Opening Statement of Chairman Clay Shaw
Human Resources Subcommittee
Hearing on Governors' Welfare Reform Proposal
February 20, 1996

Now that the President has vetoed two welfare reform bills, some think that welfare reform won't pass this year. I welcome the bipartisan group of governors here to prove them wrong. The nation owes these leaders a great deal. They rode into town during the darkest days of winter and breathed life back into a welfare reform debate that was on life support.

Not only does their proposal restore the promise of welfare reform, it reminds us of what's at stake if defenders of the welfare status quo win:

- Welfare will remain guaranteed to parents who choose not to work.
- Welfare will remain guaranteed for parents -- often still children themselves -- who have illegitimate children they expect others to support.
- Children will suffer because of fathers who walk out on them and mothers who are too young or too ill prepared to raise a child in the first place.
- Taxpayers will keep getting the bill for welfare instead of parents providing child support.
- The narcotic of welfare will continue to abuse poor families, whose welfare spells now average an incredible 13 years.
- Welfare will continue to be run from Washington, not from states and communities where help is best delivered.
- 100,000 drug addicts and alcoholics will keep cashing guaranteed "disability" checks thanks to a system that emphasizes cash, not treatment.
- 200,000 children will continue receiving SSI "crazy checks" worth up to $5,000 per year.
- Almost 2 million noncitizens will collect welfare despite promising not to.
- Federal taxpayers will be forced to spend an extra $50 billion on welfare and states untold billions more.

The charts in Members' folders list other casualties if welfare reform is stopped. It will be far more difficult for states to get people off welfare and into work. The Governors' proposal, like the welfare reform bills already vetoed by the President, would place tough work requirements, backed up by time limits, on every family on welfare in every state. Caseloads have fallen wherever these policies have been implemented, which the Governors before us will confirm. More families are working, fewer are depending on government handouts, and taxpayers are saving money. Best yet, thousands of children now see their parents as workers and providers, depending on themselves for success, not the government.

Who then would block such reforms? Already we have disheartening evidence that the primary opposition to this bipartisan plan comes from liberals who have opposed real welfare reform all along. They insist that welfare remain an entitlement, run out of Washington. These liberals don't trust the states. Despite the failures of the current federally-run welfare system, they cling to the belief that Washington knows best and that big government is the best government. Yes, some Republicans are concerned about the dilution of measures like the family cap, which is designed to reduce illegitimacy that traps millions of families in poverty for too long. But any state that wants a family cap can get one under this proposal, just as any state that didn't want a family cap could avoid one under H.R. 4. Fighting illegitimacy is a key goal of welfare reform and I am confident the Governor's bi-partisan approach will get the job done.

The real question that remains is, what is the view of Congressional Democrats and the Clinton Administration? Will they support this bi-partisan approach or will they go a separate way? Unfortunately, the President already has vetoed welfare reform twice. In addition, the Administration has chosen not to send a witness to today's hearing, so I really don't know where the Administration stands on this, their third opportunity to end welfare as we know it. Who doubts that if he were still governor, Governor Clinton would be on our first panel today, hailing this great bipartisan achievement? Where President Clinton is, however, we're just not sure.

I want to offer a message to my Democrat colleagues and to President Clinton. To the Democrats who sit on my left, in the best tradition of the Democrat party, you created today's welfare system believing it was the best we as a nation could do for our poor and our needy. You had your chance. You fought your fight. The fight has been lost. You meant well, but today's Washington-run, federally-controlled welfare system is a disaster. I say to you, let it go. Turn it over to the Governors and to the states where help can best be delivered. Washington can't do it. Break the entitlement and truly help the poor.

To President Clinton, you must make a choice and take a stand. You said you were a new Democrat and that you would end welfare as we know it. Instead, you stood with the liberals in your party when you vetoed two welfare reform bills. We still don't know where you stand on the governor's bi-partisan effort. Will you join with Republicans and Democrats in putting an end to the dismal failures of the welfare state or will you remain entrenched in the liberal camp? You have vetoed two welfare reform bills, Mr. President. Three strikes and you're out.

Let me close by again reflecting on what is at stake if real welfare reform is not approved this year. Imagine what our country will be like in five years if the current welfare system continues to hold millions of poor families in its grip. Now imagine if those families were freed from a system that expects nothing from them, indeed that rewards them for expecting nothing from themselves. In the course of this debate, it has been made clear that the problem with welfare is not the people who are on it; they are good people and, like all Americans, they simply want a better lives for themselves and their children. The problem is the failed system that we risk leaving in place.

This current welfare system is a tragedy. It saps the strength of our fellow citizens who find themselves on welfare. It destroys their dreams for tomorrow and it takes away their hopes for today. Allowing it to continue without change, which is the only hope of liberals who oppose the bipartisan Governors' plan, would be a farce. For the sake of both the poor and the taxpayer, let's not let that happen.

Governors, we owe you a debt of gratitude for your bi-partisan welfare reform plan. I look forward to hearing your testimony.

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CONGRESSMAN

SANDER LEVIN

12th DISTRICT MICHIGAN

NEWS RELEASE

FOR IMMEDIATE RELEASE
February 20, 1996

Contact: Deborah DeYoung
202/225-4961

LEVIN: "IF WELFARE REFORM REFLECTS SOUND POLICY, OUTLOOK IS MORE PROMISING"

But if search is for a political issue, the outlook is "indeed dismal"

Congressman Sander Levin (D-Michigan) issued the following statement today at the Human Resources Subcommittee hearing on welfare reform:

We meet today to consider the proposals on welfare reform from the nation's Governors.

Our nation needs welfare reform. That has been clear for a number of years. It is what propelled earlier efforts, such as the 1988 law which endeavored to link welfare to work.

The Governors' proposals are important both substantively and procedurally.

Procedurally, they are important in two ways.

First, they have given new momentum to undertake welfare reform.

Second, they have injected bi-partisanship into the welfare debate. This is especially significant, for it sharply contrasts with the failure of the Republican majority to produce a bipartisan draft of either the original House bill or the Conference report. If welfare reform is to succeed, if a welfare reform bill is to be signed by the President, that mistake must not be repeated. As urged by the Governors in their testimony today, "it is imperative that the congressional process also be bi-partisan".

That process should start today, in the House, and a true bipartisan approach must not only involve the entire Congress but also the Administration.

In the debate so far, there are two predominant but unreconciled views on how to break the cycle of dependence for families on welfare.

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One view is seemingly simple. The emphasis is on a type of shock therapy for the mother: by withholding benefits for anyone under a certain age or for anyone who is involved in a repeat pregnancy, and by shortening the allowable period on welfare to a very brief time frame, the advocates of this belief assumes that the mother's conduct will change. Under this approach there is little if no emphasis on health care, day care, or preparation for work.

For the second point of view, action is no less urgent, the need to end the cycle of dependency and teenage pregnancies no less compelling. But the solution is more complex. It involves a combination of obligation of the individual and opportunity for that individual. Individuals must take responsibility for themselves, their families and for their future. This means going from welfare to work, and time limits for doing so. It also means opportunity for day care, if necessary, continuation of health care for the child if not otherwise available during the transition from welfare to work, and preparation for the work place where necessary.

With their proposals, the Governors place themselves in the second group.

Where this group has often divided has been over the appropriate blend of national and state responsibilities in a restructured welfare system.

There is a national interest in breaking the cycle of dependency and moving parents from welfare to work. It stems from the importance of family life to our national fabric. There is also a clear national interest in seeing that the children with parents on AFDC grow up as healthy and productive citizens.

Clearly, the States must have a far greater role in devising new ways to move people from welfare to work. The challenge is to combine enhanced State flexibility and responsibility in a way that is likely to fulfill the three conditions mentioned by the Governors in their testimony: 1) children must be protected; (2) States must be protected during periods of economic distress; and 3) there must be some national standards.

The Governors urge that such standards must not be "overly prescriptive." I agree. But in regard to such standards and in several other respects relating to a rebalanced partnership, I believe there are several areas of significant concern about the Governors' proposals.

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1. Even by the standards of the most recent recession, the contingency fund proposal by the Governors is likely to be woefully inadequate. We want a partnership that protects states and families from the ups and downs of national and regional recessions. During the 1990 to 1992 recessionary period, federal AFDC funding increased $6 billion over the 1989 level. The additional amount expended in those three years was double the amount the Governors' plan proposes for the contingency fund over seven years.

2. Because of the way the Governors have crafted the provisions on maintenance of effort of State funds and ability of States to transfer Federal dollars among different functions, the result could be a far larger proportion of Federal as compared with State dollars, a substitution of Federal dollars for State monies including in child care, and overall far fewer dollars available to implement welfare reform. Welfare reform must be driven by moving people off of welfare into work. Spending dollars now on that effort can save monies in the long run and when that occurs, the Federal treasury should share in such savings with the States. During this period of reform, the issue is not who is more compassionate. It is a matter of accountability for using effectively the tax dollars allocated to States for the purpose of welfare reform.

3. In regard to State accountability, there is a broad reference in the Governors' proposal to fair and equitable treatment of families receiving assistance. More work is necessary to ensure that the provisions are enforceable and that there are procedural safeguards for families seeking assistance.

4. Under current law, families receiving AFDC are assured of receiving Medicaid. Under the Governors' plan, a substantial number of present welfare recipients could lose their Medicaid coverage. It makes no sense to force more families with children into the ranks of the uninsured when we know that health care coverage is one of the major barriers to moving from welfare to work.

5. The optional food stamp block grant threatens to undermine the food stamp program as a safety net for children. Moreover, the Governors' agreement accepts massive cuts in the food stamp program, which have a disproportionate impact on children who receive over half the benefits from the program.

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There is also a need to review the performance bonus, child care, child welfare, SSI and benefits for legal immigrants.

These problems are not insoluble. With good will, finding an appropriate new balanced is achievable.

We need to rebalance the partnership between the Federal and State governments--that is very clear. The States must have far larger responsibility. That responsibility must also be blended with a reasonable measure of accountability because the national interest is also clear -- to break the cycle of dependency and births out of wedlock and to help the children in the welfare system not by punishing them but moving their parents from welfare to work.

If the search is for a political issue, then the outlook is indeed dismal.

But if the search is for a new structure that reflects sound policy, the outlook is more promising.

I am convinced from my almost ten years of work on this issue, and from discussions over the years in my District, that there is a mainstream on welfare reform.

It is time, indeed past time, for that mainstream to get its act together and work out its differences.

HAROLD E. FORD, TENNESSEE, CHAIRMAN
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WR — House Subcomm.

July 1, 1993

MEMORANDUM

TO: Bruce Reed
Mary Jo Bane
David Ellwood
Jerry Klepner
Wendell Primus
Rich Tarplin

FROM: Rich Hobbie

SUBJECT: Materials distributed to Subcommittee Democrats before July 1, 1993 meeting at DHHS

Attached are the materials Mr. Ford distributed to the Democrats on the Subcommittee on Human Resources before the meeting with you this morning. I look forward to further discussions with you.

Attachments
RH/dj

FOR HOW LONG DO INDIVIDUALS RECEIVE WELFARE?
IS WORK THE WAY TO ESCAPE WELFARE?

Background

Studies done in the 1980s on the length of time that families are enrolled in the AFDC program have led to concerns about long-term welfare receipt and lack of work effort. Indeed, a central element of President Clinton's pledge to "end welfare as we know it" is to place a 2-year time-limit on the receipt of AFDC benefits. He has stated that welfare should be a short-term support, "not a way of life."

The findings from the 1980's studies were summarized by the popular press as showing that a significant minority of those who ever receive AFDC are on the rolls continuously for 8 or more years. Further, a majority of those who are on the rolls at a point in time are in the midst of a continuous spell that will last 8 or more years. Finally, the studies estimated that only 21 percent of welfare exits were due to work by the female head of the family.

However, these studies used annual, not monthly, data on the receipt of AFDC. That is, they counted an individual as receiving AFDC for the year if the individual received at least $250 of AFDC benefits in the year (the equivalent of one month of the maximum AFDC grant in a high benefit State). Thus, families who received AFDC for one month in a year were treated the same by the studies as families receiving AFDC all twelve months.

While these studies are useful in defining the extent to which individuals with various characteristics will have a long-term versus short-term relationship with the AFDC program, they are not as useful for understanding month-to-month turnover in the AFDC caseload, and the degree to which welfare families follow periods of welfare with periods of work.

Indeed, while findings from a new study using monthly data do not change the general findings of the 1980's studies, they show that the earlier studies underestimate movement on and off the AFDC program and overestimate long-term, continuous receipt of welfare. Further, the new findings estimate that many more welfare exits are due to work. However, families who leave welfare to work are highly likely to return.

LENGTH OF TIME ON WELFARE

The Bane/Ellwood Studies of the 1980s

Individual "spells" of AFDC receipt.-- A 1983 study of AFDC families found that although most "spells" of AFDC are relatively short, most individuals enrolled in the program at any point in time are in the midst of spells that will last at least 8 years. The study reported that 50 percent of those who ever receive AFDC had spells that lasted less than 2 years and 62 percent lasted less than 4 years. At the same time, the study reported that 50 percent of the persons enrolled at a point in time were in the midst of very long episodes (8 or more years) of AFDC receipt, and such long-term recipients used most the resources of the program. See table 1.

Multiple "spells" of AFDC receipt.-- The 1983 study was updated in 1986 by Ellwood, because it understated long-term welfare receipt by neglecting to take into account how common are multiple spells of welfare receipt. Accounting for multiple spells alters the distribution of total expected time on welfare, as table 2 illustrates. Based on these data, while a significant percent of all persons on welfare will be enrolled for less than 2 years (30 percent) or less than 4 years (50 percent), a majority of persons enrolled in AFDC at a point in time are in the midst of what will be long periods of welfare receipt (65 percent).

The 1993 Pavetti Study

A recent study compares the findings of the 1983 Bane/Ellwood study with findings from monthly data. Table 3 displays the findings, and indicates that 70 percent of all recipients who begin a spell of welfare will have spells that last for 2 or fewer years. Only 8 percent of recipients who begin a spell of welfare receipt will have a spell that will last for more than 8 years. While these data do not take into account multiple spells of AFDC receipt (as did the 1986 Ellwood study), they do show significantly more turnover with in the caseload, and less reliance on welfare.

ESCAPING WELFARE

What events help families leave welfare? To what extent do welfare families leave welfare for work?

The 1983 study looked at which events provide the explanation for endings of AFDC receipt, and found that the most common route out of AFDC is a change in family structure. Some 46 percent of endings occurred this way - 35 percent when a female head became a wife, and 11 percent when the household no longer contained a child under 18. Only 21 percent of endings were due to greater earnings by the female family head.

However, the Pavetti study indicates that 46 percent of exits from the AFDC program occur because of work, rather than the 21 percent estimated by the 1983 study. Pavetti maintains that most of the difference in the estimates is caused by the use of monthly versus annual data. The monthly data capture more exits from AFDC, many of which are due to work. However, the

Pavetti data show that by the end of 5 years, about two-thirds of all women who leave AFDC for work return to the AFDC program. Although many welfare women leave welfare for work, work is not very successful as a permanent escape from welfare.

Note: Much of the discussion on study findings is abstracted from a draft copy of the 1993 edition of the <u>Green Book</u>.

Table 1

DISTRIBUTION OF LENGTH OF TIME ON AFDC
(in percent)

Expected time on AFDC	Persons beginning a period of AFDC receipt	Persons on AFDC at a point in time
	1983 Bane/Ellwood Study	
1 to 2 years	48	14
3 to 4 years	14	10
5 to 7 years	20	25
8 or more years	17	50
TOTAL	100	100

Table 2

DISTRIBUTION OF LENGTH OF TIME ON AFDC
(in percent)

Expected time on AFDC	Persons beginning a period of AFDC receipt	Persons on AFDC at a point in time
1983 Bane/Elwood Study		
1 to 2 years	48	14
3 to 4 years	14	10
5 to 7 years	20	25
8 or more years	17	50
TOTAL	100	100
1986 Elwood Study		
1 to 2 years	30	7
3 to 4 years	20	11
5 to 7 years	19	17
8 or more years	30	65
TOTAL	100	100

Table 3

DISTRIBUTION OF LENGTH OF TIME ON AFDC
(in percent)

Expected time on AFDC	Persons beginning a period of AFDC receipt	Persons on AFDC at a point in time
1983 Bane/Elwood Study		
1 to 2 years	48	14
3 to 4 years	14	10
5 to 7 years	20	25
8 or more years	17	50
TOTAL	100	100
1993 Pavetti Study		
1 to 2 years	70	21
3 to 4 years	14	20
5 to 7 years	7	17
8 or more years	8	43
TOTAL	100	100

RECENT SUBCOMMITTEE OVERSIGHT ACTIVITIES RELATING TO THE AFDC AND JOBS PROGRAMS

During the first session of the 102d Congress, the Subcommittee on Human Resources held an oversight hearing at which it reviewed selected issues relating to the AFDC and JOBS programs, including: State fiscal problems and rising AFDC caseloads; the impact of HHS's "20-hour" participation rule on the JOBS program and other major concerns regarding the implementation of the JOBS program; State usage of entitlement funding for child care under the AFDC program; and self-employment initiatives for AFDC recipients.

In 1992, the Subcommittee continued its review of these and other selected issues relating to the AFDC and JOBS programs, and held two hearings (described below) reviewing education, training and service programs that target disadvantaged teens and reviewing the JOBS program in Chicago, Illinois.

In response to these oversight activities, the Subcommittee approved amendments to the JOBS and AFDC programs on June 18, 1992. These amendments were approved by the Committee as part of H.R. 11, the Revenue Act of 1992, which was vetoed by President Bush on November 5, 1992. Most of these AFDC and JOBS amendments have not been included in this year's budget reconciliation bill, because the Administration prefers to consider them in the context of welfare reform.

The major AFDC and JOBS provisions in the conference agreement on H.R. 11 would have: (1) allowed States to exclude certain investment-oriented assets from the resource limit applicable to AFDC recipient families; (2) liberalized the treatment of income and resources related to microenterprises; (3) required States to disregard from income (and, under conditions determined by the State, from resources) the earnings of any child either applying for or receiving AFDC who is a student; (4) required the General Accounting Office to develop a methodology for determining use of the transitional child care program, allowed States to waive the requirement that a family contribute to the cost of transitional child care if the family is at or below poverty, and required States to conduct more outreach and allowed States to establish automatic eligibility procedures regarding transitional child care; (5) temporarily increased the Federal matching rates and funding caps for the JOBS program; (6) revised the definition of participation under the JOBS program to ensure that individuals who are enrolled in degree programs offered by an institution of higher education (and other programs requiring significant classroom preparation) receive credit for classroom preparation; (7) required the HHS Secretary to prepare an annual report on welfare receipt in the

United States; and (8) required the Secretaries of HHS and Agriculture to jointly report on differences in rules under the AFDC, food stamp and medicaid programs.

1. Hearing on Education, Training and Service Programs that Target Disadvantaged Teens

While only a small portion of new entrants to the AFDC program are teen parents, individuals who begin to receive AFDC as a teen parent have longer than average stays on welfare. As a result, a large portion of AFDC recipients at any point in time consists of individuals who began receiving AFDC as a teen parent. Activities under the JOBS program are targeted at AFDC recipients who are likely to be on welfare for long periods of time, a group which includes teen parents who have dropped out of school.

At the March 6, 1992 hearing, three research organizations presented evidence of the effectiveness of four programs that are designed to address the problems of disadvantaged teens. The programs have been or are being evaluated scientifically, comparing treatment and control groups. These programs include the Summer Training and Employment (STEP) program; the Demonstration of Innovative Approaches to Reduce Long-Term AFDC Dependency Among Teenage Parents (Teen Parent demonstration); the New Chance demonstration; and the Learning, Earning and Parenting (LEAP) program.

a. The STEP Program

The STEP program is a summer program directed at low-income 14 and 15 year olds who are at risk of dropping out of school. The program is designed to reduce school dropout rates by reducing school failure and early parenting. Public/Private Ventures testified that the short term results of the program were overwhelming positive, for every cohort, gender group, and ethnic group. Long-term results were disappointing, however, showing little effect of the program on educational attainment, work, parenting skills, and welfare receipt. The researchers concluded that: (1) it is possible to produce improvements in reading and math ability and life skills in a short period of time; "booster shots can work;" (2) the program was replicated successfully with similar results in 100 sites; (3) short term programs for these troubled youth cannot produce long-term impacts on their own, but need to be reinforced; and (4) larger institutional change also is needed to help these youth (for example, children spend the majority of their time away from school, and this "gap" time is not always used productively).

b. The Teen Parent Demonstrations

The demonstration was conducted in three urban areas, and targeted every new teen parent receiving AFDC. Participation was required, and AFDC sanctions were established. Intensive services were made available, including education, job training, child care, transportation funds, and workshop sessions on parenting and other life management issues. Case management was emphasized. Mathematica Policy Research analyzed program operations (an impact study is underway), and testified that: (1) it is crucial that resources be focused on teen parents early on in their AFDC receipt, given the likelihood that teen parents will remain on AFDC for many years; (2) programs should be based on mutual obligations and responsibilities for both participants and program staff; (3) the participation requirement was helpful in bringing teenagers into contact with the opportunities of the program, but the requirement was successful only because it was supplemented with persistent staff attention to the issues of teenagers with attendance problems; (4) teen parents have a need for many services, beyond help with educational goals, and the role of the case manager was critical to addressing problems; and (5) alternatives to traditional educational activities must be developed.

c. The New Chance Demonstration and LEAP Programs

The Manpower Demonstration Research Corporation (MDRC) is evaluating the New Chance demonstration and Ohio's LEAP program. The New Chance demonstration, operating at 16 sites, targets high school dropout AFDC mothers between the ages of 16 and 22. It is designed to enable women to complete their education, acquire work skills and improve emotional and physical wellbeing. Services are also provided to address the needs of children, including medical services and parenting and child development classes. Most services are located at one site. Many of the New Chance sites are linked to the JOBS program in the community. The LEAP program was designed by the State of Ohio, and operates in 88 counties of the State under a Federal waiver. LEAP targets all pregnant and parenting AFDC teens under the age of 20 who do not have a high school diploma or GED, and requires the teens to enroll in and regularly attend a school leading to a diploma or GED. Unlike New Chance, which emphasizes intensive services to induce behavioral change, LEAP emphasizes financial incentives. Under LEAP, attendance requirements are tied to financial incentives and sanctions equal to $62 a month. Child care and transportation assistance is available, and each teen is assigned a case manager. MDRC drew the following conclusions regarding the two approaches based on their research thus far: (1) the two models can be implemented and are options under the JOBS program; (2) most New Chance sites met enrollment goals and over 10,000 teens have been served by LEAP; (3) welfare agencies and the schools in Ohio have worked together successfully to develop attendance information and to plan the program; (4) the teen parent population on welfare is diverse (for example, women in the New Chance demonstration experience a range of obstacles to becoming self-sufficient, including homelessness, physical abuse, and clinical depression); (5) traditional high school programs may not be suitable for all teens; and (6) mandating participation without addressing issues that lead to absenteeism likely would be ineffective.

Also at the March 6, 1992 hearing, two State administrators discussed teen parent activities in the JOBS programs of Oregon and Maryland. A witness from the State of Maryland testified that: (1) Federal policy should allow in-school teens at risk of dropping out to participate in the JOBS program; (2) the "20-hour" rule presents a barrier to certain JOBS activities for teens, including external high school diploma and GED programs, and educational and other opportunities provided through family support centers; and (3) private match limitations under the JOBS program are too restrictive and create barriers to accessing services and programs administered by non-profit agencies. A witness from the State of Oregon testified that: (1) teen parents should be a focus of attention in welfare and child welfare policy (49 percent of families receiving aid in Oregon are headed by individuals who are or were teen parents, and 43 percent of child welfare households are headed by a mother who is or was a teen parent); (2) Oregon has invested heavily in its JOBS program, emphasized the enrollment of teen parents, and has achieved high enrollment rates among teen parents; (3) Oregon has built partnerships between agencies and organizations to ensure opportunities for teen parents; (4) staff and agencies emphasize positive messages and encouragement to maintain enrollment; (5) a State work council has encouraged interagency efforts at the local level; (6) local media have highlighted the program and helped generate interest; and (7) additional JOBS funding should be made available to the States.

2. Field Hearing on the JOBS Program

On May 29, 1992, the Human Resources Subcommittee conducted a field hearing on the JOBS program. A witness representing the Illinois Department of Public Aid testified that additional JOBS funds are needed to meet expanding AFDC caseloads. In the first year of the JOBS program, the State of Illinois had more volunteers than resources, and had to close intake. The witness emphasized that increased medicaid costs also have reduced the ability of the State to fund needed social services, including the JOBS program.

With respect to other JOBS issues, the witness noted that: (1) preventive services for teen members of AFDC families should be counted as JOBS activities, in order to stop intergenerational dependence; (2) the "20-hour" rule forces the development of employability plans that may not meet the needs of the participant, and drives program decisions; and (3) the participation mandate for AFDC-UP recipients that goes into effect in fiscal year 1994 will require Illinois to redirect half of its current JOBS funding to two-parent households from young parents and long-term recipients, and should be revised. Further, testimony of the witness indicated that the success of the Family Support Act is hampered by several statutory and regulatory requirements, including: the 100-hour limit on employment for AFDC-UP parents; the work disincentives in the welfare payment scheme; the limit on employment expenses; marriage disincentives built into the AFDC-UP program; and the need for support of individuals trying to own a business.

A witness representing the City of Chicago Department of Human Services testified that the Governor of Illinois should place greater emphasis on job training programs, given the reductions made by the State in public assistance benefits. The witness mentioned that the State plans to reduce JOBS program funding, which will result in fewer funds for the Chicago JOBS program, and that any modification to Federal matching rates should be made available only to States that maintain current funding levels. He also called for emergency anti-recession and summer jobs funding.

A witness from a research and service program testified that of those in the JOBS program in Illinois, 57 percent lose their first job in the first six months, and the majority of high school dropouts quit their GED programs before they pass the high school equivalence exam. The lesson is that for many long-term recipients, leaving welfare is not a one-step event. The witness noted that while data show participants who lose their first job have better success in subsequent jobs, over half of the program participants who are active in the program for at least three years make unsteady or no measurable progress. In addition, the witness reported that many individuals who leave welfare under the program have not taken what is considered the traditional route -- education leading to a job. For example, many participants first need work experience in order to make a commitment to school. The witness recommended that additional activities, such as community volunteer work, be made available as entry-level activities under the JOBS program, and that time commitments under the JOBS program increase gradually for participants.

At the hearing, a witness from a private social services organization testified that, based on the organization's experience running a family support center, the JOBS program is hampered by a lack of comprehensive services to address problems such as domestic violence and substance abuse. The witness also testified that a lack of affordable training programs in Chicago limits the ability of participants to obtain job training, and that the JTPA system in Chicago is poorly funded. The witness proposed an expanded Federal commitment of resources for comprehensive literacy and educational services, and for job training services.

Additional witnesses at the hearing emphasized that reductions in funding for the Illinois JOBS program, combined with Federal participation rate requirements, including the "20-hour" rule, have resulted in a new emphasis on cheaper, less intensive services (such as job search) in the State program. This appears to be a departure from the situation during fiscal year 1991, when Illinois and most other States were found by the GAO to be targeting JOBS services toward the least job-ready, and emphasizing education and training activities (GAO/HRD-93-2). Several witnesses called for fuller-funding of the JOBS program and a recognition in the program that many recipients will benefit most from intensive services and a long-term approach. One witness presented data showing that client enthusiasm for the Illinois program has diminished, during the same period a waiting list was established, supportive services curtailed, and job search emphasized. Two witnesses noted that, in order to reduce expenditures, Illinois plans to give primary responsibility for the JOBS program to the community college system, and will eliminate caseworkers and other staff. These witnesses expressed concerns that these reforms would undermine the goals of the program.

The following additional suggestions for Federal legislation were made by witnesses at the hearing: provide public service employment opportunities for former general assistance beneficiaries; provide specialized worker training and services for teen parent recipients; expand activities under JOBS that count toward the participation rate requirement to include case management and counseling for teens; reduce the State matching rate requirement for transitional child care; repeal regulations that establish a limit on reimbursement rates for child care; require States to notify all families who leave welfare about transitional child care; include among eligible JOBS participants single individuals without children; increase funds for summer youth employment; develop transportation systems to link individuals to jobs in the suburbs; expand on-the-job training opportunities; and expand job creation and self-help programs. A number of possible amendments to Illinois' JOBS program were also presented.

Summary of Testimony

OVERSIGHT HEARING ON TRENDS IN SPENDING AND CASELOADS FOR AFDC AND RELATED PROGRAMS

During the 1980s, Congress and the Executive Branch worked together to enact legislation designed to reduce reliance on Aid to Families with Dependent Children (AFDC) benefits and long-term enrollment in the AFDC program. The Family Support Act of 1988 included provisions strengthening the enforcement of child support; funding for work, education and training opportunities, and supportive services for parents; and a requirement that States achieve certain levels of participation in work-related activities among able AFDC parents.

The purpose of the March 11th hearing was to learn about recent trends in spending and caseloads under the AFDC and related programs, and the impact that these trends are having on implementation of the recent welfare reform legislation. Major points are highlighted below.

Real Spending on the Poor

Gary Burtless of the Brookings Institution testified that even though the U.S. poverty population increased substantially from the mid-1970s to the early 1990s, real spending on cash assistance for the poor (including the elderly, disabled and families with children) actually declined from the mid-1970s until the mid-1980s, and only in 1990 reached the peak levels of 1976. (SSI expenditures increased markedly after 1990.) In contrast, real spending on in-kind benefits increased substantially. (See Table 1.)

According to Burtless, two-thirds of the increase in in-kind expenditures is due to spending under the Medicaid program, which has grown throughout the period, but especially rapidly in recent years. Critics have suggested that the AFDC caseload is primarily responsible for this program growth. However, the AFDC caseload accounts for a minority (27 percent) of Medicaid expenditures, and its share has declined since 1975. A majority and rising portion of Medicaid program expenditures are devoted to the elderly, blind and disabled. Furthermore, testimony by Iris Lav, Center for Budget and Policy Priorities, referenced a study by the Kaiser Commission on the Future of Medicaid, which found that enrollment growth in the AFDC program accounted for only a small portion (2 percent) of the growth in Medicaid expenditures between 1988 and 1991. Medical price inflation, and growth in utilization and reimbursement, each accounted for about one-third of the increase, and growth in enrollment among non-AFDC- beneficiary categories (especially the elderly and disabled, but also pregnant women and their children) accounted for the remainder. (See Table 2.)

Benefits and Expenditures Under the AFDC Program

Linda Giannarelli of the Urban Institute testified that real monthly benefits under the AFDC program declined nationally by 30 percent from 1975 to 1991 and in almost all States. If benefits had kept pace with inflation, the AFDC caseload would be 8 percent larger today, and the costs of the program 40 percent higher. (See Table 3.)

These benefit reductions resulted in real spending declines throughout much of the period, despite an increasing caseload. During the recent recession, however, total real spending has risen to 1975 levels due to a marked increase in the rate of growth of the caseload.

In recent years, benefits continued to fall in real terms. According to Ms. Lav, benefits in 44 States were cut for 1993 or did not keep pace with inflation.

AFDC Caseload Increases

Tom Gabe of the Congressional Research Service testified that the single-parent AFDC caseload has increased 28 percent over the last three and one-half years. An analysis he conducted suggests that most of the increase is attributable to growing numbers of mother-only families, most especially the rapid growth in the number of families headed by a never-married parent.

According to Mr. Gabe, between 1975 and 1981, the number of mother-only families increased nearly 50 percent, and 60 percent of this increase was attributable to the increasing number of divorced mothers. Since 1983, however, the number of mother-only families has increased 22 percent, but 75 percent of the increase is attributable to the increasing number of never-married mothers. Never-married mothers, who on average are younger, less well-educated and less likely to receive child support than other single mothers, are significantly more likely to receive AFDC. In 1992, 50 percent of never-married mothers reported receiving AFDC, compared with 33 percent of separated mothers and 20 percent of divorced mothers. (See Chart 1.)

By design, Mr. Gabe's analysis looked at the effects of specified demographic factors on the caseload, without controlling for any other variables, such as changes in the economy. The Congressional Budget Office will soon release a report to the Committee that studies all of the factors affecting AFDC caseload growth, including both demographic and economic issues.

Implementation of the JOBS Program

States have moved forward to implement the Family Support Act, but have been hampered by significant State budget deficit problems along with rising AFDC caseloads. At the hearing, Sid Johnson, Executive Director of the American Public Welfare Association, reported that "States are struggling to meet their obligations."

The ability of States to fund the JOBS program and associated supportive services, especially during economic downturns, raised concerns about the financing of the remaining requirements of the Family Support Act and future welfare reform efforts as well.

In fiscal year 1992, States drew down only two-thirds of available Federal funds for the JOBS welfare-to-work program. Despite this budget environment, States will be required to enroll a growing fraction of AFDC parents in the JOBS program, raising concerns among several witnesses that less-intensive services (such as job search) will replace human capital investments under the program. Jodie Levin-Epstein of the Center for Law and Social Policy reported that funding limitations already have resulted in waiting lists and closed intake in some States.

States are required to guarantee child care that is necessary for an AFDC parent to retain or accept employment, or to participate in State-approved work, education and training activities. Nancy Ebb of the Children's Defense Fund testified that growing demand for guaranteed child care, coupled with State budget problems, has caused some States to seek to limit child care costs, and lawsuits have been brought already in 6 States challenging certain of such State actions.

Use of transitional child care, which is available to welfare parents who leave welfare due to work, has varied markedly among the States and is lower than expected. Jo Anne Barnhart, former Assistant Secretary, Department of Health and Human Services (HHS), Administration for Children and Families, provided some possible explanations, including the method by which States inform parents about the care; the application process; a desire by recipients not to associate with the welfare office once they leave welfare; and State actions to limit participation. HHS is reviewing the program in several States.

Table 1

Public Spending on U.S. Programs for the Poor, 1960-1992

Billions of 1990 dollars

	1960	1965	1970	1975	1980	1985	1990	1992
Income-conditioned transfers –								
Cash assistance								
AFDC	$4.9	$7.7	$16.1	$22.7	$21.8	$20.6	$21.2	$22.9
SSI / Aid to aged and disabled	10.1	11.0	10.6	14.6	13.7	14.4	16.2	22.8
Earned Income Tax Credit	0.0	0.0	0.0	3.0	3.2	2.6	6.9	9.9
All other cash aid	7.3	8.9	9.8	10.5	9.1	9.1	8.5	8.0
Total cash assistance	22.3	27.6	36.5	50.9	47.9	46.6	52.8	63.6
In-kind assistance								
Food Stamps	0.0	0.1	2.0	11.5	15.4	16.5	17.1	23.7
Other food and nutrition	1.0	1.0	1.2	3.8	7.1	6.6	7.4	8.3
Housing and energy aid	0.6	0.9	1.5	4.9	11.5	16.4	14.5	14.1
Medicaid	0.0	1.0	15.7	30.3	41.8	50.3	72.5	96.9
Other medical assistance	3.3	3.6	5.2	6.4	8.5	7.6	11.1	11.8
Total in-kind assistance	4.8	6.7	25.6	56.9	84.3	97.4	122.6	154.9
Total means-tested transfers	27.1	34.3	62.1	107.8	132.1	144.0	175.4	218.5
Education and training –								
Head Start	0.0	0.5	1.3	1.2	1.5	1.6	1.9	2.8
Targeted federal aid to K-12	0.5	0.6	5.6	5.7	7.8	6.5	6.2	8.2
Higher education (except GSL)	0.0	0.6	2.0	4.6	6.0	5.1	5.9	6.0
Guaranteed Student Loans	0.0	0.0	0.0	0.6	2.3	4.3	4.4	3.6
Total education	0.5	1.7	8.9	12.1	17.5	17.6	18.4	20.4
Federal targeted training	0.0	1.3	4.0	7.8	9.6	5.0	4.2	3.5
Public service jobs	0.0	0.0	0.0	0.8	6.0	0.0	0.0	0.0
Total labor market programs	0.0	1.3	4.0	8.6	15.6	5.0	4.2	3.5
Total education and training	0.5	3.0	13.0	20.8	33.1	22.6	22.6	23.8
Total spending – All programs	27.6	37.3	75.0	128.6	165.2	166.6	198.0	242.3
As a percent of GNP	4.4%	4.7%	6.7%	10.1%	10.8%	11.0%	11.2%	12.9%

Note: Includes federal, state, and local government outlays.

% is wrong

Source: Dr. Gary Burtless, The Brookings Institution. Testimony prepared for Committee on Ways and Means, Subcommittee on Human Resources, March 11, 1993.

Table 2

PERCENT DISTRIBUTION OF MEDICAID EXPENDITURE GROWTH, BY FACTOR, 1988–1991

Enrollment	34.1
Traditional groups	
Aged, blind, and disabled	19.3
AFDC adults and children	1.6
Other adults and children	2.4
New groups (pregnant women and children)	10.8
Inflation	31.0
Hospital inpatient	8.0
Nursing homes	7.3
Other	15.7
Utilization and reimbursement above inflation	28.4
Hospital inpatient	16.0
Other	12.4
Other	6.5
Total	100.0

Source: The Urban Institute, 1992

SUMMARY OF TESTIMONY
HEARING ON THE EITC AND WELFARE REFORM

President Clinton's budget package includes a major expansion of the earned income tax credit, or EITC. In combination with other proposals, the EITC expansion is designed to lift low-income working families out of poverty, and also to create an economically viable alternative to welfare for single parents with children.

At the March 30th hearing, Members heard Administration officials describe the President's EITC proposal. Administration and State officials, researchers, and other interested parties discussed the effectiveness of the EITC in reducing poverty, and encouraging and supporting work. Finally, the Administration discussed the EITC in the context of other elements it considers essential to overhauling the welfare system.

Many Families Work, Yet Remain Poor

Administration witnesses testified that the payoff from work is too low for many American families. According to the Administration, five to six million persons live in poor households with a full-time, full-year worker, and many millions more live in poor households with a part-time or part-year worker. Robert Greenstein, Center for Budget and Policy Priorities, testified that this situation has worsened in recent decades because real wages have declined for low-income families.

The majority (sixty percent) of "working poor" families with children are headed by two parents, and Wendell Primus, representing the Department of Health and Human Services, testified that these families often lack health insurance coverage. He asked: "Can we talk of family values when two parent working families go unprotected from poverty and medical uncertainty?"

If work opportunities do not pay well enough to lift families out of poverty, there are implications for welfare programs, according to Mr. Primus. He testified that if one compares welfare to work in most States, welfare wins -- unless a single parent has a job that pays at least $6 to $7 per hour, works full-time, receives full health benefits, and has access to inexpensive and satisfactory day care. (See attachment 1.)

Background on the EITC

In 1975, Congress enacted the EITC to help offset the financial impact of social security taxes on low-income taxpayers with at least one qualifying child, and to support and encourage work among low-income earners. The EITC was expanded in 1986 and again in 1990. The credit, which is refundable, directly offsets income tax liability. Therefore, if the value of the credit is greater than a family's tax liability, the family receives the difference as a refund. According to Marvin Kosters, American Enterprise Institute, only 10 percent of EITC expenditures offsets income tax liability.

Up to a point, the EITC grows with earnings. Under current law for 1995, the amount of the credit for families with one child will equal 23 percent of the first $8,200 of adjusted gross income (or, if greater, earned income), be at its maximum from $8,200 to $12,920, and phase out between $12,920 and $24,400 at a rate of 16.43 percent. (See attachment 2.) The maximum credit will equal $1,886. The credit is adjusted only somewhat for family size. Families with two or more children will be eligible for a credit equal to 25 percent of the first $8,200, yielding a maximum credit of $2,050. The phase out rate will equal 17.86 percent (All figures have been indexed for inflation).

Under current law enacted in 1990, a supplemental young child credit is available for eligible families with a child under age one, and a health insurance credit also is available to help families with certain health insurance coverage and out-of-pocket premiums for such coverage.

Administration's EITC Proposal

The Administration unveiled its EITC proposal at the hearing. The EITC would be simplified by eliminating the supplemental young child credit and the health insurance credit. In addition, the EITC would be expanded substantially. Among families with one child, the value of the EITC would increase most for those families at the lower earnings levels. For example, the maximum credit for a family with one child would increase by 12 percent, but would be available on income beginning at $6,162 (indexed), rather than $8,200 of income. The value of the EITC would increase substantially for all eligible families with two or more children. The maximum credit for a family with two or more children would increase 69 percent, from $2,052 to $3,462 (indexed). (See attachment 2.)

For the first time, an EITC would be available to certain low-income workers without children over the age of 21 who are not claimed as dependents on another taxpayer's return. The credit for these workers would be calculated differently than the credit for families with children. (See attachment 2.)

Effect of the EITC

The Administration testified that the proposed increase in the EITC, when combined with other forms of assistance for low-income families, would help many families with a full-time worker move out of poverty. The Administration's testimony also noted that the expanded EITC, and benefit expansions in the food stamp and low-income home energy assistance programs, aid in offsetting the impact of the energy tax proposals of the President's budget for low-income families.

Mr. Sessions of the Treasury Department calculated that a four person family on food stamps with a full-time, minimum wage worker would not be poor under the Administration's proposal. Mr. Primus testified that if the proposal is enacted, over 2 million persons will be removed from poverty, even if no more individuals go to work.

The Administration assumes that welfare families will work more in response to its proposal. According to Mr. Primus, the proposal would increase the return to work for welfare families substantially. He stated that under current law, a Pennsylvanian woman with two children who earns $10,000 a year has but $2,000 more than a welfare mother who does not work. Under the proposal, the work advantage would increase to $3,300, or by 65 percent.

However, Mr. Kosters testified that as the EITC is phased out, an implicit tax is imposed on each additional dollar of earned income, thereby creating disincentives to work for families with incomes in the phase-out range -- $11,300 (indexed) to $28,800 (indexed) in 1995 under the Administration's proposal for families with two or more children. Although Mr. Kosters admitted that research has not clarified how tax incentives actually affect work behavior, he warned that when taken together, work in families with low and moderate incomes would be discouraged and output reduced.

Gary Burtless of the Brookings Institution agreed that the EITC "probably reduces work effort in the aggregate" -- increasing work effort for those who currently do not work, encouraging the work effort of those with very low incomes, but imposing some work disincentives for those with incomes in the phase-out range. However, he argued that compared with alternative ways of transferring income to low- and moderate-income families, work disincentives are probably smaller with the EITC. Further, unlike public assistance, those who try to support themselves receive the benefit. He suggested that work disincentive effects be minimized in any proposal by keeping the phase-out rate as low as possible, even if families with substantially higher incomes receive a credit.

In response to a concern that the EITC may reduce work effort among families in the phase-out range, Mr. Primus countered that if the credit encourages some working families to choose family time instead of some market work, perhaps that was a good social outcome.

The EITC and Welfare Reform

The Administration discussed the EITC proposal in the context of its plans to reform the welfare system in order to reinforce values of "work and family and independence and responsibility." According to the Administration, data from the AFDC program demonstrate that Federal policy is not working to reinforce these values: although AFDC benefits have declined almost 40 percent since the early 1970s, the number of beneficiaries has risen dramatically in recent years. (See memorandum from Mr. Matsui dated March 24, 1992, which explores this phenomenon).

The Administration said that "the call to end welfare as we know it is not a call to stop aiding low-income families;" rather, the President plans to create an alternative to welfare for these families. The major components of the reform are to:

- make working pay by expanding the EITC and the targeted jobs tax credit, by reforming health care so that families are assured of coverage, and by addressing child care needs;

- improve child support enforcement by implementing numerous reforms, including paternity establishment at the hospital, a centralized clearinghouse, and a larger role for the Federal government;

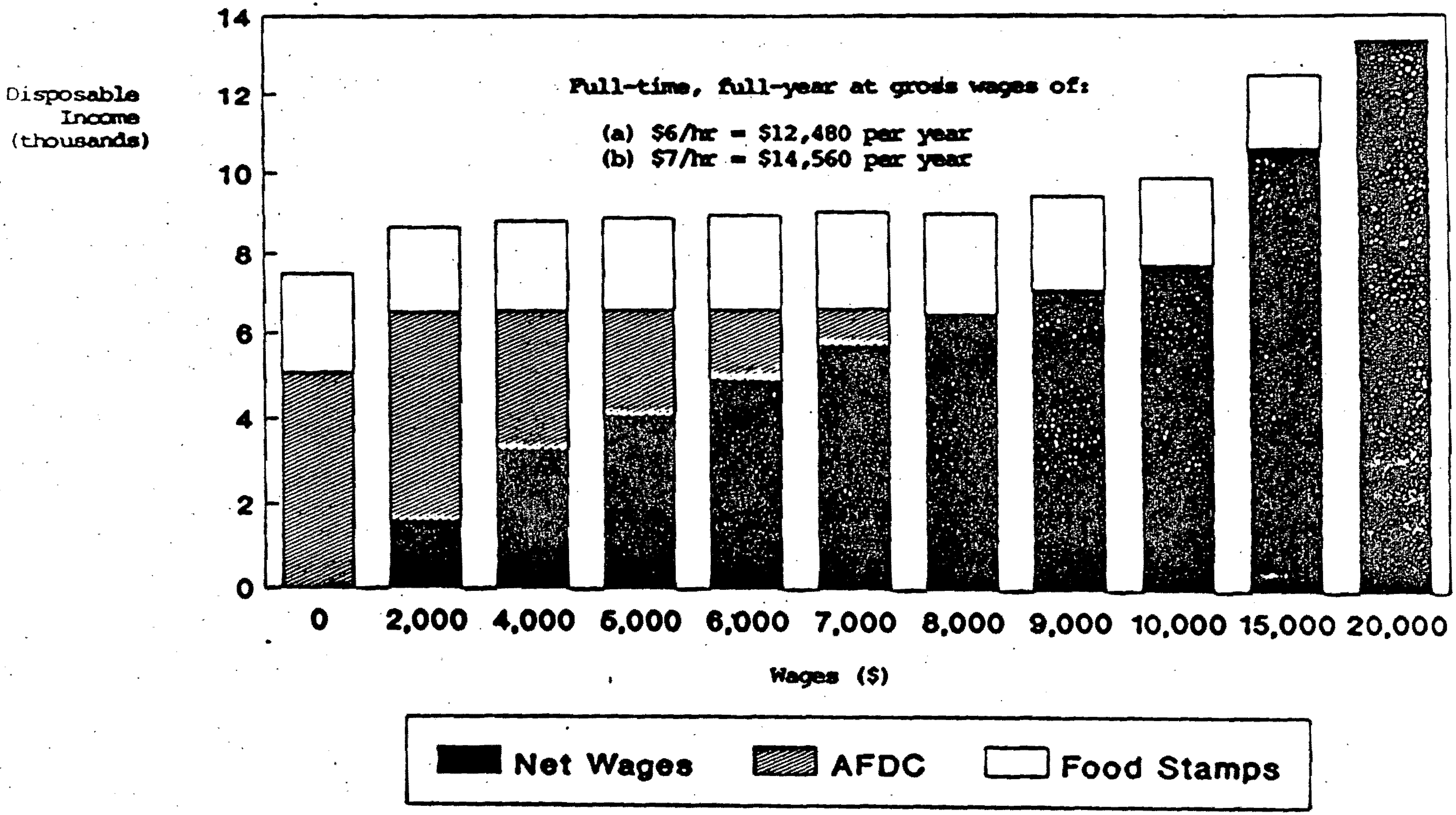
- improve training and support by building on the Family Support Act and making the JOBS program more effective; and

- move people to work (if Federal policies "make it feasible for single mothers to support themselves and nurture their families") by providing some type of public job to welfare recipients after two years.

The Administration emphasized that "these are not isolated, uncoordinated proposals; rather they form a coherent whole which must be considered together as a package," and noted that while State innovations in welfare continue, most of the State reforms are modest and sometimes symbolic. In emphasizing a need for bolder action, the Administration referred to recent research which has isolated the impact of income poverty on the adjustment of children, and has linked income poverty to a range of childhood difficulties, such as problems with cognitive and physical development, low achievement, low self esteem, and behavioral problems.

Attachment 1

Disposable Income at Various Wage Levels, Family of Three with Child Care Expenses (Pennsylvania - January 1993)



Source: Committee on Ways and Means

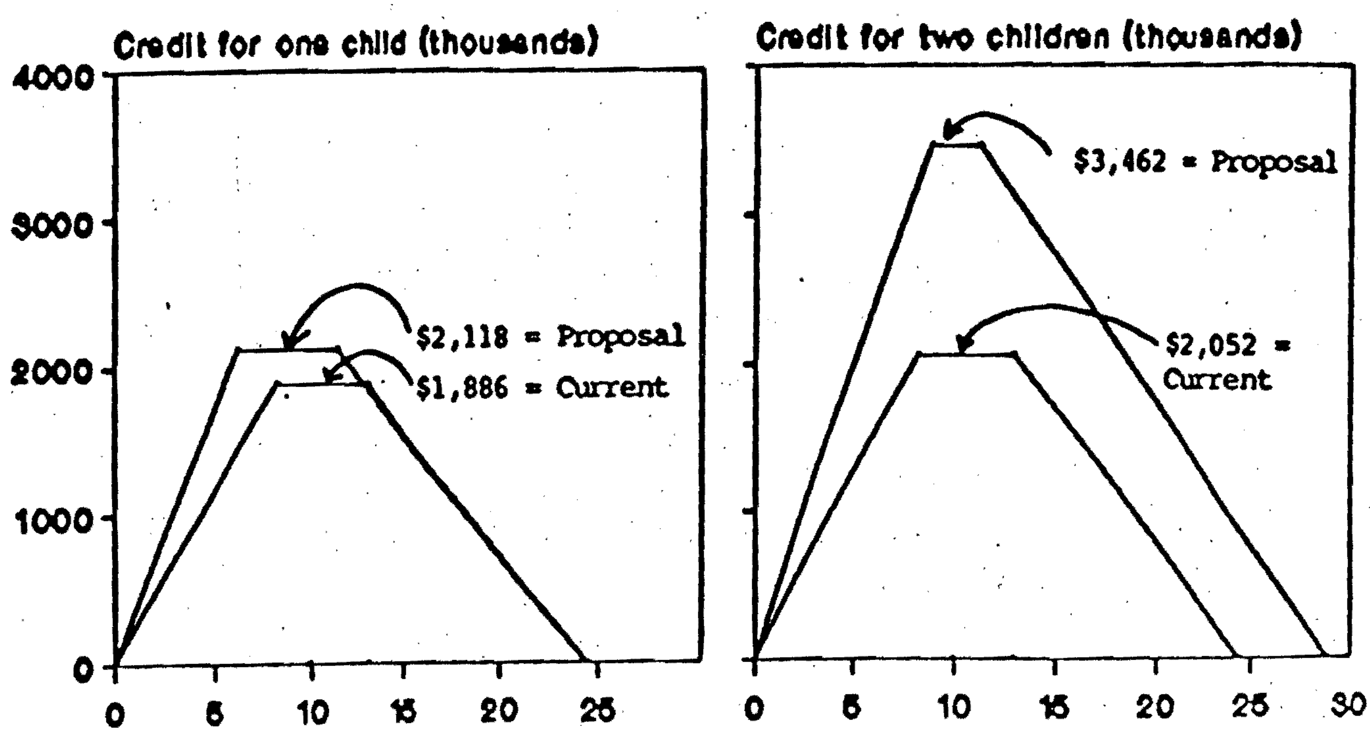
Note: Net wages includes earnings, EITC, Federal and State taxes, and work expenses (assumed to equal 10 percent of earnings up to $100 monthly, plus child care costs equal to 20 percent of earnings up to $350 monthly for two

Attachment 2

Earned Income Tax Credit – 1995 Estimate
Current Law and Administration Proposal
(basic credit)

	Credit rate (percent)	Minimum income for maximum credit	Maximum credit	Phaseout rate (percent)	Phaseout Range: Beginning income	Phaseout Range: Ending income
Current Law						
Families with						
one child	23.00	8,200	1,886	16.43	12,920	24,402
two or more children	25.00	8,200	2,052	17.86	12,920	24,402
Administration Proposal						
Families with						
one child	34.40	6,162	2,118	16.16	11,297	24,402
two or more children	39.70	8,730	3,462	19.83	11,297	28,756
Workers without children	7.65	4,108	314	7.65	5,135	9,243

Source: Subcommittee staff calculations, based on Department of the Treasury testimony.



Income in thousands