



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

B. Reed
WR - Sawhill

SEP 07 1994

MEMORANDUM

TO: Alice Rivlin
FROM: Belle Sawhill
RE: Welfare Reform - Latest Update

Congressional Activity

There have been several hearings in August on the House side; the Senate side has been quiet.

-- House

Ways and Means may mark up a welfare reform bill in September. It is our understanding that committee staff have been instructed to be ready to go forward then. However, we believe no decision to move a bill has been made and the markup may not happen. Democrats on the subcommittee with jurisdiction (Human Resources) are unhappy with the Administration proposal, Rep. Matsui most prominently. They have advised the Committee leadership not to move a welfare bill this year, fearing electoral politics will inevitably result in a punitive conservative bill. (HHS legislative affairs staff do not consider this inevitable, arguing that moderate Democrats may be less likely to stray during the partisan run-up to an election.) Chairman Gibbons has shown greater enthusiasm for action but has been described of late as losing some of that interest.

Pat Schroeder has been trying to move a child support enforcement bill separately as an alternative to comprehensive legislation. We think this would be a huge mistake, and HHS, including Secretary Shalala, appear to have made progress in discouraging it.

-- Senate

It is our understanding that Moynihan's staff is saying, in private and off-the-record, that we should not expect welfare reform to move this year in the Senate.

Given the little legislative time remaining this year, even if the House were to begin action it remains unlikely that a welfare reform bill would be sent to the President this session.

Estimates

We are continuing to work on ten-year estimates of our bill with HHS but, as yet, have no plans to go public. CBO is continuing to work to produce five-year estimates of our bill as well. Ways and Means subcommittee staff have requested that CBO be ready with estimates and may be looking for them around the second week in September. We continue to have informal conversations with CBO and have some sense of where they are likely to come down on many provisions.

When clearing the welfare reform legislation, our staff estimated that the pricing for welfare reform might be \$1-3 billion higher than the official numbers. We advised Leon and others of this risk, and he decided to clear the bill with the \$9.3 billion estimate.

As the staff predicted, indications are that CBO may be \$2-3 billion higher than the HHS \$9.3 billion estimate of costs over 5 years. (CBO has not made these numbers public and they should be considered confidential.) Up to \$1.5 billion of this may be due to different unit cost assumptions in the child care provisions. Combined with CBO's lower estimates of our financing package (and the loss of some offsets to GATT) we may well be faced with as much as a \$4-5 billion spread between the costs of our bill and our financing, by CBO five-year scoring. A decision will have to be made about whether to seek added offsets or reduce welfare reform's cost in the budget, or both. I have asked David Ellwood to provide us with an initial set of options on how to handle all of this in the budget by Mid-September.

Specific Provisions

-- Alien Eligibility

The main welfare reform bills (ours, the Mainstream Forum, and the House Republican) all affect alien eligibility for benefits. The Administration bill tightens eligibility and asks sponsors of aliens to bear financial responsibility for those they bring to the U.S. for a longer period of time. The Republicans and Mainstream Forum bills completely terminate legal alien eligibility for programs like SSI, AFDC, and Food Stamps. The Republicans, as you may know, have been encouraging the use of their provision as an offset for GATT. In a recent House hearing Barbara Jordan, in her role as chair of the commission on immigration, opposed the Republican provision, although she did not endorse ours. (She did endorse the principle that sponsors should bear responsibility.) In addition, the offset has come up during health care discussions as a possible financing measure (e.g. the Rowland-Cooper-Bilirakis bill). With the heated debates about immigration policy these days, these offsets will continue to be the subject of discussion. Any changes could also affect the costs of increased legal immigration from Cuba.

-- Technicals

HHS is pulling together a technical amendments package on the Administration's bill, to correct problems discovered after the legislation had been transmitted.

-- Health Care Reform and "Welfare Lock"

At the low-income review my staff expressed some skepticism about the evidence suggesting that some people remain on welfare in order to qualify for Medicaid and would leave the rolls if health insurance was universally available. You were curious about the basis for this skepticism. The most recent research has been done by David Ellwood and Robert Moffitt. Several different studies by these authors or others find a significant effect of medical costs on the length of stay on AFDC. This research is suggestive but not conclusive. As a result, while we believe the research could be used as justification for saying there may be an effect of health care reform on welfare caseloads, we recommend against basing budget estimates or policy on it for three reasons.

(1) The findings of an association between health care utilization and AFDC receipt can be explained by hypotheses that do not involve a causal effect of health insurance on welfare stays. For example, having a baby leads to both more utilization of the health care and welfare systems.

(2) Both analyses are based on Medicaid as it existed between 1980 and 1986, not as it exists today. Medicaid expansions since 1988 should have significantly diluted any effect on AFDC that existed in 1984.

(3) None of the analyses account for the potential effects of having State welfare agencies administer low-income health subsidies. People who apply for health subsidies are likely to be advised of their eligibility for other programs, such as AFDC and Food Stamps, increasing the AFDC participation above the current 80-85%.

When we reviewed testimony on welfare reform, HHS agreed to say there is some research that suggests health care reform would have a significant effect on AFDC caseloads, rather than asserting a large effect.

Next Year

-- Changing Congress

There are indications that the midterm elections may result in a more conservative and/or more polarized Congress. A more conservative Congress would probably make it easier to enact a welfare reform bill; however, it could become more difficult to enact a measure like our welfare reform bill.

The Administration bill represents a "New Democrat" balance of measures. As such, it is likely to draw somewhat ambivalent support from many to the left and to the right. Liberals, for example, support the increase in child care funding (and probably want to go further) but find time-limited cash benefits very troubling. Conservatives prefer stricter limits on benefits than are in our bill but are less interested in funding child care. Passing our bill will probably require drawing some support from each camp.

In a more conservative Congress the pressure to move to the right will, of course, increase. If we do, there is a significant chance that liberals, rather than viewing the Administration bill as being somewhat helpful and the best they are likely to get, may simply abandon the process and withdraw support. Without the left, the choice could become a quite conservative welfare reform bill or none at all.

For these reasons, some feel it would be better to enact a bill this year. However, the weight of current opinion, (especially at HHS) is that this can't happen (logistically) and that it wouldn't necessarily be desirable if it did. It's simply too late in the session. Moreover, election fever and the partisan spirit it has engendered might produce a very bad bill.

-- Reconciliation

If there is a reconciliation bill next year welfare reform is a candidate for possible inclusion. By then there may have been sufficient hearings that Congress will feel ready to move it as part of reconciliation. One advantage of including it in reconciliation would be to reduce the political heat we get for our offsets, since they would be buried in a comprehensive bill and would not attract the attention they do when we try to move them separately. On the other hand, given the complexity of the issue, Congress may want to move a free-standing bill. Including welfare reform in a reconciliation bill would, among other things, likely run into Byrd rule problems.

Conclusion:

In conclusion, our main targets for the remainder of this year are:

- To head off a separate child support bill, if necessary.
- To monitor CBO scoring of our bill, the use of existing welfare offsets for other purposes, and the implications of any health bill for welfare reform's costs.
- In light of the above, to decide how to treat welfare reform in the 1996 budget: that is, what combination of new offsets and/or program revisions to include.

This last set of decisions is likely to be almost as difficult as putting together the original financing package, especially if our existing offsets are largely used for other purposes and CBO prices our bill \$2 to \$3 billion above its original price tag of \$9.3 billion.