

Allwood

Bruce,

Please, please, leave welfare safe -  
in its coffin this year. Election year  
politics + poor children don't mix  
well at all.

But if you can't or won't, please  
consider the following. I have sent  
it around to many people. It would  
help a lot!

Cheers,

D.

HARVARD UNIVERSITY  
JOHN F. KENNEDY SCHOOL OF GOVERNMENT

MEMORANDUM

To: Bruce Reed (202-456-7431)  
From: David T. Ellwood (Phone: 617-495-1121, Fax: 617-496-0552)  
Subject: Match Versus Maintenance of Effort in Block Grants  
Date: March 21, 1996

---

I realize the prospects for welfare reform remain confused. Moreover, negotiations are quite far along. Nonetheless, even at this late hour I implore you to take a very close look at the issue of match versus maintenance of effort if welfare does begin to move. For I believe it is terribly important to the long-run success of any state based reform strategy and to the future of children.

Clearly some mechanism will be included to ensure that states don't simply remove all of their own resources while accepting federal dollars. The structure in the current proposals is a maintenance of effort provision: states must maintain spending at some percentage of 1994 spending or some other benchmark. In my view, a vastly superior method for ensuring continued state effort is a state match for drawing down block grant money.

**The Weaknesses of Maintenance of Effort**

A maintenance of effort suffers from several severe limitations, even if it is set at the 100% level:

- **Complexity and Uncertainty in Enforceability**--Maintenance of effort provisions are notoriously hard to define and even harder to enforce. Since penalties cannot be imposed unless effort falls below some fixed dollar amount, the definition of what counts and the determination of where state money is really being spent is absolutely critical. Proving that effort has actually fallen below some level is often impossible. Eventually maintenance of effort rules will probably be eliminated or not enforced.
- **Rigidity in the Face of Changing Conditions**--A maintenance of effort rule cannot adjust adequately to changing needs and circumstance of states. If economic and demographic conditions vary over the course of a few years, a state may find itself needing to spend far more than the minimum in one year, and far less in another. In theory, the maintenance of effort rule can (and the current proposal does) allow a downward adjustment by reducing federal funds in proportion to state spending below the maintenance of effort level, but the capacity to spend more is severely limited. And in practice, the complexity of determining when the level has not been reached will make the system slow to adjust.

Page 2

- **Block Grants Based on Existing Spending Levels are Politically Unsustainable Over the Long Run**--The existing pattern of Federal expenditures can be justified since they are based on a match of state effort with a higher match for poorer states. But the fact that a block grant with a maintenance of effort rule simply locks in existing expenditures will ultimately severely undermine its intellectual and political credibility. The proposed block grants will give rich states four times more per poor child than poor states, and there is no real mechanism for poorer states to get more aid even if they need it. With complex and largely unenforceable maintenance of effort rules, the perception of the program as a shared partnership will fade, and in a few years existing block grant allocations will be indefensible.

Furthermore, if a maintenance of effort is set at a level below 100% as is now proposed, several additional problems arise:

- **Savings are Not Shared in Proportion to Contributions**--Currently the federal government provides an average of 55% of the costs of welfare, and as much as 80% in some states. But under a limited maintenance structure, the entire savings generated by cuts in benefits or from getting people off welfare (so long as state's spend there minimum and reduced maintenance of effort) would go directly into the state treasury. In a state where 2/3s of the dollars spent on aid to the poor come from the federal government, it is easy to argue that any savings ought to be shared in proportion to contributions, especially if savings are caused by simply reducing benefits to poor children. But with a reduced maintenance of effort rule, even if it can be enforced, the federal grant remains the same regardless of state savings unless or until the state falls below the maintenance of effort. The federal share of the savings effectively go instead to the state. At a time when the federal deficit is so serious, and at a time when other states will surely seek additional resources for moving parents from welfare to work, such a policy makes little sense.
- **Strong Incentives to Cut Aid to Poor Children**--The goal of welfare reform is to encourage states to move people from welfare to work. Yet a maintenance of effort rule of say 75% instead provides a strong incentive for states to simply cut their level of support for poor children. That allows them to save on welfare costs at the state level without any loss of federal dollars. It is far easier to cut benefits as a way of reducing costs than to move people to work.

#### **A State Match for the Block Grant--A Better Alternative**

Simply requiring that money drawn down from the block grant be matched with state funds solves many of the problems above. My suggestion would be to maintain the current match rates. Then *savings will be shared in proportion to expenditures*. The state and federal partnership in funding will also be a partnership in savings. And if some states use less than their full block grant allocation, the *federal savings from one state could be made available to other states* who find they need more resources for welfare to work or other programs. Thus a match is

Page 3

much more flexible. States that spend less do not get a massive windfall and states that need more may be able to get it. The match will also restore credibility to the system and make it harder to cut, since states will be doing their fair share. All at *no additional net cost to the federal budget* as compared to the current block grant proposals. Indeed it is likely to result in greater federal savings if the savings from some states are not drawn upon by others.

Equally important, a match is likely to create far more *political credibility* for the block grant structure at the federal level in subsequent years. The continued reality of a shared program with state contributions matched with federal dollars (up to a cap) will enhance the efforts of states to ensure that block grant funds are not cut further in future years--after all states would be doing their share. And assuming that some states do not draw down their full allocation which would allow other states with new needs to get more matched federal resources from the pool of block grant money, actual use of the block grant dollars will again be closely tied to state contributions, not based on an old and ultimately arbitrary past level of support. But again since the total costs would be capped, there would be no additional cost to the federal government.

Finally, and perhaps most importantly, a match is the *best defense against a possible race to the bottom*. The incentives to cut benefits inherent in an unmatched system with an unenforceable maintenance of effort agreement will be powerful indeed. With a match, each state dollar cut will lead to reduced federal dollars. Some southern states will be getting so little block grant money (as little as \$12 per poor child per week for cash aid, child care, work and training) that states may find it impossible to seriously focus on employment. Some states will find it far cheaper to move people from welfare to the state border than from welfare to work. A match will significantly reduce the incentive to simply cut benefits, since any savings will be shared.

Ultimately states will benefit from a match if it allows them to adjust to changing needs, retards efforts to cut federal funding for welfare block grants in future years, and prevents a race to the bottom. But if the Congress decides that welfare reform also should include state fiscal relief, that can be accommodated with a match. Personally, at a time of federal budget crisis and when we are considering a plan where states are being given almost complete flexibility to design their own welfare policies, I am mystified why we would also want to give states fiscal relief which in effect allows them to substitute federal for state dollars. But if that is the goal, then the best way to accomplish it is to have some modest amount of initial dollars be unmatched and have all additional dollars be matched. Thus perhaps the first 20% of the block grant would be unmatched. This, like an 80% maintenance of effort will allow some substitution, but will reduce the incentives to go further and provide a more defensible system for the future.

It is so easy to ignore the underlying economics when looking at state based reform initiatives. But I believe the match is far more important for the future of real welfare reform and for the protection of children than anything else in the bill. The single best way to keep states focussed on moving people from welfare to work and to prevent a race to the bottom is to include a state match in the block grant.

(Former Deputy Asst. Sec. for  
Planning & Evaluation, HHS -  
Clinton Adm.)

Ellwood

HARVARD UNIVERSITY  
JOHN F. KENNEDY SCHOOL OF GOVERNMENT

DAVID T. ELLWOOD  
Acting Dean

Malcolm Wiener Professor of Public Policy



75 JOHN F. KENNEDY STREET  
CAMBRIDGE, MASSACHUSETTS 02138  
(617) 495-1121  
FAX (617) 495-0552  
ELLWOOD@JFKS.HARVARD.EDU

~~Confidential~~ <sup>ms</sup>

November 14, 1995

President William Jefferson Clinton  
The White House  
Washington, D.C.

Dear Mr. President:

I write to express my extreme concern about the impacts of the welfare reform bill emerging from the Congress. I am convinced (as is virtually every serious student of poverty and welfare I know) that these bills will do little to move people from welfare to work and will put children in serious jeopardy.

When you ran for President and when you oversaw the development of the Work and Responsibility Act, you offered a clear and positive vision. Real reform centered unambiguously around two values: work and responsibility. You spoke eloquently about how work provides meaning and structure in our lives. You emphasized the need to support working families by making work pay. You talked about fundamentally transforming our failed welfare system. Ending welfare meant offering a hand up not a hand out. It meant that everyone who had the ability to work had the opportunity and the responsibility to do so. These are the reform values you have championed throughout your life.

You understood the nature of our failing welfare system better than any public official I ever worked with. You spoke with stunning insight about the day to day realities and complexities of low income families. You recognized the enormous challenge of dramatic changes in welfare.

And just as importantly, you understood and confronted directly the stereotyping and bigotry that so often devastate reasoned discussion of welfare. It is so easy to use welfare recipients as scapegoats. Yet you repeatedly emphasized that recipients are among welfare's harshest critics. They are among the first to agree that it is reasonable and necessary to expect recipients to work. Your language was always inclusive. You spoke eloquently of avoiding the us versus them mentality that so often characterizes discussions of poverty and welfare. You saw welfare reform as a way to bring the country together when so many had used it to divide us.

President William Jefferson Clinton

November 14, 1995

Page 2

And ultimately, at the very core, welfare reform was about helping the next generation of children. Their lives were what made replacing our failed welfare system so important.

Thus it is with increasing distress and amazement that I watch the administration embracing many of the welfare reform ideas emerging from the Congress. For with the exception of the child support enforcement provisions which closely mirror those we developed, the House and Senate bills sharply diverge from the values you have so articulately emphasized in public and private. Stripped of their rhetoric of federalism and family values, both the House and the Senate bills are first and foremost about cutting the budget. Both will make it harder, not easier for single parents to go to work. Both will increase not diminish poverty. Both will hurt states. Worse still, they represent the beginning, not the end, of a perfectly predictable race to the bottom by both the state and federal government. And perhaps worst of all, they both feed the racially charged us versus them mentality which is tearing at the very fabric of the nation. Our children will suffer. This is welfare fraud, not welfare reform.

I have no doubt that you have heard many of the arguments before. I know you and others in the administration (including me) worked hard to improve the Senate bill. It certainly is better than the House bill. But with even a limited distance from Washington, it is not the details that stand out. The big picture emerges--for me the issues are for work and poverty.

- Under the Senate bill, the more generous of the two, in the year 2000, the combined total federal block grant for cash aid, work and training, and child care is \$520 per poor child per year in Arkansas. In Florida the grant is \$850. In California the block grant provides \$1,810 per poor child per year; in New York, \$2,120. Overall, federal money for aid, work, and child care combined is cut nearly 15% in the year 2000 in the Senate bill. The House bill is still worse--cutting 20% out. These spending levels and especially the cuts make it virtually impossible to invest in moving people from welfare to work.

Under the House and Senate bills, states are required to put millions of mothers to work. Under the Senate bill, with \$10 per week per poor child in federal block grant funding, Arkansas is supposed to provide whatever cash aid is needed for poor children, to put their mothers to work, and to pay for child care. The House bill asks the same be done for \$9 per week. Even in California, the payments amount to just \$42 per week per poor child. These expectations come on top whatever the state must do to cope with the dramatic cuts in federal support for disabled children, immigrants, and Medicaid. This analysis doesn't even include the impacts of any recession.

President William Jefferson Clinton

November 14, 1995

Page 3

States cannot and will not do the impossible. But they will do the possible. The possible is to cut people off, to offer less services, to provide less child care for the working poor not on welfare. Some states will find it much easier to move people from welfare to the state border than from welfare to work. And so the race to the bottom will begin. Even governors and legislators who want to focus on work-based reform may find the economic and political consequences too serious in the face of the activities of nearby states. Welfare reform will be about cutting people off and moving them around--not about work.

- The OMB, HHS, and Treasury report indicates that more than one million children will become poor if the Senate bill is adopted and twice that number if the House version prevails. The situation could be much worse.

Troubling as these estimates are, things could end up being far worse. For they assume no further changes on the part of states or the federal government. States will most assuredly spend less. And at the federal level, block grants have a poor fiscal history. Who will defend cuts in the welfare block grant versus reductions in Medicare or farm programs or tax cuts? And can a block grant long endure with a funding formula yielding payments per poor child as wildly divergent across states as this one? (Many southern states get 1/4 as much per poor child as many northern states.) How will appropriations for child care fare when the caps come down sharply in future years? Already Congress is cutting Head Start--easily the most popular social investment and a critical source of child care for low income mothers. Robert Rector of the Heritage Foundation publicly predicts that federal funding for AFDC will be gone in five years. Most experts I talk to agree. Several well known conservative political operatives privately admit this is the goal anyway. What is left is a formula and structure which are neither politically viable nor intellectually defensible.

I am very, very frightened for our children. I am also worried that many people who deeply care about children are engaged in denial and wishful thinking. I am often labeled the father of time limits. I have long been one of the harshest critics of the current welfare system. I understand the need to compromise and the importance of cutting the budget. I helped to craft the welfare bill that conservative Republicans privately told you was very good. But what has emerged is not welfare reform, not even close. From where I sit we are on the brink of increasing desperation. Even George Will has expressed concern.

I ask you to ask two simple questions of yourself, your staff, and anyone you trust who has seriously studied the issues over the years: will this bill make it easier or harder for parents to work, and will children be less poor or more poor as a result of these bills?

President William Jefferson Clinton

November 14, 1995

Page 4

This should not be your legacy. Please don't risk creating much greater desperation among our most vulnerable citizens. Don't let those who would divide the nation dominate this agenda. Speak out in support of the core American values that guided all of your previous welfare efforts. A budget slashing welfare bill that is a parody of real reform should not be history's record of the most knowledgeable President in generations.

I stand ready to help in whatever way I can.

Sincerely,

A handwritten signature in dark ink, appearing to read "D. T. Ellwood". The signature is fluid and cursive, with a large initial "D" and "T".

David T. Ellwood

05-31-94 06:47PM FROM OASPA NEWS DIV TO 94567028 P034/035

File: Ellwood

# No Relief in Sight

*The authors explain why welfare is likely to remain a vexing issue for some time.*

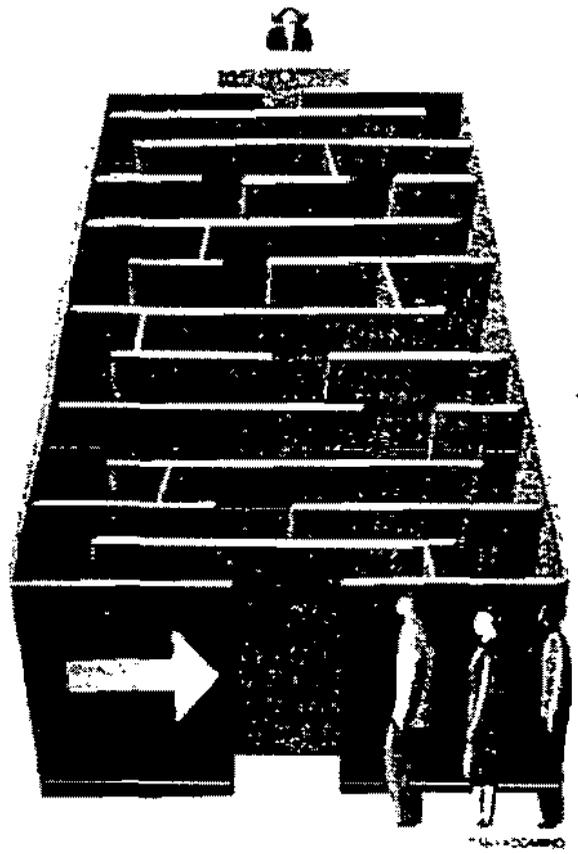
## WELFARE REALITIES

*From Rhetoric to Reform.*  
By Mary Jo Bane and David T. Ellwood.  
270 pp. Cambridge, Mass.:  
Harvard University Press. \$29.95.

By Jean Bethke Elshtain

**O**NE of the most haunting films I know is Frederick Wiseman's 1975 documentary, "Welfare," which depicts a New York City welfare office, with its desultory comings and goings, frustrating encounters and angry outbursts. One elderly couple enters and sits quietly in the waiting area. Their names are on a list. They will be called "as soon as possible." We see the clock on the wall. It is early morning. We notice the bewildered, silent pair throughout the day, still sitting. We see them one last time at the end of the day as, forlorn and confounded, they take leave of their spot in bureaucratic purgatory. The clock on the wall reads 5. Whatever need or trouble or grief drove them to the welfare office they take home again, and to it is added a painful layer of humiliation and frustration. I have used Mr. Wiseman's film to demonstrate what can happen to those caught in a client system: "Welfare" is a story of the loss of dignity and voice.

Jean Bethke Elshtain is the author of the forthcoming book "Democracy on Trial," based on her 1993 Massey Lectures for the Canadian Broadcasting Corporation.



Should we not then be buoyed by President Clinton's stated declaration that he would move with all deliberate speed to end "welfare as we know it"? There is, perhaps, room for hope. But as Mary Jo Bane, now the assistant secretary for children and families in the Department of Health and Human Services, and David T. Ellwood, the department's assistant secretary for planning and evaluation, show in "Welfare Realities," a collection of essays written before they joined the Clinton Administration, we shouldn't get giddy at the prospect any time soon. (Indeed, according to recent news reports, welfare reform is on the Administration's back burner for the time being, as the President tries to keep his "focus" on health care.)

"Welfare as we know it" will keep chugging along, it seems, with new initiatives failing to solve the problems they were meant to solve and, more often than not, generating new problems all their own. Social scientists sometimes call this "unintended consequences." Reinhold Niebuhr might remind us of the ironies of history, the ways in which optimistic changes and stirring trumpeted crusades all too often either deepen the illness they were supposed to cure or bring into full view some other noxious or troubling possibility. But whether one frames the problem from the perspective of social science or from that of Niebuhrian irony, it is clear that welfare reform thus far has been a story of frustration if not outright failure.

Avoiding rhetorical excess and narrow partisanship, Ms. Bane and Mr. Ellwood criticize both sides in the current welfare debate, those who grow censorious about welfare cheating as well as those who grow

*Continued on page 17*

Continued from page 14

starry-eyed about welfare rights. Exemplary in their moderation, Ms. Bane and Mr. Eliwood would replace welfare with government aid that encourages work and family responsibility. Yet much of their book is about why welfare is such a tough nut for the most adroit "policy wonk" to crack.

**T**HEY begin with a series of questions: "How did the welfare system come to be the way we know it? Why has the culture of welfare proved so hard to change? Why do some recipients seem to be trapped in dependency?" They respond at the outset by stating that the "current system discourages clients from working not only through its financial incentives but also through its bureaucratic impediments." It has encouraged an "eligibility-compliance culture" to take root. By this Ms. Bane and Mr. Eliwood mean a world where the incessant effort to comply with eligibility requirements has become the welfare client's major task and purpose.

The authors describe in stripped-down detail the internal culture of the welfare office. The prying and prudding in the lives of clients is noted finely, rather the way Kafka describes the ordeal of Josef K., all the more chilling for its seeming ordinariness. The welfare caseworker, they say, has become a kind of double agent — obliged to gain the trust of recipients, yet constantly verifying their eligibility. The client who shows some get-up-and-go may find herself categorized as a problem: "error prone" is the bureaucratic lingo to describe a welfare recipient who works more than her eligibility rules permit. She becomes an administrative nuisance rather than a person with some spunk.

Ms. Bane and Mr. Eliwood profess themselves surprised at their own statistical findings, especially data indicating that welfare is a long-term proposition for more families than they had believed at first. "The vast majority of people who start on welfare will stay less than four years," they write. But "people who stay eight years or more account for more than half of the people on welfare at any point in time," and those who stay for an extended period "tend to accumulate in the system."

The typical welfare family, they say (and the one that draws most of the public's attention and rhetorical fire), is a never-married mother with her children. What help do Ms. Bane and Mr. Eliwood provide to public policy experts and interested citizens who want to think their way through the many economic, political and ethical questions that welfare policy and reform put on the table?

Here I must profess to some disappointment, for this is a text directed in large part at experts and professionals. It is replete with all sorts of dense discussions of rational choice theory, expectancy theory and the like (example: "We experimented with several estimation methods and ultimately used a binomial logit model because of its simplicity, though other hazard model methods yielded remarkably similar results"). There are points of entry for the nonsport, but these are few and may discourage nonacademic readers.

Moreover, while Ms. Bane and Mr. Eliwood are persuasive in detailing the ways the welfare system discourages self-sufficiency, they are less strong on ideas for restructuring it. How are people who are already defined by a world of compliance and dependency to be "sprung"? One can't, cruelly, cut them off and tell them to find jobs — especially when the prospect of jobs is uncertain at best.

Confronted with this problem, Ms. Bane and Mr. Eliwood are hampered by the limitations of their own models. They argue, sensibly, that "prevention is the best cure. Welfare use begins because single-parent families are formed. If we could prevent the formation of new single-parent families, we could largely eliminate the need for welfare. But since we seem to lack 'an ability to change family formation and dissolution patterns dramatically, we will be forced to rely on

**Why not boldly  
go where no  
welfare reformer  
has gone before  
— to prevention?**

methods to help single parents move off of welfare if the goal is to reduce long-term welfare use." But is this not throwing in the towel at the outset?

The irony here is that since the authors are so persuasive in cataloguing the many failed attempts to move long-term welfare families out of the system, their reluctance to consider prevention seems to mean that we are in for more of the same; yet another boldly announced initiative; yet another long-term failure.

One of their "most discouraging findings . . . is that neither long-term welfare use nor family structure changes seem to have been much influenced by moderate changes in policy." Then why not bite the bullet? Why not boldly

Continued on next page



Homeless families waiting to see caseworkers at the Auburn Assessment Center in Brooklyn.

ly go where no welfare reformer has gone before — to prevention and to the questions of attitudes, values, and culture, that is, to those areas Ms. Bane and Mr. Eliwood flesh out the least? If, as they say, "the basic culture of the welfare system" is intractable and damaging to all concerned, then surely they should offer more when it comes to issues of values than a call for "further study"?

Indeed, Ms. Bane and Mr. Eliwood's comments about the current fate of the working poor suggest just how deep the crisis of values goes. The working poor are upholding the values Americans cherish: they work hard, they try to keep their families together, they do not flout the rules and they are often too proud to ask for assistance, even if they might be eligible. Yet, according to Ms. Bane and Mr. Eliwood, they are currently the "poorest of the poor." Severed from the service- and cash-based forms of aid available to families on welfare, the working poor find themselves in increasingly desperate straits as low-paying jobs shrink and wages stagnate. People who "play by the rules" shouldn't "lose the game," Ms. Bane and Mr. Eliwood argue. Amen to that. But this means that they need to convince their boss that "ending welfare as we know it" has implications for how we think about those hundreds of thousands of Americans not on welfare but just one paycheck away from it.

We can throw up our hands and lament the disappearance of

traditional values in the welfare culture. Yet it is much more difficult to hold up the virtues of sobriety, rectitude, hard work, and familial and community responsibility when larger economic forces are undermining an entire group of Americans — the working poor — who cherish those very ideals.

President Clinton has said repeatedly that he shares the passion of many of his former opponents (for example, former Vice President Dan Quayle) on the issue of "family values." However, families disintegrate and

**The welfare  
caseworker, the  
authors say, has  
become a kind of  
double agent.**

communities falter for many reasons. The current structure of welfare plays a part. But it is just a part, and ending "welfare as we know it" will, at best, lay things up on the margins. The crisis of values is a wider, an American crisis. It is not limited to the burned-out neighborhoods of our inner cities but lurks, as well, in our manicured suburbs, and in that heart of darkness evoked by the privileged young. □