

EXECUTIVE OFFICE OF THE PRESIDENT  
COUNCIL OF ECONOMIC ADVISERS  
WASHINGTON, D.C. 20500

February 10, 1998

MEMORANDUM FOR BRUCE REED  
ASSISTANT TO THE PRESIDENT  
FOR DOMESTIC POLICY

FROM: REBECCA M. BLANK *Rebecca Blank*  
SUBJECT: Welfare reform issues in a recession

I know that the DPC is considering setting up a working group to consider the potential issues that welfare reform efforts will confront when we move to the other side of the business cycle and unemployment starts to rise. We have been extremely fortunate so far, enacting and implementing the 1996 legislation in a strong and expanding labor market. The longer we can maintain current levels of unemployment and job growth, the more people will be moved permanently off public assistance. But I expect that at some point in the future (hopefully later rather than sooner) we will face the problem of making a strong welfare-to-work effort perform in a job-short economy.

I would propose two key issues to think about:

- (1) What are the indicators of problems that the Administration (and HHS and DOL especially) should be watching for, which will signal difficulties in job availability for welfare recipients.
- (2) Are there any proactive measures that we can take today which will make welfare reform work more effectively through the business cycle. For instance, the size and nature of the contingency fund might be revisited; HHS might consider providing states more guidance on "best practices" in running supplementary short-term public job programs in times when private jobs are not as readily available; or the Administration might have a series of meetings with Eli Segal and his organization on how to build longer-term private sector commitments to job programs that are more "recession proof".

I am extremely interested in this topic and would like to be involved in any ongoing discussions. (I'd also be quite happy to serve as chair to an inter-agency working group on this topic if that seems useful.) In recent months I have also spoken about this topic with Jon Gruber at Treasury, with Ed Montgomery at Labor, with Pat Ruggles at HHS, and with Rob Shapiro at Commerce. I know that all of them share an interest and concern with this topic and would like to be actively involved in anything that occurs. (In fact, as I suspect you know, HHS-ASPE is in the process of pulling together a conference on this issue next fall.)

I'd be happy to talk further with you about how to address this topic in the most useful and

productive manner. I understand the difficulties of trying to deal proactively with an issue that is not currently before us (much less admitting that there might ever be a downturn in the economic cycle), but I think it's important to do everything we can to assure that welfare reform efforts are successful not just in strong economic expansion, but in times of slower growth as well.

Copy to:

Janet Yellen

Sanders Korenman

March 30, 1994

## MEMORANDUM FOR STAN, MANDY

SUBJECT: Key Questions in Welfare Reform

## I. HOW TO PAY FOR WELFARE REFORM

Our welfare reform plan is expected to cost about \$10 billion over 5 years and \$30 billion over 10 years. Both the House Republican and Mainstream Forum bills will cost more than this (perhaps \$12 billion over 5 and \$40 billion over 10), but they save so much money from eliminating benefits for non-citizens that they will actually reduce the deficit even in the short run.

We are considering a number of financing options, none of them particularly attractive. How we pay for welfare reform will be a key decision not only nationally but in Congress, where our coalition is deeply divided. Liberals want us to spare low-income programs and raise revenues. Moderates want to cut low-income programs or place the entire burden on immigrants. There is the potential for support from both groups for a gambling tax, but many in the White House think that battle would be harmful to health care.

Here are the alternatives:

1. Immigrants: The Republicans sell their proposal as a way to deny welfare benefits to illegal immigrants, but in fact it only affects legal ones. Their proposal would raise \$21 billion over 5 years by denying any means-tested benefits (AFDC, Medicaid, SSI, Food Stamps) to non-citizens, including refugees, asylees, immigrants who are here with green cards, etc. The option we're considering would raise between \$3 and \$6 billion by requiring families who sponsor new immigrants to take responsibility for those immigrants for at least 5 years, and perhaps until they become citizens. Is there any way to persuade anyone that our proposal is more reasonable and theirs is harsh and draconian?

2. Other entitlement cuts: We're likely to propose a few other obscure entitlement cuts in the Emergency Assistance program (which states use to shift their costs for homeless and foster care programs onto the feds) and the Child Care Feeding program (which currently subsidizes a number of child care programs that are not low-income). These cuts are relatively uncontroversial, even on the left.

3. Social Security: One cut under consideration has some appeal but also some risk, since it is technically part of Social Security. We would like to eliminate the so-called Late Baby Bonus, which gives older men a 50% increase in Social Security benefits for having a child late in life (after 47). This benefit is not means-tested, so that when a Clint Eastwood or a Donald Trump or a Stan Greenberg has a child, they get a bonus when they retire. No one has figured out why this benefit exists -- but because it is connected with Social

Security, it may be risky to go after. (Moynihan is not a big fan of this option, and we initially ruled it out for that reason.)

4. Welfare for the wealthy: We would like to find at least one tax expenditure or subsidy that benefits the wealthy that we could time-limit or eliminate. (Putting a time limit on welfare for the wealthy would help a great deal with the left.) There are no easy candidates here, either, but possibilities include subsidies to farmers who make over \$100,000, or tax breaks for annuities held by people who make over \$100,000.

5. Revenues: We think it will be extraordinarily hard to sell a tax increase for welfare reform. The one possible option seems to be a gambling tax, which would impose a 4-5% excise tax on casino revenues (not state lotteries). This has raised opposition from Nevada, New Jersey, and Indian country, but a number of moderates including Moynihan and Breaux have said this is one tax they might consider. We have been asked to put this proposal on hold, however, because of concerns that we could not fight a tax battle at the same time we're fighting on health care and other fronts.

## II. HOW TO TALK ABOUT WELFARE REFORM

We know from past surveys and focus groups what the most popular buzzwords are - "end welfare as we know it", "make welfare a second chance, not a way of life", "break the cycle for the next generation", "governments don't raise children, people do", "people who bring children into this world should take responsibility for them," etc.

We would like to know which specific policies deserve the most emphasis, and which of the many popular phrases we use on this subject have the most credibility.

The key elements of our plan will include:

\* Target the next generation: We plan to phase in our work requirements starting with young people who are 25 and under, on the grounds that it's most important to end welfare for the next generation. The Republicans phase in faster and hit all applicants within 10 years, whereas we'll only hit 2/3 by then.

\* Parental responsibility/prevention: Our plan will include a number of elements aimed at reducing teen pregnancy and preventing people from going on welfare in the first place: a national campaign against teen pregnancy, aggressive child support enforcement, denying additional benefits for additional children born on welfare, requiring minor mothers to live at home, not giving them a separate check for setting up a separate household.

\* Work, not welfare: Our plan will change the culture of welfare by requiring people who apply to go through upfront job search, making them sign a personal responsibility contract that lays out what is expected of them and gives them no more than 2 years on welfare before they have to go to work, providing skills to those who need it, and at the end of two years, providing work for those who need it.