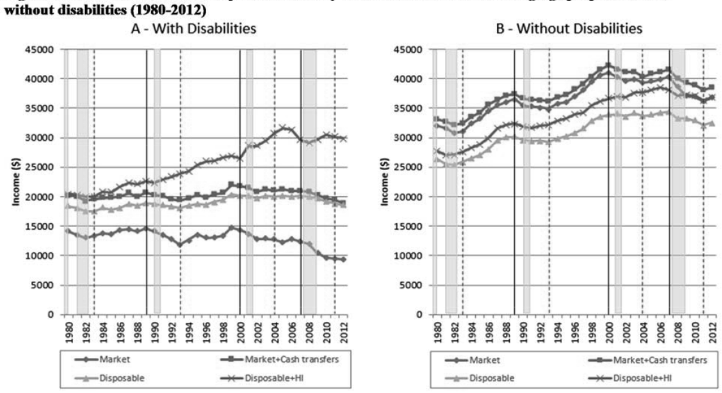
November 17, 2015

Thank you Chairman Boustany and members of the Human Resources Subcommittee for the opportunity to testify today. My major research areas are: the measurement of income and its distribution, and how public policy, especially OASDHI (Social Security), affects the economic well-being of working-age people with disabilities. My testimony today is based on recent work my co-authors and I have done that links these two research areas.

Figure 1 comes from Burkhauser, Larrimore and Lyons (2015). In it we use data from the Current Population Survey (CPS) to show how the median income of working-age Americans (aged 18-64) with disabilities (Panel A) and without disabilities (Panel B) have changed from 1980, the year work limitation questions were first asked in the CPS, and 2012. All incomes are adjusted to 2010 dollar amounts using the Consumer Price Index Research Series (CPI-U-RS). The numbers reveal the elephant in the room behind the title of today's hearing.

Figure 1. Trends in median size-adjusted income by income definition for working-age people with and without disabilities (1980-2012)



Source: **Author's estimation from March CPS data.**

Notes: **Median household size-adjusted income in 2010 dollars of working-age (18-64) people with and without disabilities by income definition (1980-2012).**

Source: Burkhauser, Larrimore, and Lyons (2015).

Median market income, the income that Americans get from labor earnings, rents, dividends, and interest in the marketplace, varies over the business cycle, falling during recessions and their aftermath but then rising with economic growth. Over the business cycles of the 1980s and the 1990s median market income fell and rose but nevertheless grew from one business cycle peak to the other, hitting an all-time high in 2000 for working-age people without disabilities (Panel B). It then fell during the recession of 2001 and its aftermath, rose somewhat over 2004-2007, and then fell dramatically over the Great Recession and the slow economic recovery that has followed. Their median income finally rose slightly in 2012 but remains far below its 2007 pre-Great Recession high.

The news with respect to the median market income of working-age Americans with disabilities is worse. Median market income rose slightly over the 1980s and the 1990s business cycles, hitting a peak in 1999 that was only slightly higher than 1980 and peak year 1989. Thereafter, their median market income has fallen almost continuously every year.

The good news is that government tax and transfer policies are not only counter-cyclical (lowering taxes collected and increasing transfer benefits during recessions and increasing taxes collected and lowering transfer benefits during periods of economic growth) but they have increasingly redistributed market income from the top half of the distribution to the bottom half of the distribution. As can be seen in Figure 1, once government transfers are added to market income (Market+Cash transfers) and taxes subtracted (Disposable income), the falls and rises in median income during the business cycle are reduced and growth in median disposable income of working-age people without disabilities is greater.

Since 2012 the Congressional Budget Office (CBO) has included an estimate of the market value of government-provided health insurance coverage (Medicare and Medicaid) in its measure of household income to more fully identify how government taxes and expenditures (transfers) are distributed across the income distribution. These estimates reflect the additional market price individuals would pay for this health insurance in the private market. A small academic literature shows that the inclusion of the market value of health insurance will primarily affect U.S. income levels but have a smaller effect on their trends except at the bottom tail of the distribution.

As we see in Figure 1 Panel B, when we follow the same CBO methods and include the market value of Medicare, Medicaid, and employer-provided health insurance to our disposable income measure we find that median income of working-age people without disabilities rises, but there is not much difference in its growth and that of disposable income.

But this is not the case for working-age people with disabilities. Past research has identified the drop in market income of working-age people with disabilities seen in Figure 1 Panel A as well as the importance of government transfer (Market+Cash transfers) and taxes (Disposable Income) in offsetting this decline. But previous research has not included the market value of Medicare, Medicaid, and employer-provided health insurance to a disposable income measure as we do here. The results dramatically change not only the level but also the trend in median income of working-age people with disabilities.

To get a sense of how the growing access to Medicare and Medicaid (via entry onto the Social Security Disability Insurance (SSDI) or Supplemental Security Income (SSI) programs or both) has effected median income, look at the change in median income across the four trough years that describe the three business cycles captured fully in the CPS data (1983-1993), (1993-2004) and (2004-2011).[1] Median market income falls from $13,304 in 1983 to $9,448 in 2011, with most of the decline occurring in the first and third business cycles. Over the three full trough-to-trough business cycles that Panel A captures, median disposable income rose slightly from $17,529 in 1983 to $18,347 in 1993 and $19,989 in 2004 before falling to $18,840 in 2011, for an overall increase of 7.5%. This small rise in income growth was primarily propelled by increases in the share of working-age people with disabilities receiving SSDI benefits, SSI-disabled benefits, or both and the growth in their average real value over this period.

Including the market value of employer- and government-provided health insurance dramatically changes the trajectory of median income for this population. In 1983 there is very little difference between our median

[1] Trough years are defined as the last year in which median size-adjusted market income of all persons falls following a recession—1983, 1993, 2004, and 2011—and peak years are defined as the highest median market income year between these troughs—1989, 2000, and 2007. With the exception of 1983, the median market income trough years follow the official NBER recession ending years—the shaded years in this figure. This is the case, because the major component of market income is labor earnings and it is a lag indicator of business recovery.

disposable income and median disposable income plus health insurance measures. But the substantial increases since then in access to government provided health insurance and in its value to those it covers profoundly increases the gap between these two measures of income. Using our most complete measure of income we find that the economic resources available to the median working-age person with disabilities have grown substantially over the past 30 years. Over the entire three-business-cycle period (1983-2011), median disposable income plus health insurance increased by 51% from $19,978 to $30,137.

Again the good news is that once fully counted, the declines in median market income of working-age people with disabilities have been profoundly offset by the combined benefits of SSDI, SSI-disabled benefits, as well as Medicare and Medicaid.

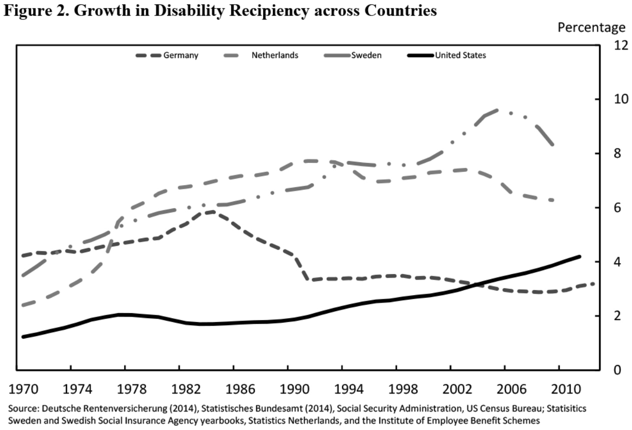
But the bad news is that access to these programs all require that the beneficiaries demonstrate they are unable to perform any substantial gainful activity in the marketplace. Only then are those who gain SSDI and/or SSI program benefits provided with systematic incentives to work via access to rehabilitation. Such a process can mean a long time gap from the point a worker first experiences the onset of a work limitation that affects his or her ability to work in their current job and acceptance onto the disability rolls. This and other flaws in U.S. disability policy are preventing a substantial number of Americans with disabilities from “moving forward,” and policymakers interested in them doing so can “learn lessons from other countries.” The discussion below is based on Burkhauser, Daly, and Ziebarth (2015).

Moving Americans with Disabilities Forward: Lessons from Other Countries

The number of workers receiving disability-based social insurance has increased substantially in most industrialized nations over the past 40 years. Population growth accounts for part of this increase, but disability caseloads as a share of the working-age population—the disability recipiency rate—also have risen substantially. This can be seen in Figure 2, which shows disability recipiency rates in four countries—Germany, the

Netherlands, Sweden and the United States—beginning in 1970 through the last year of public data in each country.[2]

Figure 2. Growth in Disability Recipiency across Countries



Source: Burkhauser, Daly, and Ziebarth (2015)

In 1970, disability recipiency rates in our three EU nations were considerably higher: 4.2 percent in Germany, 2.4 percent in the Netherlands, and 3.5 percent in Sweden, than they were in the U.S. (1.2 percent). Since then disability recipiency rates have risen substantially in each country with the exception of Germany. However, as the figure highlights, they have done so along significantly different trajectories.

To see these dynamics more clearly, Table 1 provides average annual growth rates in disability recipiency by decade and over the entire sample. As the table shows, disability recipiency rates rose in all countries during the 1970s, with especially rapid growth in the Netherlands and more modest growth in Germany. In contrast, in the 1980s, recipiency rates grew more modestly and even fell in the U.S. and Germany. By the 1990s, growth in the Netherlands and Germany ended and disability recipiency rates, on balance, fell over the decade. During the

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[2]The U.S. disability recipiency rate only includes beneficiaries receiving Social Security Disability Insurance (DI). When SSI-disabled adults and DI program beneficiaries are combined, the level of the U.S. disability recipiency rate is higher, but the patterns over time are roughly the same.

2000s, disability recipiency rates continued to fall in the Netherlands and Germany and grew less quickly in Sweden. Growth in the U.S. slowed slightly but remained quite high relative to the EU countries in our sample.

Table 1. Average Annual Growth in Disability Recipiency by Decade and Country

	Germany	Netherlands	Sweden	United States
1970-1979	1.69	11.45	5.49	5.65
1980-1989	-1.79	1.79	1.59	-0.91
1990-1999	-2.30	-0.34	1.44	4.10
2000-Final	-1.61	-1.25	1.00	3.71
1970-Final	-0.93	2.69	2.30	3.10

Source: Social Security Administration, US Census Bureau, , Statistics Sweden and Swedish Social Insurance Agency yearbooks, Statistics Netherlands, German Statutory Pension Insurance, German Federal Statistical Office, and the Institute of Employee Benefit Schemes
1.) See appendix for a summary of data years utilized across countries . 2.) Average is computed as the average year over year percent change in the recipiency rate within the given time period. For missing data a standard linear interpolation is used .

Source: Burkhauser, Daly, and Ziebarth (2015)

The final average (1970-final) shows that smoothing through the fluctuations in growth that have occurred over the decades, the U.S. experienced the highest average annual growth rate over the sample period. The rapid growth in our three EU countries brought on program reforms and a tempering or reversal of the path of disability recipiency. In contrast, with the exception of the 1980s, growth in U.S. disability recipiency has been nearly continuous over the sample period.

What accounts for these trends? Burkhauser, Daly, and Ziebarth (2015) argue that neither changes in underlying health nor in population characteristics can account for all of the cross-country differences in disability recipiency rates, either levels or trends. They then show how changes in disability policy and its implementation in each country are correlated with the dynamics of disability recipiency rates in Figure 2. While their comparative descriptive analysis falls short of establishing a causal effect of policy on the disability rolls, it is suggestive of the potential impact of policy design on the trends in disability benefit receipt across and within these countries.

A systematic look at the policies in place during the disability recipiency growth years in Germany, the Netherlands, and Sweden reveals disability programs focused on providing cash assistance in lieu of full-time work without a careful consideration of the unintended consequences of such a policy. This design was based on several assumptions: a) People with disabilities are incapable of work; b) It is easy to determine who is and is not disabled; and c) The behavior of individuals, program managers, and employers is not affected by program rules/incentives.

For instance, in both Germany and the Netherlands those with only partial disabilities who were unemployed were admitted onto the disability rolls with full benefits. This mission creep increasingly made their disability programs "unemployability" programs and resulted in very rapid increases in recipiency rates as these assumptions proved to be incorrect.

The single most important factor in reducing recipiency rates in all three countries was a shift to work-first policies that slowed the movement of disabled workers onto the rolls by insuring that accommodation and rehabilitation were explored before workers were even considered for long-term disability transfer benefits. This was done in Germany by substantially increasing the bar for entry onto the public disability program and reducing benefits—but also by requiring employers to implement a workplace reintegration program. The ratcheting up of the eligibility criteria for government provided disability benefits resulted in major growth in the private disability market. In 2012, 61 percent of employed men and 42 percent of employed women were covered by private disability insurance).[3] Because private disability is experience rated, it encourages workers and employers to look to rehabilitation and accommodation first since they now more directly bear the costs of a movement onto the disability rolls.

In the Netherlands disability eligibility standards were also raised and benefits reduced but an even larger shift to work-first policies took place. Employers are now mandated to provide the first two years of disability benefits to their disabled workers. In addition, employers must demonstrate an effort to provide accommodation and rehabilitation to their workers and their workers must show a willingness to use them. Only when such efforts shown not to be affective are workers allowed to apply for government disability benefits and their employers allowed to stop directly paying their private disability benefits. This change in policy has also resulted in major

[3]Beneficiaries of private disability insurance may also receive government-provided disability benefits if eligible. In contrast, in the U.S. private insurers may reduce payments dollar for dollar for recipients of public SSDI. This means that private insurers in Germany have more of an incentive to return beneficiaries to work than do those in the U.S.

growth in the private disability market and these experience-rated payments further insure that accommodation and rehabilitation are tried before a worker moves onto the disability rolls. Furthermore, even the government run disability program is now financed by experience-rated payments by firms.

In Sweden, despite considerable opposition from various advocacy groups, significant reforms were put into place whose driving principle was that work support, rather than cash assistance in lieu of work, was the primary goal of disability policy. To achieve this, the government merged the sickness benefits and disability systems and began a series of changes to standardize and enforce the administration of these now joint systems. Most notable among them was the centralization of screening processes. This allows policymakers to better regulate the gatekeepers and enforce the strategy of promoting participation in work before offering cash benefits. Employers are also required to work with disability administrators to create a rehabilitation plan. And gatekeepers now have the power to demand that employers prove they provided worker accommodations. Most recently Sweden has established a timeline for the provision of rehabilitation services under the sickness absence program with checkpoints at 3-, 6-, and 12-month increments to align assessment of work capacity and a reduction of the cash value of sickness benefits for those who did not return to work.

What lesson can the U.S. learn from these experiences? An important issue that policymakers face in all countries facing the challenges of providing protection for workers with disabilities is that, disability programs, even if not generous, are essential income for many individuals. In the U.S. where other components of the social safety net are weaker or less generous, disability benefit programs are even more difficult to challenge.

However, the policy outcomes of Germany, the Netherlands, and Sweden show this is a very static view which assumes that in the absence of benefits, individuals with disabilities would remain out of the labor market, dependent on other forms of public or private assistance for support. Disability reforms in these countries over the last decade provide suggestive empirical support that increased employment will occur when pro-work policies replace policies that have had the opposite effect. Their reform experience shows that a significant number of people with disabilities, who would otherwise have moved onto long-term cash benefits, were able, with reasonable levels of support, to return to work. While it is always the case that tightening the criteria for disability benefits runs the risk of denying disability benefits to those who will not be able to find work, on balance the EU experience suggests that reasonable pro-work policies will both substantially reduce disability recipiency rates and increase the employment of those who would otherwise have been on the long-term disability rolls.

Another concern is that programs like disability insurance are especially important in economic downturns where individuals with limited work capacity are not only more likely to be laid off but less likely to find a new job. Past experience of EU countries, especially Germany and the Netherlands, which intentionally or unintentionally used this logic to turn their long-term disability programs into more general unemployment programs, suggests that it can be a very expensive and ultimately ineffective policy decision. Indeed, many EU nations continue to struggle to regain control over their disability systems which for many decades have been used as long-term unemployment insurance programs. A key message from the EU experience is that explicitly divorcing long-term "unemployability" insurance from disability insurance is critical to effectively targeting resources towards both populations.

Together the experiences of other nations suggest that it is possible to balance the competing goals of providing social insurance against adverse health shocks during working-age and maximizing the work effort of all working-age adults with and without disabilities. Past disability policies in both the United States and EU countries have focused more on the former than the latter, resulting in rapid growth in disability transfer populations that outpaced growth in the economy. Efforts to shift to more pro-work policies over the last decade in Europe suggest that fundamental disability reforms, if done well, can lower projected long-term costs for taxpayers, make the job of disability administrators less difficult, and importantly, improve the short- and long-run opportunities of Americans with disabilities to work.

Chairman BOUSTANY. Now we will move on to questions. And I will begin by starting with Mr. Besharov.

On page 6 of your testimony, you have a chart summarizing the types of changes European countries have made to their safety net programs in recent years. And the most common one, just in looking through the whole collection of them, appears to be requiring individuals to work or prepare for work in exchange for receiving benefits. And in our subcommittee hearings, we have talked about the importance of having welfare programs, a system of programs focused on work, trying to put work first, but often times we focus on the government implementation of this policy. And it struck me over the course of the year, as I have tried to understand this, and I have spoken to recipients, you know, beneficiaries of programs and some of the trials that they have had in getting into meaningful work, that one of the most important viewpoints that we are missing, as we look toward reform, is looking at the viewpoint of the employers, and how do you bring the employers, who will provide jobs, into line with these government programs, you know, Federal, State, and so forth?

I mean, just looking at the testimony and some of the other things I have read, other countries have tested different ways of partnering with employers to help welfare recipients move up as well as to help employers get the types of employees they need. Of course, we know in certain areas there are—their job availabilities are not being filled by Americans who could be looking at this. And I am convinced that we can't solve a lot of our economic problems until we address this issue of how do you get those who are not working who can work into work and meaningful work?

So what have other countries done in this area, looking at that side of it from linking the employers to these programs so that we have, you know, a system that actually helps the beneficiary get into work? And are there lessons that we can learn in working with employers here in this country, lessons that we can learn from our partners in Europe as to how they have been successful with this?

Turn your mike on.

Mr. BESHAROV. Yeah, sorry. A small detail first. The initial implementation of TANF was very exciting, and it was almost purely work first, which is look for a job. Many of us hope that there would be work experience, but the caseloads went down so quickly and, frankly, the Clinton administration was not interested in work experience, which is on-the-job training of some sort. So that whole process disappeared from our welfare procedures.

What the Europeans do is they take advantage of the fact that there are all these small blue-collar jobs. Notice I said blue collar, because it is extremely difficult to get a welfare recipient who has dropped out of high school and so forth into a serious white-collar situation. So in the U.K., in Germany, there are processes with working with small employers, not just the large ones. And if you ask me what the American connection there would be, it would be either in legislation or in policy to make it easier for work experience and under TANF or SNAP or whatever, to be with individual employers—we don't have to be with the GEs or the whatever, the Amazons. Get credit for that and accept the fact that it is blue-collar work, not white-collar work and not limit work experience to non-for-profit firms, which is the case—or organizations, which is the case in many parts of the country.

Chairman BOUSTANY. Yeah. It seems to me that that is how you get people on that ladder to where they can move up. And one of the things that has been missing, as I have reviewed it, you know, clearly, you spend, you know, a long time studying this, but as I have looked at it over the course of a year, it seems that we just have these disconnects.

We have a Federal program, States basically operate the program. The metrics we are looking at really are not as helpful as what we really need. What we really need is, okay, who is getting into work? What kind of wages are they starting at? What is happening, 3 months, 6 months later, a year later? Are they really into a meaningful job? But linking those small employers and the job availability to the beneficiary and just putting two and two together just seems like it ought to be simple, but yet, it doesn't happen.

Mr. BESHAROV. I see the time. At the risk of creating a minor tremor here, one of the problems is going to be the minimum wage. Most of these programs have an exemption to the minimum-wage programs. If the minimum wage is actually $15 an hour, I think it is going to be extremely difficult to see current welfare recipients untrained being hired for those jobs.

Chairman BOUSTANY. Thank you. My time has expired. I am going to go to Mr. Davis.

Mr. DAVIS. Thank you very much, Mr. Chairman.

Ms. Boteach, I have a bill called the Child Poverty Reduction Act that draws on the successful effort in the aid to set measurable national benchmarks for child poverty reduction. Within the first decade of enactment, Britain's child poverty rate decreased by 50 percent. In contrast, in the U.S., as many as 3 million children are living in families with less than $2 a day in cash income.

Is there a similar trend in extreme child poverty in other developed countries? And if not, why not?

Ms. BOTEACH. There is not. You have looked since 1996, as welfare reform has been implemented, and you have seen an increase in deep poverty. And one of the lessons I think that is core to draw from the United Kingdom is they did it through—they set a national target which again mobilizes people on a common goal and can bring different actors together, but then the policies that flow from that did the basic labor standards, they enacted the minimum wage, they expanded their paid family leave. But they also expanded child tax credits, family allowances, and they made sure that there was a floor underneath which people should not fall.

And so that combination of both rewarding and encouraging work, and at the same time ensuring that there was an adequate social insurance system in place so when people fell down means that in countries like the United Kingdom and other countries, you don't see the same degree to which you have $2-a-day poverty here in the United States.

Mr. DAVIS. So we do see some precedent if we want to follow the pattern that might help us move more of these families out of poverty?

Ms. BOTEACH. Right. We can look across the pond and see not just in the United Kingdom, but in many other OECD countries, this combination of raising the minimum wage, there is higher union densities in these countries, which already means that wages tend to be higher. Policies that enable women to more fully participate in the labor force.

If we were to close the gender wage gap in this country we would cut poverty for working women and their families in half. And so policies that seek to ensure that women can both participate in labor market as well as earn similar to their male counterparts are going to have dramatic increase on poverty.

And then, finally, for example, our child-tax credit in this country, a single mom working full time under minimum wage under current law will get about $1,800 from the child-tax credit. But if Congress fails to make permanent the 2009 provisions, that single working full time at the minimum wage with two kids would get about $57.

So we need to think how we get things like our child-tax credit and all of our safety-net programs more fully available to all of those who qualify.

Mr. DAVIS. Let me ask you. Several of the countries we are discussing today have a particularly strong history of collective bargaining. A strong labor movement in the Netherlands is one of the reasons that their disability policy did not lead to widespread age discrimination and wages in Denmark are consistently higher than in the U.S. because collective bargaining is the rule, not the exception.

We know that union membership have benefits for workers, but what are some of the benefits that researchers have found for children who live in union households as many in Denmark do?

Ms. BOTEACH. There are very strong associations between union density and children's economic mobility. For example, union density, it has about the same association as dropping out of high school in terms of the opposite effect on children's economic mobility. High school graduation is widely seen as a very important variable in determining children's life outcomes. An analysis by Center for American Progress and our colleagues at Harvard has shown that there is a similar premium that unions provide in terms of children's economic mobility.

Another thing that unions do, is unions are associated controlling form many other factors with marital stability, through the increased premium of wages, stability of schedules, et cetera. And so in terms of thinking about families, in terms of thinking about children, beyond just the benefits to the economy, unions benefit children and families strongly.

Mr. DAVIS. Well, let me thank you very much. And so it seems that union membership does, indeed, have value for children as well as for their families?

Ms. BOTEACH. Absolutely.

Mr. DAVIS. Thank you very much.

And I yield back, Mr. Chairman.

Chairman BOUSTANY. I thank the gentleman. We will now go to Mr. Meehan.

Mr. MEEHAN. Thank you, Mr. Chairman. And I thank each and every one of you, not only for your testimony here today, but the work professionally you have put into studying these issues so that we can have the greatest impact.

And I am interested in this, finding this right balance. And, Professor Besharov, you seem to be talking about this place where I am trying to understand where this place is, where there is the—we want to increase workforce participation by people who are, you know, in programs like this. And what have you seen with respect to anything overseas or others that you have studied—where is the right balance for financial incentives to get people to stay in the workforce versus the opposite impact, which is at the certain point you begin to say, you know, I may not work? Has anything worked to find that right balance, or where is that balance?

Mr. BESHAROV. It is always difficult to say what a particular program works. It is much more a question of the expectations that permeate the agency and the society. What the Germans have succeeded in doing, what the French are trying to do, is change the public ethos about the receipt of public benefits. What they are trying to say is across all these programs, we will support you, maybe not as much as you would like, maybe not as much as the left, although many of these programs have been proposed and adopted by the left. We will support you, but we expect you to look for a job.

Are there penalties for looking for a job—for not looking for a job? Yes. In some places, the welfare-type benefits are reduced in steps. In some places they are terminated. And what is really quite striking, and I don't mean to turn to a colleague, but what is striking about some of the disability reforms is that unlike our system, we not only encourage people on—they not only, in some countries, encourage people on disabilities to work, they reward them financially. They think, as I think many disability advocates do, that there is no such thing as a person who can't work.

Mr. MEEHAN. I am not troubled by that concept, but let us flip that. Because one of the things we often talk about is discrimination against somebody who is disabled. So how do you treat two classes of people, a person who is—well, you know, how do you treat two classes of people, somebody else who is just in the workforce versus how do you give a higher salary to somebody who has a disability to do effectively the similar work?

Mr. BESHAROV. The way they do it in Europe—in some countries is, there is a disability payment. And if that person gets a job, we don't reduce the disability. They don't reduce the disability payment dollar for dollar.

Mr. MEEHAN. Right.

Mr. BESHAROV. It is just the way we changed welfare a little bit, but not enough. Which is they disregard some of the income to create an incentive. Now, it is expensive to do that, and it is a little bit of a gamble. Your idea here is, if I do this, will the caseloads go down. In this country we seem to be hammer locked not to even try.

The recent budget agreement takes us a step further away from that kind of solution in disability. I think it belongs in disability. I think it belongs in TANF. I think it belongs in SNAP. I think it belongs in all the welfare programs that we create, an incentive to go to work and we not penalize people for being in work.

Mr. MEEHAN. Would there also be similarities to other kinds of supports that would not be used as penalties, say, for instance, there was discussions about women who need child care in order to be able to stay in the workforce?

Mr. BESHAROV. There is research on this by the MDRC, the New York City research unit, which is, I think, widely regarded on both sides of the aisle. I am not endorsing the policy prescription here, but the research was about whether people in public housing should be required to work or at least engage in work first. And the finding—this is post TANF. This is about 7 years ago. The finding was very clear that requiring recipients in public housing to look for work increased their work.

And the MDRC recommendations are pretty clear about this. Yes, you can do it in a range of programs. My own sense is, I would love to see it happen in the mainstream programs first, TANF, SNAP. Let's do it there before we get it to housing and child care, which raise a host of other questions about the well-being of children. But the research suggests that any time you ask someone receiving a benefit to do something in return, or almost any time, you get a result. You get a behavioral change.

Mr. MEEHAN. Thank you, Mr. Besharov.

Does anybody else have a comment with respect to those issues before I yield back?

Ms. BOTEACH. If you don't mind, I would like to make a clarification. In the U.S., our Social Security disability insurance system is not mutually exclusive with work. People who receive SSDI can, in fact, go back to work and without getting knocked down on their disability benefits for up to a year. And at any point after that, if they are able to earn above a very minimal threshold, they can expedite a return back onto SSDI if their disability worsens. And so work and disability are not mutually exclusive as has been painted in the previous comments is one clarification that I wanted to make.

In fact, our SSDI system not only has the strictest disability standard in the developed world, but it encourages work in that way for those very few SSDI applicants who are able to work.

In terms of barriers to work, child care is a very serious one, indeed. Only about one in six people who are eligible for childcare systems in this country is able to access it, which can result in people either not being able to go to work or turning to low-quality care, which can reduce their ability to stay in the job and it also has long-term consequences on children's outcomes, because those early years are so important for brain development. And so speaking about child care as a work support is vitally important as part of this conversation. Thank you.

Chairman BOUSTANY. I thank the gentleman.

Mr. Lewis.

Mr. LEWIS. Thank you very much, Mr. Chairman, for holding this hearing.

Ms. Boteach, I would like you to follow up. In our country, when you compare America to Denmark, Netherlands, United Kingdom, we have little paid leave. But when you have young children, mothers and fathers without child care, it is very hard for people to be employed and remain employed. Someone, someplace, somewhere must care for the child, care for the children. Will you elaborate?

Ms. BOTEACH. Absolutely. I mean, I think this is very relevant for the conversation we are having today on our overall system of work and income supports. Because when women have access, and when families have access, including fathers, to paid family leave, you see greater attachment to the labor market. Women don't have to leave their jobs in order to take a short period to stay at home with young children. You see they have higher earnings over time, more workforce participation over time. And, in fact, a study of New Jersey's paid family leave program—they are one of the three States that implemented one—shows that women who were able to take the paid family leave had 40 percent less usage of public assistance in the year afterwards.

And so there is a direct relationship. It is very difficult to talk about the safety net in isolation, because it is tied very closely to our basic labor standards and our work-family policies. And when we look to other countries and the reforms that they are making, they have those crucial building blocks in place.

This is important not just as a work support, it is important speaking to intergenerational poverty. Because when women are able to have access to paid family leave, when we are able to close the gender-wage gap, those have effects on children's early experiences. And the first few years of life are so crucial for children's health, earnings, educational outcomes in the long term, and when we make investments in those children up front, we see dividends for years down the line.

Mr. LEWIS. Thank you. If you could have young children growing up in a family seeing their mother and father working, supporting them, can that help to break the cycle of poverty?

Ms. BOTEACH. It is very important. It is important, because income in those early years makes a huge difference. There was a study that showed just $3,000 more for a poor family in income resulted in that child earning 17 percent more later on down the line.

And in addition, you want to make sure that people, as they are breadwinning, they can balance those caregiving responsibilities. You know, in the past 50 years, women have gone from being about a quarter of breadwinners or cobreadwinners in families to being two-thirds of mothers are breadwinners or cobreadwinners in families, and yet, our system of policy to support women's labor-force participation is so out of date that we are, again, the only country that does not have paid family leave. In not just the developed world, but with very few exceptions, in the entire world.

Mr. LEWIS. Let me ask other members of the panel. If you raise the minimum wage, provide a family, provide a mother, a father with more income, could they afford to provide child care, to help in providing child care?

Ms. BOTEACH. Yes. Those are complementary policies. Because when you raise the minimum wage, when you enact things like paid family leave, even in a minimum wage of $12 or $15, people are still going to struggle to afford child care. CAP has proposed, actually, a high-quality childcare credit, which would not just ensure that families could afford on a sliding scale to both pay into, but be able to receive child care, but that it would be high-quality and safe and be held to certain standards. Because it is important both to have the access to child care, but also both for children's long-term outcomes and for parents' peace of mind and ability to work for that child care to be high quality as well.

Mr. BESHAROV. You asked about the other members of the panel. If you look at my graph, figure 2 on page 4, what you will see, and I don't think anyone would disagree, that over the last 40 years, women have increased and mothers have increased their workforce labor participation a ton. And male labor-force participation has declined. That was what was happening in Europe as well.

We can have a conversation about child care, and I think that is an important issue, but I think the topic for the hearing here should focus on the fact that we have a broader or another problem, and that is declining labor-force participation of men, white, black, and Latino. It is connected to their opportunities. It is not just the minimum wage. It is connected to their schooling. It is connected to the availability of other benefits for them and other forms of support. And if we are going to address the problem of low labor-force participation, we will have to go far beyond child care. And I think we have to address these benefit programs and how they support men getting back to work.

Ms. BOTEACH. Can I——

Mr. LEWIS. I yield back—I am not quite out of time.

Do you want to respond?

Ms. BOTEACH. No. I mean, I wanted to underscore that I don't think it is mutually exclusive to encourage men's labor-force participation and women's labor-force participation. And many of the policies set forth in my testimony, whether it was raising the minimum wage, the earned-income tax credit for workers without dependent children that would help low-income men as well as low-income women to have bipartisan support. These are things that we can undertake that reward work, and tackle poverty, and also address men's labor-force participation alongside women. But we need to encourage both, not focus on one at the expense of the other.

Mr. BESHAROV. If I may. This committee has all the resources to do everything. I think we can have that conversation. But the Congress sets priorities. So I would say that we have an issue for the welfare of the country that we address. I think if you look at the graphs that I have presented, a problem requiring immediate attention is what is happening to the men. We have had a recent report about high death rates for middle income men, white and black. And we know there is a problem there, and it requires concentrated attention.

Our only handles are these support programs, and we should be looking at them. So I am not saying don't look at child care. I am just saying it is very important that we understand that the decline in labor-force participation is among men, not among women. And it has been, except for the last few months, it has been growing over the last 30 and 40 years. That is what triggered European action. That is what triggered European action, which was to try to get those men back into the labor force.

Mr. LEWIS. Mr. Chairman, can I have just another——

Chairman BOUSTANY. Very quickly. Because we want to move on.

Mr. LEWIS. I don't quite understand what you are suggesting here. Are you suggesting that because women are working, and they have child care, men, or something happening to them is a psychological thing? What is it?

Mr. BESHAROV. Oh, no. No. No. Mr. Lewis, no, I don't mean that. What I mean——

Mr. LEWIS. Are they giving up on work because their wives are working and their children are being taken care of?

Chairman BOUSTANY. I think what Mr. Besharov is describing is statistically, we are seeing low labor-force participation among men across all——

Mr. LEWIS. Well, you are not suggesting that women are taking men's jobs? I know you are not suggesting that.

Chairman BOUSTANY. No, I don't think he is suggesting that.

Mr. BESHAROV. I would never suggest it at a hearing like this. Sir——

Mr. LEWIS. Well, you need to make it plain, make it clear, rather than just throwing out something.

Mr. BESHAROV. So I think the issue here is, these men have fewer opportunities. I am sure you have given speeches about the decline in manufacturing jobs. I am sure you have given speeches about the decline of the kind of jobs that high school graduate men used to have. Those jobs are disappearing from this country, and it has become a lot easier for those men to either go on unemployment or disability or be supported by other members of their families.

I hope it doesn't sound like a radical idea to say we should help them as well as helping the women, and it is a different set of benefits that we have to attach and deal with. And I started my conversation by saying, I would love better high schools, because part of this problem is going to get worse if those young men continue to graduate from high school without the skills they need for the modern world.

Chairman BOUSTANY. I am going to have Mr. Burkhauser quickly respond, and then we will move on.

Mr. BURKHAUSER. So I would just like to bring a couple of facts into this issue of whether minimum wage is an answer to anything. The Congressional Budget Office scored the proposal of the Obama administration to raise the minimum wage to $10.25, estimated it would cost a half million jobs. Those jobs mean less income for low-income people.

My work has shown that there is no relationship between increases in the minimum wage and reductions in poverty. No one can show that relationship. And the reason is that while it is true that those people who continue their jobs have more wages and income, those people who lose their jobs, their families drop back into poverty.

Ms. BOTEACH. Just to clarify——

Chairman BOUSTANY. Thank you, Mr. Burkhauser.

We are going to move on now to Mr. Dold.

Mr. DOLD. Thank you, Mr. Chairman, and I want to thank you for hosting this and holding this hearing. And I want to thank our witnesses for coming.

And I think one of the interesting things that we are trying to deal with is as we look at the situation around our country, we have got 46 million people that are living in poverty; we have too many people, as we look at our labor-force participation rate, that is a decade's low. And, again, we want to talk about how do we get people back to work, how do we get people off of welfare rolls and back to work.

In your research, in your studies, as we look around the world, what country is doing a particular program well that we should be looking at right here? Can you just give me a country and a program that we ought to be looking at for our own research? Start over here.

Mr. BESHAROV. Well, there are many possibilities. Conceptually, whether it is Germany, the U.K., Netherlands, and I think Denmark as well, the idea that after a set period of unemployment benefits, the amount of benefits goes down after a set period. And after another set period of time, that person goes on public assistance, and that public assistance also has a work requirement. That conceptually, is what I would advocate to you.

There are programs that grow out of that concept, but the concept is government aid assumes workforce participation over time. That is the concept I would propose.

Mr. DOLD. Great. Next, Ms. Boteach, do you have a particular country, and a particular program?

Ms. BOTEACH. Sure. In the United Kingdom, for example, their child allowance and family tax credit, they give to—they have work tax credits that encourage workforce participation similar to our EITC, but the child benefit in those countries is not contingent upon work. And in part, that is because when you have these—you know, the early years of children's lives, the long-term economic prospects are largely dependent on those income in those early years.

It is important to have work incentives. It is important to have to have work incentives like the EITC that has been wildly successful in this country, but in other countries, their child benefits tend not to be contingent upon low-income families' earning. So, for example, in this country, the lowest income families are the ones who miss out on a portion or all, in some cases, of our child-tax credit. And I think, as I said earlier, I think we would all agree that a good job is the surest pathway out of poverty——

Mr. DOLD. Right.

Ms. BOTEACH [continuing]. But that ensuring that children, especially in their youngest years, have the resources for their parents to be able to purchase diapers, be able to purchase infant hygiene products, et cetera, is very important for children's long-term outcomes.

Mr. DOLD. Mr. Burkhauser.

Mr. BURKHAUSER. The Netherlands used to be known as the sick country of Europe, because it had more people on their disability rolls than any other country in Europe or elsewhere. The reason for that is because the government was interested in keeping unemployment rates down, and they made a deal with the unions and with the corporations to allow people to come onto disability rolls, therefore, not be in the labor force and, therefore, keep the unemployment rates down.

But the foolishness of that eventually became so great because of the share of the populations coming onto disability changed the system and recognized that what you want to do is send signals to employers to provide accommodation and rehabilitation to workers and keep them in the workforce. So what they did was mandated employers be responsible for the first 2 years of disability benefits.

Immediately, a private insurance system came up in the Netherlands, because employers didn't want that risk. And now, an experience rated private insurance system ensures that people don't go onto the disability rolls to hide them, hide them from the unemployment rate. They only go on there when they can't work. These sorts of things of playing around with the system to make the numbers look better is a rampant kind of problem. And what you need to do is figure out what exactly it is you want to do.

So I will just give you an example of the poverty rate we have been talking about. You know that the poverty rate, the official poverty rate that we now use doesn't include earned-income tax credits as income to measure about whether you are in poverty; they don't include the food stamps. We have a supplemental poverty measure, that when you look at that measure, you see the poverty rates have fallen substantially in the United States. So we should get our numbers right, at least.

Mr. DOLD. Well, I certainly appreciate that. And one of the things that we do know in terms of how we combat this, we want people to get into a good job. So the question is, what role do the employers play or have you seen the employers play over—in other countries, and what can we be doing?

One of the things that we do know, and we have seen, we have had people testify before is that once you reach to a certain level of income, the benefits drop. And it is, in essence, like a cliff. And we can argue whether the recipients know where the cliff is. I would argue they know exactly where the cliff is. So we need to try to provide that off-ramp. Are there countries out there that are providing that off-ramp to allow them—again, we want to encourage them to get that raise, encourage them to excel in the workforce and still not just cut off benefits.

Mr. BESHAROV. It is extremely difficult, because when you try to make the off-ramp gentle, you include many more people in the program, and it gets extremely expensive, more expensive than, I think, both sides of the aisle.

Mr. DOLD. Is there a country out there that does it, though? Is there a country out there that is doing it well?

Mr. BESHAROV. The U.K. is trying very hard to do it and having great difficulty doing it. And we might have a disagreement about how successfully they are doing, but the U.K. is doing it. And the countries that try to synchronize their disability, and their UI, and their welfare, come close on those benefits, not the benefits for child care and so forth, which are, in this country, often a cliff.

Mr. DOLD. Thank you, Mr. Chairman, for your leniency on the time.

Chairman BOUSTANY. I thank the gentleman.

Mrs. Noem.

Mrs. NOEM. Thank you, Mr. Chairman.

Mr. Burkhauser, I wanted to ask your opinion on something. The United States has a patchwork of programs that benefit people in poverty or in hardship situations. Different ones for housing, for food, social services, health care. And while it is a patchwork of systems, we believe they can be streamlined. And in your observances of other countries, do they have a similar situation, or have they reformed their programs in such a way that would be an example for the United States to look at or suggestions we could follow in how to make our programs more effective and streamlined?

Mr. BURKHAUSER. Well, I think the big difference between Europe and the United States, is that we don't have a first-tier cash transfer program which is an entitlement. So what we do have is——

Mrs. NOEM. How does that operate?

Mr. BURKHAUSER. The way it operates in the Netherlands and other places is there is just some minimum guarantee. What the Netherlands discovered, however, and this is what Doug has been talking about, is when you give an entitlement to people with no expectations of work, you don't get any work. And I think what the European countries have discovered is that you can't have this permanent minimum standard entitlement program without expectations for work, and that is what they are trying to do now they are trying to——

Mrs. NOEM. Have they changed some of their programs?

Mr. BURKHAUSER. It has changed them in the sense that now there are requirements to work even for these cash transfer programs. What we have, unfortunately, in the United States is the only cash transfer program that we actually have, which is a remnant of the original attempt to reform welfare in the 1970s and make it income tax, is the Supplemental Security Income program. That program is a cash program for people who have disabilities. The problem is, it is very difficult to decide who has a disability and people who liked a negative income tax system have been pushing hard to expand that program by loosening the criteria for eligibility.

It is also the problem we have this TANF system that tries to get States to reduce their roles by getting people to work. That is a great idea. I fully support it. But if a State can get their single moms onto the SSI adult program, they keep the block grant, and the Federal Government has to pay for it. The same is true with SSI kids. So that puts tremendous pressure on the gatekeepers because of a mismatch between State policy and Federal policy.

We need to coordinate these systems. One way to do it would be to in fact recognize that people with disabilities can work. The States have been pretty good at getting people, single moms, off the rolls and into the workforce. We ought to think about devolving SSI to the States also.

Mrs. NOEM. Is there specifically a country that would set a good example of how to coordinate our programs better, that you can think of?

Mr. BURKHAUSER. Well, I think interesting enough, Sweden and the Netherlands offer two alternatives. Sweden basically is very much a government-centered country, but at least they coordinate their work policies and their transfer policies in a single system that can do a workforce policy.

In the Netherlands, they decided, the government couldn't do either. And what they did is put incentives in front of employers to say, if you can't get your worker back to work, you are going to have to pay for the first 2 years of his disability benefits, and you are going to have to pay higher payroll taxes, effectively, because your workers are getting onto the rolls more than others.

Mrs. NOEM. Mr. Besharov, is there something you would like to add to this?

Mr. BESHAROV. Well, I think this idea of work for expectation is giantly important. As an aside, I would mention that Saudi Arabia has just adopted a welfare-to-work program for Saudis, because they are very worried that their men aren't working.

What I would add here is, as you have sensed from I think all three of us, the conditions that prevent Americans from working, men or women, are intertwined. We call it disability, but in some respects it is just low earnings capacity, inability to get a job, which encourages unemployment. We call it welfare, and we call it aid to dependent children, but it is parents who can't either find jobs or earn enough. And so the wisdom here is to find a way across the committees to let the States or encourage or require the States to address these problems for what they are, which is unitary problems.

It isn't just a problem of unemployment for most of the people who are unemployed. I think the number in my testimony, 25 percent of the unemployed today are long-term unemployed. We don't know how to get them out of the system. The administration, I believe, does not have a proposal. I don't think there is a proposal. We don't know what to do. But the fact that we don't know doesn't mean that we shouldn't be looking. And these are problems that are festering. Politically, we like to aim at the 5 percent unemployment rate, which is half of what it was after the recession, and that is great. But there are these festering problems, which to make America great, they have to be addressed across income groups, across income and racial and ethic groups, and right now none of our programs, I think, do a good enough job.

Mrs. NOEM. Thank you.

I yield back, Mr. Chairman.

Chairman BOUSTANY. We will now go to Mr. Crowley.

Mr. CROWLEY. Thank you, Mr. Chairman. Thank you, in all sincerity, for this hearing today.

I agree that there are important lessons that we can learn from other countries. Particularly when it comes to improving and strengthening our social safety net. So I do thank you, Mr. Chairman, for this opportunity.

I think an important part of this is looking at all the ways these countries support their workers and their families. Many of the countries we have been talking about have put in place a broad framework of social policies in a variety of different areas. I think there is a lot to embrace from these eliminations in areas like child care, paid leave, and health care. And I hope that my colleagues on the other side of the aisle will join us in embracing these critical policies as well.

And on the other topic, I was personally very encouraged by the United Kingdom's efforts to create universal child savings accounts in 2005. I have introduced legislation actually today to create universal child savings accounts here in the United States as a part of a strategy to help people be able to save at every stage of their lives. These accounts get children started saving from a very early age, actually, from the get-go, and teach them the importance of saving, not to mention providing a critical financial asset for them and their parents to draw on as adults.

The U.K. had done the same in 2005, and at the 5-year point, over 85 percent of families were participating in that program, remarkably successful. So, yes, I do think we have a lot to gain by looking at other countries and learning from their experiences, but, again, we need to look at the whole of what the countries are doing.

Ms. Boteach—is that correct?

Ms. BOTEACH. You got it, yes.

Mr. CROWLEY. All right. You touched on this in your written testimony, how context is important when looking at how countries reduce poverty and strengthen the middle class.

One area that struck me is how, in the countries that we are looking at today, collective bargaining and labor movements have had such a positive impact, not only on countrywide policies like labor protections and wages, but also on individual workers and their families.

Mr. Davis mentioned the positive impact unions have on families and children, but I know in your testimony, Ms. Boteach, you wrote about how labor unions also lead to better wages and health benefits and less need for the safety net programs overall.

You also discussed how raising the minimum wage can reduce the need for nutrition assistance in programs like SNAP. Can you elaborate more on how having these supportive programs in place actually helps the overall system?

Ms. BOTEACH. Sure.

Mr. CROWLEY. Your mike, please.

Ms. BOTEACH. Sure. Thank you for that question. Because I think, again, as I mentioned earlier, it is very difficult to have a conversation about reforming the safety net without thinking about the labor market with which it is interacting. And when you only have 7 percent of workers, private-sector workers, in a union in this country, and we know that unions raise wages; we know that unions help their workers get health benefits, that is something that happens in other countries in terms of raising wages that can help take pressure off of safety net programs.

In other countries, universal healthcare coverage is a right; it is not a privilege. It is actually something that helps people get to work, because, number one, people are more likely to undertake entrepreneurship or to be able to move jobs to something better if they don't have to worry about losing their health insurance. And in some cases, a health-related issue might be one of the barriers to work, and by giving them health insurance, you are able to help them address that barrier and get back into the labor market.

So, number one, unions can help take pressure off some of these social safety net programs and improve children's long-term economic mobility. And minimum wage wise, there have been studies showing that minimum wage dramatically reduces poverty. In fact, research by Arin Dube and his colleagues has shown that raising the minimum wage would lift up to 4.5 million people out of poverty. And research looking at across county lines of one State that raised the minimum wage and one State that did not but shared job markets showed that there were not adverse job effects, little to none.

And so I think it is important that as we speak about union membership, as we speak about the minimum wage, as we speak about paid family leave, as we speak about scheduling, because that is the other thing unions can help with, in terms of the workers' time. And right now, about half of workers don't always know when their next shift is going to be, when they are going to be scheduled for. It can wreak havoc on their ability to find child care, transportation, to get education and training to move up the income ladder. And so it is very important that workers be able to engage in collective bargaining to achieve these and other ends.

Mr. CROWLEY. Speaking of time, I know mine is almost, just about out, I want to thank you for that. I have been concerned that in recent years we have seen a lot of political attacks on unions and collective bargaining, and the minute wage increase keeps being dismissed primarily by my colleagues on the other side of the aisle.

I just wanted to give you an opportunity just to respond to, I believe it was Mr. Burkhauser's comments about the CBO's report last year in terms of the effect of raising minimum wage on jobs.

Jason Furman has dismissed that same comment by saying it is not reflective of current consensus views of economists. Can you comment on that?

Ms. BOTEACH. I mean, that is exactly it. There are much more updated measurements that have—or studies that have been undertaken using better methodologies that show, looking at minimum wage increases, there has not been adverse job effects. So I think it is important to set the record straight on that front that some of the most up-to-date research in that regard is not the same as CBO's estimates.

Mr. CROWLEY. I appreciate it.

I yield back the balance of my time. Thank you, Mr. Chairman.

Chairman BOUSTANY. Mr. Burkhauser, did you want to comment on that?

Mr. BURKHAUSER. Yeah. Jason Furman has never worked on minimum wage issues. Has no publications in that area. I have. Newmark and Wascher's book shows a documentation of many studies on the minimum wage that show the traditional finding that increases in the minimum wage decrease employment. To say that there has been no studies, there is no other side to this is just silly.

Chairman BOUSTANY. I thank the gentleman.

This concludes all the questions, I believe, on both sides. So I want to thank you all for joining us today for this hearing on the Lessons Learned From Welfare Reforms in Other Countries. The testimony we heard today will certainly help us as we move forward on policies to improve our system, safety net system, to help more people escape poverty and to move up the economic ladder.

You did a terrific job. We appreciate what you provided to the subcommittee. You certainly helped us better understand how we can move forward in these regards.

If members have additional questions for witnesses, they will submit them to you in writing, and we would appreciate receiving your responses for the record within the next 2 weeks.

Chairman BOUSTANY. And with that, the subcommittee now stands adjourned.

[Whereupon, at 3:11 p.m., the subcommittee was adjourned.]

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