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

August 5, 1995
(Senate)

STATEMENT OF ADMINISTRATION POLICY

(THIS STATEMENT HAS BEEN COORDINATED BY OMB WITH THE CONCERNED AGENCIES.)

S. 1120 - Work Opportunity Act of 1995
(Dole (R) KS and 31 cosponsors)

The Administration opposes S. 1120 in its current form because it falls short of the central goal of real welfare reform -- moving people from welfare to work. The Administration strongly supports enactment of real and effective welfare reform that promotes the basic values of work and responsibility. The Administration, therefore, strongly supports S. 1117, the Daschle-Breaux-Mikulski substitute, which meets these objectives.

Over the past two and a half years, the President has been fighting for the basic principles of work and responsibility. Last year, the President proposed a sweeping welfare reform package that would: establish tough work requirements while providing child care for working people; impose tough child support enforcement measures; require teen mothers to live at home, stay in school, and identify their child's father; increase State flexibility and accountability; and provide basic protections for children. His economic plan expanded the earned income tax credit, which rewarded work over welfare and cut taxes for 15 million working families.

Last February, the President issued an Executive Order to crack down on Federal employees who owe child support. The Administration also has approved welfare reform experiments in 32 States and has pledged fast-track approval for other State demonstrations that pursue specified reform strategies. Such strategies include: (1) strengthening work requirements backed with child care; (2) limiting recipients' duration on welfare and cutting off people who refuse to work; (3) making parents pay child support or go to work; (4) requiring mothers who are minors to live at home and stay in school; and (5) using welfare and Food Stamp benefits as subsidies for employers who hire welfare recipients. The President has also directed that Federal regulations be changed to ensure that welfare recipients who refuse to work do not receive increased Food Stamp benefits to offset the decreases made in their welfare checks.

The welfare reform debate has come a long way in certain key areas since this Congress first took up the issue. Not so long ago, some in Congress were promoting orphanages as the solution to out-of-wedlock teen births. Now, S. 1120 includes provisions from the President's proposal requiring mothers who are minors to live at home and stay in school. Earlier this year, some in Congress wanted to exclude child support enforcement from the welfare reform debate. Now, there is bipartisan agreement on the toughest child support enforcement proposal ever, and both the House-passed H.R. 4 and S. 1120 include the President's major child support enforcement provisions. In addition, S. 1120 adopts the Administration's position that child protection programs for abused children must be protected and includes an important provision from the President's welfare reform plan requiring welfare recipients to sign personal responsibility contracts as a condition of assistance.

The key to successful welfare reform is moving people from welfare to work. S. 1120, however, does not put work first. It does not provide the level of child care resources necessary to support the imposition of tough work requirements. Indeed, it repeals critical child care programs now serving 640,000 children. It does not provide incentives for States to promote work. Instead, by allowing States to no longer contribute any of their own resources, the bill gives States an incentive to throw people off the welfare rolls rather than put them to work. It further undermines the goal of requiring work by shifting an enormous cost burden to States and localities and putting them at even greater risk during an economic downturn. No safeguards are provided for children whose families lose assistance through no fault of their own. More families may have to make do with less food on the table, if States opt for a Food Stamp block grant and then spend Food Stamp block grant funds on other programs. Finally, House and Senate Republican plans cut low-income programs too deeply, compromising their ability to protect children and promote work. The Administration supports real reform that saves taxpayer dollars by promoting independence -- moving people off welfare rolls and into work -- not by simply sending the welfare problem to the States with more mandates and less money.

The Administration's most significant concerns are discussed below. As the Administration continues its review of S. 1120, it may identify other troublesome issues and will work with Congress to address those concerns as well.

<u>Moving People from Welfare to Work</u>

Welfare reform will succeed only if its central goal is <u>work</u>. Work has always been at the heart of the President's approach to welfare reform. Work has provided the foundation for the welfare reform waivers the Administration has granted, including innovative welfare-to-work programs in Oregon, Iowa, and dozens of other States. If a welfare system is to provide work-based incentives for States and welfare recipients, adequate resources for child care, training, and work must be available. State bureaucracies have to be rewarded for getting people into the workforce or preparing them to enter the workforce -- not for cutting them from the rolls.

Unlike the Daschle-Breaux-Mikulski substitute (S. 1117), which the Administration strongly supports, the Republican leadership bill would not end welfare as we know it by moving people from welfare to work. To promote work, the bill should be changed to:

- Require States to maintain their stake in moving people from welfare to work. S. 1120 would neither require nor encourage States to contribute resources to welfare reform. Many States could be expected to withdraw their own funds, cut benefits, purge large numbers of current recipients from the rolls, and avoid the burden of helping people become self-sufficient. In sum, there is a real danger that States would "race to the bottom" to save State dollars or to deter migrants from other States.

- Provide child care to move people from welfare to work and to keep people from going on welfare in the first place. It makes no sense to deny child care to people trying to leave welfare and to working people who are trying to stay off welfare. By aggregating funding for cash benefits, child care, and employment assistance into one block grant and cutting it across-the-board, S. 1120 provides no guarantee that States will put any money into child care and work programs that move people off welfare. The Administration recommends that the bill be modified to: (1) fund employment and child care for welfare recipients separately from cash benefits; and (2) ensure that people who can work, do so, and have the child care when they do.

- Provide incentives that reward States for putting more people to work, not for cutting them off. S. 1120 gives States an incentive to save money by throwing people off the rolls. To change the culture of welfare, the bill should be modified to reward success instead of the status quo. The Administration supports a performance bonus that would focus the welfare bureaucracy and recipients on the central goal of moving from welfare to work.

- Protect States and families in the event of economic downturn, so that welfare reform does not shift a huge burden onto State and local taxpayers, and States can afford to put people to work instead of putting poor families at risk. In contrast to current funding mechanisms, funding for temporary assistance to needy families under S. 1120 would not adjust adequately to cushion the impact of unemployment and economic stagnation. States in recession would encounter reduced revenues and increased caseloads. S. 1120 would provide a "rainy day" loan fund that would allow States to borrow additional money during economic downturns. In addition, extra funding would be available to States projected to have high population growth that meet certain criteria. There is no guarantee, however, that the finite amount that such States receive will be adequate. And if there is population growth in a majority of States, each will get a diminished share of the fixed dollars. The Administration recommends that the bill be changed to adjust for shifts in economic condition and population.

Training People for the Future

The training provisions in S. 1120 include the consolidation of approximately 90 training programs. Given the need to build a comprehensive workforce development system to serve all Americans and the concerns expressed below, the Administration believes it is inappropriate to consider these provisions in the context of welfare reform legislation. Of paramount concern is the bill's insufficient funding for the consolidated programs. While the President's FY 1996 budget proposes to increase funding for training by $1 billion over FY 1995, S. 1120 would cut funding by 15 percent. Not only is the plan's funding insufficient for the Nation's workforce needs as a whole, the consolidation of these programs means that billions of dollars less will be available to help people stay off welfare and to help others transition from welfare to work.

In addition, S. 1120 would not ensure proper accountability for $8.2 billion in Federal training and vocational education funds. If the bill were adopted, the Federal Government could not assure taxpayers that States were spending Federal funds to achieve the national goals of improving workers' skills, facilitating individuals' transition from school to work, and helping severely disadvantaged people enter the education and work mainstream.

Unlike the President's job training proposal, S. 1120 would not require the use of skill grants for adult training. Thus, there would be no guarantee that training resources would be put directly into the hands of dislocated workers and low-income adults, so that they could make informed training choices. Other concerns about S. 1120 include its: (1) failure to target resources on those most in need; (2) devolution of the successful Job Corps program to the States; (3) elimination of the Summer Jobs, Trade Adjustment Assistance (TAA and NAFTA-TAA) training, Employment Service, and Senior Community Service Employment programs; (4) failure to assure permanent local workforce development boards with authority for local decision-making; (5) failure to provide a national reserve to aid victims of mass layoffs and national disasters and for other purposes; and (6) creation of a complex new bureaucracy under the direction of a part-time board with uncertain accountability as the Federal governance structure.

In addition, the Administration supports the deletion of the provision in S. 1120 that modifies Davis-Bacon labor standards protections. Overall, Davis-Bacon reform is the appropriate avenue for addressing what changes should be made to Davis-Bacon requirements.

Protecting Children

Reduced spending for low-income programs is possible while still protecting the most vulnerable. The Administration has proposed $38 billion in carefully tailored cuts for certain welfare programs over seven years; however, the magnitude of the cuts assumed in the congressional budget resolution -- approximately $110 billion over seven years -- compromises the ability of these programs to protect children and promote work. This is exacerbated by the absence of maintenance-of-effort requirements on the States. It is not realistic to expect the States to compensate for the reduced Federal spending from their own revenues. Many will ultimately pass on the drastic cuts to children and families, who will endure future cuts or even losses in benefit eligibility. The proposal also eliminates benefits for approximately four million children even if their parents have done everything possible to find work.

The Administration supports the retention of Supplemental Security Income (SSI) cash benefits for eligible children provided by S. 1120. The plan, however, would apparently deny SSI benefits to more than 370,000 disabled children over the next five years. In addition, the bill would establish a mandatory five-year cut off of Temporary Assistance for Needy Families without regard to their circumstances. The bill would not provide any protection for children when their parents are unable to work due to illness, disability, the need to care for a disabled child, or high local unemployment. The Administration believes that such provisions are unduly harsh.

Preserving the Health and Nutrition of Adults and Children

The Administration is pleased that S. 1120 includes a number of provisions proposed by the Department of Agriculture to combat Food Stamp fraud. The Administration, however, opposes the Republican leadership plan to include an optional Food Stamp block grant. Providing the option of a Food Stamp block grant in its current form jeopardizes getting food to people who need it. It would sever the link between Food Stamps and nutrition; eliminate the program's economic responsiveness; end national eligibility and benefit standards; and ultimately divert support away from food. The bill requires only 75 percent of the block grant funds to go to food assistance, a provision that could divert $23 billion worth of food from children and families over the next five years. Furthermore, any State that exercises the block grant option will see its food assistance decline dramatically in the event of recession or population growth. The block grant option would threaten the national nutritional framework that has successfully narrowed the gap between the diets of low-income and other families.

The Administration is concerned about the severity of the cuts to the Food Stamp program in S. 1120. The Administration supports requiring Food Stamp recipients without children to go to work or train for work in return for their assistance. S. 1120 does not provide States with the resources to accomplish this goal. Rather than promoting work, the plan simply cuts a hole in the nutrition safety net.

Provisions Affecting Non-Citizens

S. 1120 should support fair treatment for legal immigrants. The Administration supports tightening sponsorship and eligibility rules for non-citizens and requiring sponsors of legal immigrants to bear greater responsibility for those whom they encourage to enter the United States. The Administration, however, strongly opposes the Republican leadership bill's unilateral application of new eligibility and deeming provisions to current recipients, including the disabled who are exempted under current law. ("Deeming" is the requirement that sponsors' income be counted when determining immigrants' eligibility for benefits.) The Administration also is deeply concerned about the bill's application of deeming provisions to Medicaid and other programs where deeming would adversely affect public health and welfare.

Daschle-Breaux-Mikulski Reform Proposal -- Real Welfare Reform

The Senate has the chance to enact real bi-partisan welfare reform. The Administration strongly supports S. 1117, the welfare reform proposal offered by Senators Daschle, Breaux, and Mikulski. Instead of maintaining the current welfare system -- which undermines our basic values of work, responsibility, and family -- this plan sends people to work so they can earn a paycheck, not a welfare check. Unlike S. 1120 and the House-passed H.R. 4, this proposal provides the child care for those transitioning from welfare to work and for those trying to avoid welfare in the first place. It holds State bureaucracies accountable for real results, and rewards them for putting people to work, not just removing people from the welfare rolls. It saves money by moving people to work, not by expecting the States to handle more problems with less money. It allows these programs to respond automatically to recessions, population growth, inflation, and other demographic changes. The

Administration urges Congress to agree on a bipartisan bill that addresses these critical elements of real welfare reform.

Pay-As-You-Go Scoring

S. 1120 would affect direct spending and receipts; therefore, it is subject to the pay-as-you-go requirement of the Omnibus Budget Reconciliation Act of 1990. The Office of Management and Budget's scoring estimate is currently under development.

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

THE DIRECTOR

October 18, 1995

Honorable Bob Dole
Senate Majority Leader
United States Senate
Washington, D.C. 20510

Dear Mr. Leader:

The Administration is pleased that Congress finally may be within striking distance of passing comprehensive welfare reform. In spite of the positive changes made by the Family Support Act of 1988, the welfare system still fails to serve the taxpayers who pay for it and the people who are trapped in it. The American people have waited a long time for this historic moment. We owe it to the people who sent us here not to let this opportunity slip away by doing the wrong thing or failing to act at all.

We have outlined below our top priorities and greatest concerns. Let us be clear: if Congress can agree on a bipartisan bill that is tough on work and fair to children, the President will sign real welfare reform into law, and the Nation will be better for it. But, if Congress tries to walk away from our common values with a bill that is weak on work and tough on children, it will kill welfare reform, and the Administration will continue to pursue welfare reform through waivers, one State at a time, until Congress gets it right.

For two and a half years, this Administration has worked aggressively to make welfare a second chance, not a way of life. In 1993, the President's economic plan gave a tax cut to 15 million working families through the Earned Income Tax Credit, which rewards work over welfare. Last year, the President sent Congress the most sweeping welfare reform plan any administration has ever presented. That plan included tough child support enforcement measures; time limits; work requirements and child care resources to meet those requirements; performance incentives; a national campaign against teen pregnancy; a state option to deny cash assistance to families who have additional children born while on welfare; and measures to promote personal responsibility by requiring as a condition of assistance that minor mothers live at home and stay in school and all welfare recipients sign personal responsibility contracts. The Administration collected a record $10 billion in child support in 1994, and earlier this year, the President signed an Executive Order to crack down on Federal employees who owe child support. The Administration has granted 35 States the freedom to experiment with welfare initiatives to move people from welfare to work and protect children. In July, the President directed that Federal regulations be strengthened to prevent welfare recipients who refuse to work from getting higher food stamp benefits when their welfare checks are docked.

These measures have gone a long way toward reforming welfare around the country. Through welfare reform experiments, 8.6 million recipients around the country are in households in which adults are being required to work, live at home and stay in school, sign a personal responsibility contract, earn a paycheck from a business that uses money that was spent on food stamps and welfare benefits to subsidize private sector jobs, or are under other waiver provisions. These States are doing their part to promote real reform that reflects the basic values all Americans share: work, responsibility, and family. Now Congress needs to do its part with a welfare reform bill that honors those same values by requiring work, demanding responsibility, and protecting children.

In our view, the Senate bill, while far from perfect, reflects the bipartisan common ground that welfare reform must be tough on work and fair to children. The Administration will welcome a bipartisan bill that honors these common values. But a welfare reform bill that, like the House bill, is weak on work and tough on children will be unacceptable.

Done right, welfare reform will move people off the welfare rolls so they can earn a paycheck, not a welfare check. Done wrong, it could cause enormous harm. Most Americans, without regard to party, agree that real welfare reform is about requiring people to work, not simply cutting them off the rolls; about demanding responsibility from young mothers and fathers, not abandoning abused children or taking away poor children's school lunches; and about strengthening families, not penalizing children who deserve a better life. The Administration urges conferees to act in the bipartisan spirit that has marked the better moments of this welfare reform debate.

MOVING PEOPLE FROM WELFARE TO WORK

Across America, there is an overwhelming bipartisan consensus that real welfare reform is first and foremost about work. Anyone who can work should be required to work, and no one who can work should stay on welfare forever. Work has always been at the heart of the President's approach to welfare reform, and it is the foundation for the dozens of State experiments the Administration has approved. We will only complete this historic mission of ending welfare as we know it if we succeed in moving people from welfare to work. That means imposing time limits and tough work requirements, making sure people get the child care they need to go to work, and rewarding States and holding them accountable for their efforts to put people to work, not for cutting them off.

The Administration considers the following provisions of the Senate bill essential to real welfare reform:

- Requiring States to maintain their stake in moving people from welfare to work. Welfare reform must strengthen, not abandon, the historic partnership between Federal and State governments. Unfortunately, the House bill would not require States to continue their financial commitment to welfare reform. All levels of government have a stake in the success of reform, and should be held accountable for it. The Administration strongly supports the Senate provision that States contribute at least 80 percent of their FY 1994 effort each year in order to receive Federal funds. Absent a tightly drawn, permanent maintenance-of-effort requirement, many States could be expected to withdraw their own funds, purge large numbers of recipients from the rolls, and avoid the burden of moving people from welfare to work. This race to the bottom would doom welfare reform and have devastating effects on families with children.

- Providing child care to move people from welfare to work. The House bill is weak on work because it does not ensure that child care will be available for people who need it to leave welfare for work. Specifically, the bill would cut back on funds currently available under child care, and would eliminate the child care quality, health, and safety protections in current law that were put in place with overwhelming bipartisan support only five years ago. It makes no sense to deny child care to people trying to leave welfare, or to deny States the resources they need to provide child care. The Administration strongly supports the Senate child care provisions that give States a separate funding stream dedicated to child care, with an additional $3 billion over five years to help welfare recipients move into the workforce and to help working families stay off welfare. The Senate bill also protects those with young children who want to work, but are unable to secure child care. Without sufficient child care funding, welfare reform will be an enormous unfunded mandate on the States, and could force them to cut recipients off rather than move them into work. The Administration recommends that the conferees improve the final bill by including more child care resources, not less.

- Protecting States and families in the event of economic downturn, so that welfare reform does not shift a huge burden onto State and local taxpayers, and States can afford to put people to work instead of putting poor families at risk. The House bill would not adequately protect States and families in times of unemployment and economic stagnation, when States would encounter reduced revenues and increased caseloads. A so-called rainy day loan fund is not adequate. The Administration strongly supports the Senate addition of a contingency grant fund, which makes a funding reserve available to States in economic trouble. We recommend that both the current trigger mechanism and the amount of funds in reserve be strengthened to provide States greater protection in a serious recession without significantly increasing projected Federal costs.

* Providing incentives that reward States for putting more people to work, not for cutting them off. The House bill gives States a perverse incentive to save money by throwing people off the rolls, and lets them count people as "working" if they were simply cut off welfare -- whether or not they have moved into a job. To change the culture of welfare, reform should reward success instead of failure or the status quo. The Administration strongly supports a work performance bonus like the Senate provision that would focus State welfare bureaucracies and recipients on the central goal of moving from welfare to work.

The Administration also strongly supports Senate provisions to require recipients to sign personal responsibility contracts in return for assistance, and to give States the option to provide job placement vouchers directly to welfare recipients as a way to change radically the culture of the current welfare system. The Administration supports the Senate hardship exception of 20 percent, and the House provision that would allow, but not require, States to provide non-cash assistance in the form of vouchers to children who lose their benefits due to the time limit.

DEMANDING RESPONSIBILITY

The Administration believes that welfare reform must promote personal responsibility and responsible parenting. We must demand responsibility from parents who bring children into the world, not let them off the hook and expect taxpayers to pick up the tab for their neglect.

The Administration strongly supports the following elements of welfare reform that can help make responsibility the law of the land:

* The toughest possible child support enforcement is central to getting people off welfare and helping them stay off. The Administration strongly supports bipartisan provisions in both the House and Senate bills to streamline paternity establishment, require new hire reporting, establish State registries, make child support laws uniform across State lines, and require States to use the threat of denying drivers' and professional licenses to parents who refuse to pay child support.

* Requiring minor mothers to live at home and stay in school as a condition of assistance. The Administration strongly supports the Senate provision to demand that young parents be responsible and turn their lives around, rather than the House provision that would automatically punish children born to unwed mothers under 18 -- regardless of whether the mother has made an effort to turn her life around so her children don't end up on welfare indefinitely.

* A national campaign against teen pregnancy. Welfare reform must send a strong message to young people that they should not get pregnant or father a child until they are ready to take responsibility for that child's future. The Administration

supports Senate provisions to combat teen pregnancy by an appropriate expansion of abstinence education, targeting sexual predators, setting national goals for reductions in teen pregnancy, and enabling States to provide second-chance homes for young mothers and their children. The Administration does not support the so-called illegitimacy bonus in the House and Senate bills, which some believe could promote abortion and which is unworkable in its current form.

PROTECTING CHILDREN

There is an overwhelming bipartisan consensus in this country that welfare reform should not punish children. Across the country, Republicans and Democrats at the State and local level agree that we must demand responsibility from young mothers and young fathers, not penalize children for their parents' mistakes.

In particular, the Administration strongly opposes the following provisions which would punish children:

- Destroying vital child nutrition programs, such as school lunch and WIC. Welfare reform is about requiring parents to work and take responsibility, not about taking food out of the mouths of poor children. The Administration strongly opposes the child nutrition and WIC block grants in the House bill, and supports the bipartisan Senate decision to keep those programs intact. The Administration is concerned that budget cuts will strain the ability of schools, child care centers, and summer food service sites to provide nutritious meals to low-income children. The school-based nutrition block grant would not respond to economic recessions or population growth. In a recession, States would be unable to respond without cutting back on the quality or quantity of food, raising taxes, or cutting other services so that children could eat. In addition, the Administration believes that the competitive bidding provisions within the House-proposed WIC block grant are inadequate and would fail to maintain the program's cost savings. WIC's current cost containment requirements have saved billions of dollars that have been used to serve additional WIC families.

- Ending the Federal commitment to abused and neglected children and those at risk. A time of dramatic change in the welfare system is not the time for radical and untested experiments with our Nation's child protection system. Rather than protecting vulnerable children, the House bill would put hundreds of thousands at increased risk of harm by cutting funding for foster care, adoption assistance, and child abuse prevention. The Administration strongly opposes the child protection block grant and program cuts in the House bill, and supports the bipartisan Senate decision to keep those programs intact.

* The House mandate that all States deny assistance to unwed minor mothers and their children. The Administration strongly agrees with the broad bipartisan consensus -- ranging from Republican and Democratic governors to the Catholic Church -- that it is wrong to punish children just because their parents are poor, young, and unmarried. The Administration supports the Senate provision, affirmed by an overwhelming bipartisan vote, which leaves this matter to the States.

* The House mandate that all States deny assistance to additional children born while a family is on welfare. At a time of bipartisan agreement on the need for more State flexibility, welfare reform should not saddle the States with policy mandates with uncertain impact. The Administration agrees with the overwhelming bipartisan majority of Senators that States should have the right to decide for themselves whether or not to adopt the family cap.

KEEPING OUR NUTRITIONAL SAFETY NET

The Administration urges the conferees to preserve the national nutrition safety net, which assists about 27 million working family members, poor children, and elderly Americans each day. Federal nutrition programs have produced measurably better health over the years as a result, and have earned bipartisan support. National nutrition standards and a funding mechanism that enables these programs to meet greater needs in times of regional or national economic hardship are essential to making welfare reform work.

The Administration has always maintained that preserving a nutritional safety net Nation-wide is a critical part of welfare reform and strongly opposes a food stamp block grant. However, if steps are taken to permit optional State block grants, the House approach is vastly preferable. Requiring States to spend grants only on food assistance will preserve the vital link between food stamps and nutritional assistance. The Senate provision for a State food stamp block grant option would sever that link and encourage States to divert Federal dollars away from putting food on the table.

The level of food stamp cuts, although too deep in both bills, is more reasonable in the Senate bill. The Administration's own balanced budget proposal would save $19 billion over seven years, an 11 percent cut. By contrast, the House bill would cut food stamps by nearly 27 percent in the year 2002. In addition, the House bill places an inflexible ceiling on the amount authorized for appropriations for the food stamp program. This cap allows no room for error in estimates of future program costs nor any margin in economic conditions. By capping spending levels, the House bill would leave working Americans vulnerable to shifts in the economy and to changes in nutrition standards that could be driven more by political and budget pressures than by the Nation's good health. The Administration urges the conference not to exceed the Senate level of cuts or to impose an inflexible spending cap.

PROTECTING DISABLED CHILDREN AND THE ELDERLY

Both the House and Senate bills go too far in the changes they would make to the SSI children's disability program. However, the Administration favors the Senate provisions over the deep cuts in the House bill, which go far beyond what is needed to correct recent growth in the program. The House bill would eventually prevent nearly a million disabled children who would be eligible under current rules from receiving cash assistance, and create a block grant for services that would arbitrarily cut by 25 percent funding levels for disabled children who would no longer be eligible for cash benefits, but would be eligible for services. The loss of cash assistance would be devastating to many low-income families struggling to care for a disabled child at home. The Administration supports the bipartisan Senate decision to continue to provide SSI cash benefits for all eligible children. But, we strongly urge the conferees to reduce hardship to disabled children currently on SSI by exempting them from the new, stricter eligibility rules. However, if the conferees determine that these rules should be applied to current SSI recipients, the Administration recommends applying them only to those children eligible as a result of maladaptive behavior.

The Administration also recommends the deletion of a Senate provision that would gradually raise the age requirements for elderly poor applying for SSI from 65 to 67, parallel with the rising age requirements for Social Security. The apparent consistency of this change masks an important difference between these two programs: Social Security recipients can retire early and get benefits, and most do so, but there is no early eligibility age for SSI. This provision was added at the last minute without adequate public scrutiny and debate, and should be dropped.

BENEFITS FOR NON-CITIZENS

Both the House and Senate bills go too far in cutting benefits to legal immigrants, and shifting costs to States with high numbers of immigrants. The Administration supports holding sponsors who bring immigrants into this country more responsible for their well-being, but these changes should be made equitably.

The Administration strongly opposes the Senate provision that would discriminate against U.S. citizens by denying benefits to legal immigrants even after they became naturalized citizens. We cannot have two categories of citizens, and a provision that treats naturalized citizens less favorably than the native born raises serious constitutional concerns. Also objectionable is the Senate provision that would establish a class system for American citizenship by requiring sponsors' income to exceed 200 percent of poverty. Working families who are U.S. citizens should not have to pass a wealth test in order to be reunited with a family member. In addition, fairness dictates the adoption of the House provision that exempts those over age 75 and those too disabled to complete the naturalization process from benefit cutoffs.

Several further changes could make the legislation much more acceptable to the Administration. Immigrants who become disabled after entering the country should be eligible for SSI. The benefit restrictions in the Senate bill distinguish between immigrants with and without sponsors. This is a more sensible approach than the House bill, which bans virtually all immigrants from receiving benefits. Benefit restrictions should not apply to discretionary programs and such mandatory programs as student loans and the Social Services Block Grant; the administrative burdens on these programs of verifying everyone's citizenship is significant, and the budget savings are negligible. Furthermore, it is important that the legislation clarify that it does not call into question the full participation of any child in public elementary and secondary education, including pre-school programs. In addition, refugees and others who came to the United States to avoid persecution should be given adequate time to naturalize before being subject to benefit restrictions. Finally, the Administration has serious reservations about the bill's application of these provisions to the Medicaid program.

THE LEVEL OF CUTS IN LOW-INCOME PROGRAMS

The overall budget cuts in both the House and Senate welfare reform bills far exceed the level of cuts proposed in the Administration's Balanced Budget Plan. For welfare reform to succeed, it must save money by moving people from welfare to work -- not by cutting people off assistance, which will cost taxpayers much more down the road, or by merely shifting costs to the States. Adequate resources must be provided to move families from welfare to work. Excessive cuts will punish working people and their children -- working parents who need child care; families who work full-time, but don't earn enough to ensure there's always food on the table; and low-income elderly Americans who have worked their whole lives and shouldn't die hungry. The Administration strongly urges the conferees not to penalize work and punish children by accepting cuts deeper than the bipartisan Senate bill.

CONCLUSION

We have made great strides together in this welfare reform debate. Now Congress has an historic chance to reach a bipartisan agreement to end the current welfare system and replace it with one that is tough on work, tough on responsibility, and fair to children. A bill that honors those values will be acceptable; a bill that is weak on work and tough on children will not be. The Administration calls on the conferees to put politics aside and help give the American people a government that honors their values by making welfare a second chance and responsibility a way of life.

Sincerely,

Alice M. Rivlin

Alice M. Rivlin
Director

IDENTICAL LETTERS SENT TO:

Honorable Thomas A. Daschle
Honorable Newt Gingrich
Honorable Richard Gephardt

cc: House and Senate Conferees on H.R. 4, Welfare Reform

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

THE DIRECTOR

October 18, 1995

Honorable Gerald B. H. Solomon
Chairman
Committee on Rules
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

I am writing to transmit the Administration's views on the actions that the House will take to comply with budget reconciliation instructions.

You should have no doubt about the President's position: If reconciliation legislation were sent to him with the extreme spending cuts and huge tax cuts called for in the budget resolution, he would veto the bill. The President has stressed the importance of finding common ground with Congress on a budget plan that will best serve the interests of the American people.

As you know, the President shares the goal with congressional leaders of balancing the budget. But, as the President and his senior advisors have repeatedly noted, the Administration has profound differences with the overall approach that Congress has adopted to reach that goal:

- The President's plan: The plan, which the President announced in June, would protect Medicare until 2006 and retain Medicaid as an entitlement; invest in education and training and other priorities; and provide for a targeted tax cut to help middle-income Americans raise their children, save for the future, and pay for postsecondary education.

  To reach balance within 10 years, the President would eliminate wasteful spending, streamline programs, and end unneeded subsidies; take the first, serious steps toward health care reform; reform welfare to reward work; cut non-defense discretionary spending (other than the President's investments) 22 percent in real terms in 2002; and target tax relief to those who really need it.

- The Republican plan: The Republican plan -- as reflected in the committee's reconciliation provisions and earlier congressional budget actions -- would reach balance in seven years, and, at the same time, provide a huge tax cut whose benefits would flow disproportionately to those who do not need them.

To reach balance under those circumstances, the Republican plan would cut deeply into such mandatory programs as Medicare, Medicaid, student loans, food stamps, and foster care, and would raise taxes on millions of working families by slashing the Earned Income Tax Credit (EITC). By extending the discretionary caps at GOP-proposed levels, the Republican plan would force deep cuts in virtually all discretionary programs, including education and training, science and technology, and other investments that would help raise average living standards.

The President believes strongly that, while his approach reflects the common ground that Americans share, the Republican plan reflects an extreme and unwise approach that will hurt average Americans and help special interests. He has repeatedly urged Congress to work with him on a more reasonable path that will help raise average living standards in the future.

The House Republican plan unduly burdens low- and middle-income Americans in order to finance tax cuts for the wealthy. In our recent analysis, we found that the proposed tax breaks for the wealthiest 5 percent of households would give them annual benefits of $37 billion -- almost as much as the plan cuts income and health coverage for all families with children. In fact, the 20 percent lowest-income families with children will each lose an average of over $1,500 in income and nearly $1,700 in health benefits. This is not shared sacrifice.

The Republican majority, however, has shown little inclination to move to a more responsible path. The Ways and Means and Commerce Committees, for instance, have passed deep, unwarranted cuts in Medicare that would raise costs for beneficiaries and sharply cut payments to providers, jeopardizing access to, and the quality of, care. In addition, Commerce would convert Medicaid into a block grant and limit its annual growth. The Urban Institute estimates that even if states could absorb half of the cuts by cutting services and provider payments, they would still have to drop coverage for 8.8 million people in fiscal 2002, including 6.3 million adults and children in families, 900,000 seniors, and 1.4 million people with disabilities. Furthermore, the Commerce Committee would end standards needed to protect residents of nursing homes, eliminate spousal impoverishment protection, and not ensure coverage for even the most vulnerable Americans -- poor children under 18.

The Republican tax plan hurts working Americans. It would raise taxes on 14.5 million working families by cutting the Earned Income Tax Credit (EITC). It would cut foster care and other child programs and turn them into block grants, potentially denying benefits to needy children. And it would make unwise changes to pension fund asset reversions -- making it easy for companies to withdraw "excess" pension assets for their own use -- threatening the retirement benefits of workers and increasing the exposure of the Pension Benefit Guaranty Corporation, which guarantees these benefits.

We understand that the Republican majority will place the House-passed welfare reform bill in the reconciliation bill. When added to food program and EITC cuts, the total low-income cuts are excessive. For welfare reform to succeed, it must save money by moving people from welfare to work -- not by cutting people off, which will cost taxpayers much more down the road, or by merely shifting costs to the states. The cost of excessive program cuts in human terms -- to working families, families with small children, low-income immigrants, disabled children, and the elderly receiving Supplemental Security Income -- would be grave. The Administration proposes a more acceptable level of cuts, coupled with strong programmatic reforms.

Other committees are making unwise cuts or other changes in programs that affect millions of students and their families, children, the poor of all ages, and the environment.

The Economic and Educational Opportunities Committee would raise college loan costs to middle- and low-income students and parents. In particular, the Committee would eliminate the successful Direct Student Loan program, thereby eliminating the 1,400 schools now participating in the program and more schools that have already applied to participate next year. These actions hurt middle- and low-income families, make the student loan programs less efficient, perpetuate unnecessary red tape and burden on schools, and deny to students and schools the free-market choice of guaranteed or direct loans.

As you know, the House Agriculture Committee did not meet its reconciliation instructions, demonstrating that the proposed level of cuts is too deep. At the same time, the Administration has serious concerns with the House Republican leadership's "Freedom to Farm" proposal to reach the savings target, particularly its effect on the federal safety net for family-sized farms.

The House proposal to dismantle the Commerce Department and create more units of government does not help to reinvent government. Quite the contrary, it will create more government with less efficiency. Commerce houses some of the President's highest-priority technology programs, which ensure the nation's future competitiveness and job growth, and has a strong record of helping businesses, workers, and communities to build a stronger economy. The Administration also opposes another aspect of the Commerce dismantlement -- the artificial consolidation of now-independent trade promotion and financing agencies into a large trade bureaucracy.

The House Resources Committee would open the Arctic National Wildlife Refuge (ANWR) to oil and gas drilling, threatening a rare, pristine ecosystem, in hopes of generating $1.3 billion in federal revenues -- a revenue estimate based on wishful thinking and outdated analysis. Moreover, the potential for long-term damage to this biologically-rich wilderness is simply too grect. The Administration, instead, supports efforts to protect the refuge's coastal plain permanently.

Already, the President has made it clear that he will veto any reconciliation bill that includes Medicare and Medicaid cuts of the size that the budget resolution calls for. Also, as I wrote to the House Resources Committee on September 21, the President will veto any reconciliation bill that opens ANWR to oil and gas drilling. But our serious concerns do not end with the specific veto threats that we have issued. For the wide array of reasons discussed in this letter, this bill remains unacceptable to the Administration and to the American people.

This nation was founded on the dream that all families should be given the opportunity to improve their lives and the future of their children. The Republican plan undermines that dream and promotes the wrong set of priorities for the nation.

Attached is a more detailed review of our concerns.

Although we have major differences with Congress at this point, we hope to work with you to find a common path to balance the budget in a way that will improve the standard of living of all Americans.

Sincerely,

Alice M. Rivlin

Alice M. Rivlin
Director

Attachments

Identical letter sent to Honorable John Joseph Moakley,
Honorable John R. Kasich, and Honorable Martin O. Sabo

CONCERNS WITH HOUSE RECONCILIATION BILL

HOUSE AGRICULTURE

Reform Package

The Committee's inability to meet its reconciliation target highlights how deep the cuts would be and the serious problems of the "Freedom to Farm" proposal, which the House majority likely will include in the rule. The "Freedom to Farm" proposal would effectively sever the safety net that farm programs now provide in stabilizing farm income. Rather than allow federal payments to adjust to changes in market conditions, as they now do, "Freedom to Farm" would set fixed annual payments that producers would receive, regardless of market conditions. This would have two negative results. First, farmers would receive payments even if market prices are high. Such a windfall has led opponents to label "Freedom to Farm" as "welfare for farmers," which would come at the expense of taxpayers who should not have to subsidize farmers when the market is strong. Second, if market prices fall, federal payments would not rise, as they do under current law. Family farmers would have to absorb the lost income, creating a "ripple effect" of lost income for rural communities.

The House proposal would strike the requirement that participants have crop insurance -- a major, recently-enacted reform. Combined with cuts in the farm safety net, this proposal likely would raise pressure to return to budget-busting, ad hoc disaster payments. The proposal also would arbitrarily limit benefits to current participants. Similarly, the proposal would limit the Conservation Reserve Program (CRP) -- the largest voluntary conservation assistance program available to farm producers -- to existing contract holders. Even when current CRP participants opt out, USDA could not replace the lost conservation acres with more environmentally significant ones, as the Administration proposes.

Food Stamps

The House food stamp cuts are extreme. Over half of all recipients are children, over a quarter live in households where someone is working, and about seven percent are elderly. The Administration strongly opposes cuts beyond the Senate welfare bill's more reasonable level.

The Administration strongly opposes the food stamp block grant option, especially in light of efforts to create an AFDC block grant; a national nutrition program helps to put food on the table for low-income families who may lose their cash assistance. The Senate's food stamps block grant option is considerably worse than the House's, as it allows up to 20 percent of the block grant to go for non-food purposes and lacks the House's requirement that states have an EBT system in place before opting for a block grant. The Administration also strongly opposes the House proposal to place an inflexible ceiling on food stamp spending. If program costs exceed projections -- as could easily occur if the economy weakens in the next few years -- benefits could be cut across-the-board.

Federal nutrition programs have produced measurably better health among the many people who get food assistance. National nutrition standards and a funding mechanism that lets the programs expand to meet greater needs in times of national or regional economic hardship are essential to feasible welfare reform.

Child Nutrition and Women Infants and Children (WIC)

The House welfare bill would combine child nutrition programs into block grants and cut them by about $10 billion over seven years. This action would eliminate national standards that guarantee children access to healthy meals at schools, and preclude an effective response to economic downturns. The Administration strongly opposes the House provision, preferring the Senate plan of preserving the integrity of these key programs that traditionally enjoyed broad bipartisan support.

HOUSE BANKING AND FINANCIAL SERVICES

Community Reinvestment Act (CRA)

The Administration strongly opposes any amendments that would weaken the Community Reinvestment Act (CRA), which requires regulated financial institutions to have a continuing and affirmative obligation to help meet the credit needs of their communities, including low- and moderate-income neighborhoods, consistent with safe and sound operations. In rewriting the CRA regulations, federal banking agencies considered and resolved the problems of the old CRA process; Congress should not amend the Act before we can evaluate how these regulations are working. The Committee would exempt from CRA financial institutions with assets of under $100 million, and permit institutions with assets of under $250 million to self-certify under CRA -- effectively exempting 90 percent of the nation's banks and thrifts from the Act.

Federal Housing Act (FHA) Single-Family Assignment Program

The Administration appreciates the Committee's informal agreement to consider and possibly substitute the proposed alternative to FHA's single-family assignment program -- if CBO scores its savings at or close to those estimated for assignment elimination. The Committee's current provision would eliminate special forbearance for delinquent FHA homeowners.

Currently, FHA must allow up to three years' forbearance for certain homeowners who experience financial hardship. Less than 15 percent of assigned mortgages ever become current, however, and properties lose tremendous value during the extended forbearance period. By eliminating the assignment program, the government would avoid these losses. The proposed alternative -- which also would eliminate the program -- would avoid the losses, but also allow viable FHA homeowners to remain in their homes through times of temporary economic distress, and save money by avoiding foreclosures through the use of loss mitigation tools that the private sector commonly uses.

Banking Insurance Fund (BIF)/Savings Association Insurance Fund (SAIF)

The Administration strongly supports the Committee's action to deal with the financial problems of the Savings Association Insurance Fund (SAIF), which would eliminate the perverse incentives created by a premium differential between SAIF and the Bank Insurance Fund (BIF). The bill accomplishes that through a one-time special assessment on SAIF-insured deposits and by spreading FICO payments pro rata over all FDIC-insured institutions. In addition, the legislation provides for SAIF's merger with BIF, which is essential to assuring that SAIF's structural vulnerabilities cause no further problems. While the Administration supports an ultimate merger of the thrift and bank charters, the difficult issues involved in the charter merger (including tax issues) should not interfere with enactment of a comprehensive solution to SAIF's financial problems.

HOUSE COMMERCE

Medicare

The Administration strongly opposes the magnitude of the proposed Medicare cuts -- $270 billion over seven years. While Republicans say the cuts are needed to "save" the Medicare Part A Trust Fund, only a fraction of the savings actually would go to the Part A trust fund. Most of the cuts -- $140 billion over seven years -- are in Medicare Part B, none of which would strengthen the Part A trust fund. Of the $130 billion in Part A cuts, $36 billion would merely offset the trust fund losses threatened by House Republicans' actions of earlier this year. Therefore, the $270 billion in cuts yield only a net $93.4 billion to strengthen the Part A trust fund and, thus, secure Medicare until 2006. This is the same length of time that the President's proposal would ensure the solvency of Medicare Part A, making clear that the rest of the GOP Medicare cuts are designed to finance the GOP tax cut.

Further, the Republican plan imposes $54 billion in new financial burdens on beneficiaries in the form of higher Medicare Part B premiums. Most of this increase comes from setting the Medicare Part B premium to cover 31.5 percent of program costs. This increase is excessive and does nothing to strengthen the Part A trust fund. In addition, some higher-income Medicare beneficiaries will see their Part B premiums more than triple. The proposal then compounds these direct new burdens on beneficiaries by imposing many hidden cuts that will force them, over time, to pay much more for their health care services.

For example, the GOP's new "MedicarePlus" option actually gives beneficiaries less choice. Though it promises to give beneficiaries free choice between traditional Medicare and all the plan options under MedicarePlus, the legislation applies distinctly uneven rules to Medicare and MedicarePlus, making traditional Medicare much less attractive to providers than MedicarePlus. These incentives, along with a provision that applies the "failsafe" mechanism of more cuts only to the traditional program, would reduce providers' willingness to serve beneficiaries in traditional Medicare. This will restrict beneficiary choice, not enhance it. MedicarePlus, as the bill structured it, also would promote adverse risk selection that could increase costs for the traditional program. The Administration does not support efforts to use Medicare beneficiaries to experiment with untested concepts that could weaken the program.

The MedicarePlus "choice" is also a bad one for beneficiaries because they will lose protection from "balance billing," whereby providers charge beneficiaries more than Medicare approves. Medicare permits no balance billing by hospitals and only limited balance billing by physicians. MedicarePlus plans, however, will widely permit it. Providers in fee-for-service MedicarePlus plans will be able to charge patients whatever they want. The same will be true for patients electing the catastrophic or medical savings account (MSA) plans, and for managed care plans whenever patients receive non-emergency care outside of the plan -- even if the plan authorizes such care. Given the very tight caps that this bill would impose, provider pressures to balance bill will grow. If providers begin to move to MedicarePlus plans to escape balance billing limits, beneficiaries will face the choice of following them and paying more, or remaining in traditional Medicare where fewer doctors and hospitals are able to care for them.

The Administration strongly opposes provisions that would weaken its efforts to combat fraud and abuse. The GOP bill relaxes critical rules that now outlaw kickbacks and require providers to exercise due diligence in submitting accurate and true Medicare claims. These provisions, which CBO has determined will cost Medicare over $1 billion from 1996-2002, could harm the quality of beneficiary care, offset the savings from efforts to fight fraud and abuse elsewhere in the bill, and further burden law enforcement efforts to combat health care fraud and abuse.

Medicaid

The Administration strongly opposes both the magnitude of proposed Medicaid cuts -- which would reduce federal payments to states by $182 billion, or 20 percent, below current law -- and the conversion of Medicaid into a block grant. By 2002, these cuts would amount to a 30 percent reduction below CBO's estimate of the cost to maintain current services. To reach these savings, per capita health care spending growth under Medicaid would have to fall to an average of 1.4 percent a year over the next seven years. By contrast, per capita spending in the private sector is projected to grow by 7.1 percent a year during this period. Consequently, States will have to raise taxes or sharply reduce coverage. The Urban Institute estimates that even if states can absorb half of the proposed cut through greater efficiencies, 8.8 million Americans, including 6.3 million adults and children in families, 900,000 seniors, and 1.4 million people with disabilities, would lose coverage in 2002.

Furthermore, in converting Medicaid into a drastically smaller block grant program, the Committee bill ends the guarantee of coverage on which millions of low-income families have depended. The bill repeals federal protections against spousal impoverishment, which President Reagan joined with congressional Democrats to enact in 1987. Currently, a person may qualify for Medicaid assistance with nursing home care without his or her spouse in the community being forced into poverty; the law protects a basic level of income and assets, including the home and a car, for the community spouse. If the protections are repealed, an elderly woman could be forced to impoverish herself and give up her home or family farm before her husband in a nursing home could qualify for Medicaid assistance.

The bill also repeals protection for low-income Medicare beneficiaries under Medicaid. Currently, these individuals are eligible for Medicaid assistance with their Medicare premiums, deductibles, and other cost sharing. An estimated 5 million Medicare beneficiaries are eligible. The need was so great that congressional Democrats and

Republicans supported creation of the Qualified Medicare Beneficiary (QMB) program. This legislation was signed into law by President Reagan and expanded in a subsequent law signed by President Bush.

The bill repeals federal nursing home quality standards and directs states to adopt whatever standards they choose. With an enormous cut in federal financial assistance, states may not be able to afford to develop and enforce standards to ensure a high quality of care and quality of life.

The Administration is concerned that the Committee bill repeals the Vaccines for Children Program (VFC), a 100 percent federally-funded entitlement for Medicaid-eligible, uninsured, under-insured, and Indian children. Although the bill requires states to cover immunizations for Medicaid-eligible children, thousands of uninsured, under-insured, and Indian children would lose coverage. Further, in converting Medicaid into a drastically reduced block grant, federal funding dedicated to immunizing children would be reduced, threatening our efforts to insure that 90 percent of all children under age 2 are properly immunized for the initial, and most crucial, doses of vaccine.

Privatization of the United States Enrichment Corporation (USEC)

The Administration is pleased that both the House and Senate bills advance prospects for selling the USEC. Generally, the Administration prefers the Senate version, although we oppose Senate provisions that would transfer exclusive rights to gaseous diffusion technology from the Energy Department to USEC. In addition, the Senate treatment of Russian uranium provides a framework to balance antidumping concerns with the national security goal of purchasing Russian high enriched uranium (HEU). But, to effectively implement the HEU deal, the initial limit on using Russian uranium in the U.S. should be raised to 4 million pounds in 1998 (vs. 2 million pounds) and raised by 2 million pounds per year.

Spectrum Auction

The Administration is pleased that the Committee has included legislation to raise funds from spectrum auction, although it views the Senate's spectrum language as preferable to the Committee's. Unlike the Committee's version, the Senate provision provides for the payment (from auction proceeds) of costs that federal agencies bear in migrating from one portion of the telecommunications spectrum to another. This provision could be particularly important for the Departments of Defense and Justice and the Federal Aviation Administration. We should not require agencies to absorb these costs in their discretionary appropriations.

HOUSE ECONOMIC AND EDUCATIONAL OPPORTUNITIES

Davis-Bacon and Service Contract Act Repeal

The Administration strongly opposes the Committee's proposed repeal of the Davis-Bacon Act and the Service Contract Act. Davis-Bacon requires federal contractors to pay locally prevailing wages to workers hired for construction, alteration, or repair of public buildings or public works. The Service Contract Act applies a similar prevailing wage provision for service employees on federal contracts and subcontracts. While the Administration supports reform of Davis-Bacon, outright repeal of it, or the Service Contract Act, would lower the wages of working Americans.

Student Loans

The Committee would get almost 60 percent of its $10.2 billion in savings by cutting assistance to students and parents, eliminating the Federal Direct Student Loan Program, and threatening the delivery and integrity of all student aid.

The President's direct lending program has been a great success, saving money and increasing access to education. Thus, the Administration strongly opposes the Committee's proposal to eliminate this program; it is very popular with the 1,400 institutions already in it because it's easier to administer than the guaranteed loan program and gives students more flexible repayment options, including income-contingent repayment.

The Administration also strongly opposes the Committee's proposed end to the federal subsidy of interest payments that Stafford loan recipients receive during the 6-month "grace period"; these undergraduate students' costs could rise as much as $700. In addition, the Administration strongly opposes the Committee's increase in the PLUS loan interest rate.

The Committee further proposes to cut by 60 percent the funding needed for financial management and the avoidance of fraud and abuse in the guaranteed loan program.

HOUSE GOVERNMENT REFORM AND OVERSIGHT

Dismantling the Department of Commerce

The Administration strongly opposes the proposal to dismantle the Commerce Department, which the House majority has said it plans to include in reconciliation. The proposal ignores the need for long-term job creation, continued investment in a sound technology base, a renewed national export strategy, and environmentally sustainable economic growth. In addition, the Congressional Budget Office estimates that the dismantlement would cost $445 million for purposes of reconciliation, a cost that would prove wasteful and counterproductive.

The Administration also strongly opposes the proposal to create a National Institute of Science and Technology, which would eliminate critical civilian technology programs. Such action is unnecessary and ill-conceived, and jeopardizes the U.S. economy at a time of fierce global competition. The House proposal eliminates the Advanced Technology Program and the Manufacturing Extension Partnership -- programs with proven results in the development and deployment of new technologies. The House proposal also eliminates vital environmental research activities that help guide economically sustainable environmental policies.

The Administration would oppose any plan to place trade promotion and financing agencies under a proposed U.S. trade agency. For example, the Export-Import Bank, the Overseas Private Investment Corporation, and the Trade and Development Agency facilitated over $20 billion in U.S. business in fiscal 1995. Combining these independent and efficient agencies into a large bureaucracy would stifle their focused and responsive approach to helping U.S. exporters. Moreover, ill-conceived budget reductions to these agencies would also crimp U.S. exports.

The Administration opposes the House proposal to transfer, for a year, the Census Bureau to OMB; OMB lacks the staffing and resources to effectively manage the Bureau's extensive programs. The Administration also opposes the transfer of the Bureau of Economic Analysis (BEA) to the Bureau of Labor Statistics, thus separating Census and BEA for at least a year and endangering the quality of the nation's statistics. The proposed reorganization of these highly-integrated bureaus would disturb their effective, integrated functioning.

Civil Service Retirement and Federal Employees Health Benefits (FEHB)

Like the Agriculture Committee, this committee could not pass a reconciliation package. The Administration views the federal employee benefit provisions that the Chairman described in his letter to Budget Chairman Kasich as unfair and unwise. Those provisions would force federal employees to pay more for retirement and health benefits while cutting their retirement benefits. They also would cut employees' benefits at a time when we are reducing the number of federal employees and asking those that remain to provide the American people with a government that works better and costs less.

The Administration opposes the non-germane proposal that would prohibit the Office of Personnel Management from requiring certain benefits or levels of coverage of plans that participate in the FEHB. The proposal, says CBO, produces no government savings and could raise employees' premiums. It also could launch a spiral of competition among insurance plans to attract healthy individuals, leaving those with chronic health problems unable to afford the coverage they need. This is unwise public policy.

HOUSE INTERNATIONAL RELATIONS

Organization of Foreign Affairs Agencies

The Committee's legislation would incorporate, by reference, non-germane House-passed legislation (Division A of H.R. 1561), about which the Administration has repeatedly raised serious objections. It would require eliminating three foreign affairs agencies by combining the Agency for International Development, the United States Information Agency, and the Arms Control and Disarmament Agency with the State Department, creating a mega-bureaucracy that would be unwieldy, costly, and ineffective.

Furthermore, this legislation would significantly impair the President's ability to conduct foreign affairs. The House majority should remove any such legislation from the reconciliation bill prior to final action.

HOUSE JUDICIARY

Patent and Trademark Office (PTO) Fees

The Administration is concerned about the Committee's proposal to extend the patent surcharge fund, and to deny PTO full access to its fees without discretionary appropriations.

Congress has not appropriated the full amount of fee revenues that PTO collects for its own use. This withholding of fees increases patent pendency and delays the deployment of new technology to the marketplace. The President's budget supports the elimination of the patent surcharge fund beginning in fiscal 1999 and the PTO's full access, without appropriation, to all fees.

HOUSE NATIONAL SECURITY

The Administration is pleased that the House chose not to break with our service men and women by changing the method for computing military retirement pay, but instead chose to allow increased sales from the National Defense Stockpile to offset defense mandatory program increases.

HOUSE RESOURCES

Arctic National Wildlife Refuge (ANWR)

As noted above, the President will veto any reconciliation bill that opens the Arctic National Wildlife Refuge (ANWR) to oil and gas drilling. Exploration and development activities would bring physical disturbances to the area, unacceptable risks of oil spills and pollution, and long-term effects that would harm wildlife for decades. Moreover, the estimate that ANWR will generate $1.3 billion in federal revenues from oil and gas leasing is wishful thinking, based on projected oil prices in the year 2000 of above $30 per barrel -- even though the Energy Information Agency predicts prices will only be about $19. The estimate also fails to consider new geological information showing lower recoverable oil estimates and Alaska's claims that its Statehood Act entitles it to 90 percent of all revenues -- not 50 percent, as the estimate assumes.

Sale of Power Marketing Administrations (PMAs)

The Administration applauds the Committee's decision to sell the Alaska Power Administration to current customers. And though the Committee proposed selling the Southeastern PMA (SEPA), the Administration has concerns about the manner in which that sale would occur.

Because the Committee did not propose selling SEPA to its current customers, the sale would not provide effective rate protection and avoid unwarranted rate increases. The Committee also called for the sale of physical facilities now owned by the Army Corps or Engineers (dams, locks, powerhouses, and related real estate) and would exempt the dams from existing environmental laws. The Administration generally does not support selling large multi-purpose facilities, such as large dams, but perhaps could support some such asset sales if they have been thoroughly studied and include terms and conditions that protect the environment and those who benefit from other project uses, such as flood control, navigation, water supply, and recreation.

Hardrock Mining Reform

The Administration is concerned that the Committee's proposal to reform the antiquated 1872 hardrock mining law would, in fact, leave it largely intact. Most notably, the proposal retains the notorious patenting provision whereby the government transfers billions of dollars of publicly-owned minerals at little or no charge to private interests. The proposed "net" royalty on proceeds from minerals production on federal lands has numerous deductions and escape mechanisms, and would raise little if any money to compensate taxpayers or fund the cleanup of abandoned mines that are degrading water supplies and otherwise harming the environment. Moreover, the proposal actually weakens the claim holding fee by creating a number of new ways for claimants to escape the requirement to pay.

National Park Closure Proposal

The Committee included language to set up a commission, similar to the DOD base closure commission, to recommend a list of Interior Department-operated national parks for closure -- a process that, potentially, would dismantle the nation's national parks. Even after the House voted 231-180 against this ill-advised proposal on September 26, the committee included it in the reconciliation package.

Endangered Species Act (ESA)

The Committee proposes to exempt certain federal agency responsibilities to consult with the Interior or Commerce Secretaries on various agency actions likely to affect threatened or endangered species. Such an exemption will weaken and, in some cases remove, agencies' responsibilities to play a role in the conservation of threatened and endangered species. The Administration strongly objects to the broad list of agency actions that this amendment would exempt.

Grazing

The Committee proposes to stop long-needed environmental reforms of grazing practices on Federal lands by gutting regulations that the Interior Department issued after two years of extensive public hearings. Congress should not use the budget process in a backdoor effort to stop the reforms. In addition, the Committee would exempt key rangeland management decision from the National Environmental Policy Act (NEPA), impose an administratively cumbersome and unworkable grazing franchise fee, and increase permit-holders' tenure on the land from 10 to 15 years.

Additional concerns with Resource Committee action:

The Committee has chosen to use the reconciliation bill as a catch-all for a number of bad policies, many of them having little or nothing to do with balancing the budget.

- **National Parks, Forests, and Public Lands Concessions** -- gives concessioners the opportunity to earn performance incentives that would deter competition for concessions contracts, and allows concessioners to continue to accumulate possessory interests in park property;

- **Ward Valley Land Transfer** -- authorizes the unconditional transfer of federal lands for a low level radioactive waste storage site, which the Administration supports in concept, but with no environmental conditions for the transfer;

- **Sale of National Forest Ski Areas** -- requires the sale of land within national forests to existing ski area permit holders, and creates a new formula for determining the fees that ski areas located on forest service land would pay to the federal government;

- **Oil and Gas Royalties** -- includes a number of provisions that will make royalty collection far more difficult and costly for the federal government;

- **Trona (Soda Ash) Royalty Cap** -- limits royalties to a level below similar private land leases;

- **Surveying and Mapping** -- requires contracting out for United States Geological Survey (USGS) services, diverting scarce resources and producing no savings;

- **Sly Park Unit Transfer (CA)** -- exempts, from applicable environmental laws, the transfer of these Central Valley Project (CVP) facilities from federal ownership, costing federal revenues and setting a bad precedent for any future CVP transfer;

- **Central Utah Project (CUP) Prepayment (UT)** -- authorizes a payment that, as now written, does not protect the government's financial interest.

- **Central Valley Project (CVP) - City of Folsom (CA)** -- authorizes the City to receive CVP water at reduced water rates, producing no savings and, in fact, costing federal revenues if the city uses project water; and

- **Territorial Assistance** -- repeals funding for the Commonwealth of the Northern Mariana Islands (CNMI) Covenant and for the Interior Department's territories oversight and technical assistance, preventing the redirection of funding that the Administration proposed and the Senate approved.

HOUSE VETERANS' AFFAIRS

Veterans' Affairs (VA) Medical Care

The Administration is concerned about the Committee's proposal to raise, by 50 percent, the co-payments that certain veterans pay for prescription medication that the VA provides.

HOUSE WAYS AND MEANS

Medicare

Along with the President's strong opposition to the size of the proposed Medicare cuts, the Administration has other serious concerns with the Committee's proposal. For a detailed explanation of its concerns, please see the discussion in the Commerce Committee section of this letter.

Welfare Reform

We understand that the Republican majority will place the House-passed welfare reform bill in the reconciliation bill. If Congress can agree on a bipartisan bill that is tough on work and fair to children, the President will sign real welfare reform into law and the nation will be better for it. But if Congress tries to walk away from our common values with a bill that, like the House bill, is weak on work and tough on children, it will kill welfare reform, and the Administration will continue to pursue welfare reform through waivers, one state at a time, until Congress gets it right.

The Senate-passed version is an significant improvement over the House. It gives states more adequate funding to provide work and child care; requires states to continue their financial commitments; removes mandates such as the family cap and restrictions on teenage mothers; rewards states for moving people to work; preserves vital child nutrition and child protective services; and gives states access to a contingency fund to provide added resources in an economic downturn. If the House majority chooses to include welfare reform bill in reconciliation, it should not only make these very important improvements to the House bill but also build on them in the following ways:

- Require of states a permanent and tighter maintenance of financial effort.

- Provide states greater protection in a serious recession by strengthening the trigger mechanism and increasing the amount of funds in reserve in the Senate contingency grant fund.

- Provide more child care resources; without sufficient child care funding, welfare reform will be an enormous unfunded mandate on states.

Foster Care and Child Protection Services

The Administration strongly opposes cuts and block grants in foster care and child protective services. The House bill would block grant foster care, repeal the 1993 Family Support and Preservation program, and create a discretionary block grant for child protective services. Rather than protect children, the House's changes to foster care and child protective services could put hundreds of thousand of them at increased risk of harm. This is the wrong time to walk away from abused and neglected children and those at risk.

Benefits for Immigrants

Both the House and Senate bills go too far in cutting benefits to legal immigrants, and shifting costs to states with high numbers of immigrants. The Administration supports holding sponsors who bring immigrants into this country more responsible for their well-being, but Congress should make these changes equitably. The House bill bans benefits for over a million immigrants who are now enrolled in SSI, Medicaid, or food stamps. The Senate bill's benefit restrictions distinguish between immigrants with and without sponsors. This is a more sensible approach than the House bill, which eliminates benefits to virtually all immigrants.

The Administration strongly opposes the Senate provision that would discriminate against U.S. citizens by denying benefits to legal immigrants even after they became naturalized citizens. We cannot have two categories of citizens. Equally objectionable is the Senate provision that would establish a class system for American citizenship by requiring sponsors' income to exceed 200 percent of poverty. Working families who are U.S. citizens should not have to pass a wealth test to be reunited with a family member. In addition, fairness dictates that Congress adopt the House provisions that exempt from benefit cut-offs those over age 75 and those too disabled to complete the naturalization process.

Several further changes could make the legislation more acceptable to the Administration. Immigrants who become disabled after entering the country should be able to get SSI. Benefit restrictions should not apply to discretionary programs and such mandatory programs as student loans and the social services block grant; the administrative burdens on these programs of verifying everyone's citizenship is significant, and the budget savings are negligible. In addition, refugees and others who came to the U.S. to avoid persecution should get adequate time to naturalize before being subject to benefit restrictions. Finally, the Administration has serious reservations about the bill's application of these provisions to Medicaid.

Disabled Children

Both the House and Senate bills go too far in the changes they would make to the SSI children's disability program. In general, the Administration favors the Senate provisions over the House bill's deep cuts, which go far beyond what's needed to correct the program's recent growth. The House bill would eventually prevent nearly a million disabled applicants who could be eligible under current rules from receiving cash assistance. We support the bipartisan Senate decision to continue to provide SSI cash benefits for all eligible children. But we strongly urge Congress to reduce hardship to disabled children currently on SSI by exempting them from these new, stricter eligibility rules. If Congress applies these rules to current SSI recipients, however, the Administration recommends only applying them to children eligible as a result of maladaptive behavior.

Pension Asset Reversions

As the OMB Director wrote to Chairman Archer on September 13, the Administration strongly opposes a Ways and Means-passed provision that makes it easy for companies to withdraw "excess" pension assets from an ongoing plan for their own use. The provision defines "excess funding" as the amount that exceeds 125 percent of the pension plan's current liability, but companies can use actuarial assumptions that would leave a pension plan underfunded if it is terminated (or if stock prices or interest rates fluctuate). Under this provision, a reversion could leave a plan that terminated with less than the funds needed to pay pensioners.

Companies in financial trouble might have incentives to transfer funds out of pension plans, thus increasing the risk of loss for plan participants and for the Pension Benefit Guaranty Corporation. Such reversions also risk a repeat of the pension raids of the 1980s, when reversions helped fuel corporate takeovers and buyouts. Back then, $20 billion was taken from pension plans. By Congress's own estimate, the new reversions would total about $30 billion. This short-sighted provision risks undermining our private retirement system.

Health Benefits for Retired Unionized Coal Miners and their Families

A 1992 law requires coal mining companies to finance a health care arrangement for retired coal miners and their dependents. A Ways and Means-passed provision would exempt certain companies from their obligation to pay for retirement health benefits for their former employees, thereby threatening the solvency of the arrangement that serves nearly 100,000 retirees and dependents.

Earned Income Tax Credit (EITC)

The Administration strongly objects to the Ways and Means proposal to cut the EITC by $23 billion over seven years, raising taxes on 14.5 million low-wage workers and their families, containing 17.7 million children. Indeed, these changes represent the antithesis of welfare "reform": They would make work pay less, penalizing those who play by the rules. The bill would require taxpayers to include social security benefits in adjusted gross income for purposes of the EITC, raising taxes on 1 million retired, widowed and disabled workers by an average of $859. In addition, the bill would change the phase-out formula for families with children, affecting all EITC recipients with $11,260 or more of income. It also would deny the EITC to 4.3 million very low-wage workers who do not reside with qualifying children.

The Administration believes strongly that Congress should not raise taxes on working families to finance tax breaks for the well-off. It should limit its changes to the compliance improvements that the Administration has proposed.

Taxes

The Administration strongly opposes the House tax cut; it is fiscally irresponsible, would make the tax law more complex, encourage tax shelters, and provide a disproportionate share of benefits to high-income families. The proposed tax cut by far exceeds the $245 billion that the budget resolution specifies. We do not know how the House intends to reach the budget resolution targets.

Even if reduced to $245 billion, the tax cut would be far too large. At a time when Congress seeks to save almost $1 trillion to balance the budget, adding another $245 billion to the deficit through lower taxes forces more drastic cuts in public services and benefits for lower- and middle-income families. Without this big a tax cut, Congress would not need the drastic cuts in Medicare in the budget resolution, including the increase in premiums for the elderly at all income levels.

The tax cuts provide large benefits to those who need them the least. The neutral cost recovery system (NCRS) reduces corporate income tax revenues substantially and opens up new tax shelter opportunities, while the virtual elimination of the corporate alternative minimum tax (AMT) will enable many profitable corporations to avoid paying any income tax at all. The capital gains cut is overly generous, disproportionately benefits upper-income families, will make the tax law more complex through the indexing provision, and will encourage tax shelters. Overall, about 52 percent of the benefits from the House tax provisions will accrue to families with incomes over $100,000 (the top 12 percent of families).

The Administration also has serious concerns about more specific provisions of the House tax bill. For example, the Administration opposes the proposal to initiate federal taxation of tribal revenues from Indian gaming, which would significantly reduce resources available to tribes for such vital government services as health, education, welfare, and law enforcement -- now funded through such revenue. Furthermore, other tax-exempt or tax-immune entities that conduct these activities (such as, churches or state governments) are not taxed.

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

THE DIRECTOR

October 23, 1995

Honorable Pete V. Domenici
Chairman
Committee on the Budget
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

I am writing to transmit the Administration's views on the actions that Senate committees have taken to comply with their budget reconciliation instructions.

You should have no doubt about the President's position: If reconciliation legislation were sent to him with the extreme spending cuts and huge tax cuts called for in the budget resolution, he would veto the bill. The President has stressed the importance of finding common ground with Congress on a budget plan that will best serve the interests of the American people.

As you know, the President shares with congressional leaders the goal of balancing the budget. But, as the President and his senior advisors have repeatedly noted, the Administration has profound differences with the overall approach that Congress has adopted to reach that goal:

- The President's plan: The plan, which the President announced in June, would protect Medicare until 2006 and retain Medicaid as an entitlement; invest in education and training and other priorities; and provide for a targeted tax cut to help middle-income Americans raise their children, save for the future, and pay for postsecondary education.

  To reach balance, the President would eliminate wasteful spending, streamline programs, and end unneeded subsidies; take the first, serious steps toward health care reform; reform welfare to reward work; cut non-defense discretionary spending (other than the President's investments) 22 percent in real terms in 2002; and target tax relief to those who really need it.

- The Republican plan: The Republican plan -- as reflected in the committee reconciliation provisions -- seeks to balance the budget while providing a huge tax cut whose benefits would flow disproportionately to those who do not need them.

  To reach balance, the Republican plan would cut deeply into such mandatory programs as Medicare, Medicaid, student loans, and food stamps, and would raise taxes on millions of working families by slashing the Earned Income Tax Credit (EITC). By extending the discretionary caps at Republican-proposed levels, the Republican plan would force deep cuts in virtually all discretionary programs, including education and training, science and technology, environmental protection, and other priorities.

The President believes strongly that, while his approach reflects the common ground that Americans share, the Republican plan reflects an extreme and unwise approach that will hurt average Americans and help special interests. He has repeatedly urged Congress to work with him on a more reasonable path that will help raise average living standards in the future.

The Republican majority, however, has shown little inclination to move to a more responsible path. The Finance Committee, for instance, has passed deep, unwarranted cuts in Medicare that would raise costs for beneficiaries and sharply cut payments to providers, jeopardizing access to, and the quality of, care. In addition, Finance would convert Medicaid into a block grant, which is unacceptable. Under the Finance Committee approach, states would face untenable choices: cutting benefits, dropping coverage for millions of beneficiaries, or reducing provider payments to a level that would undermine the ability to adequately serve beneficiaries. Furthermore, Finance would end standards needed to protect residents of nursing homes, and would not ensure coverage for some of the most vulnerable Americans -- poor children.

The Republican tax plan hurts working Americans. The Finance Committee would raise taxes on 17 million working families by cutting the EITC. And it would make unwise changes to pension fund asset reversions -- making it easy for companies to withdraw "excess" pension assets -- threatening the retirement benefits of workers and increasing the exposure of the Pension Benefit Guaranty Corporation, which guarantees these benefits. In addition, the Governmental Affairs Committee would raise Federal employee retirement contributions -- which is tantamount to raising employees' taxes.

The Finance Committee has included the Senate-passed welfare reform bill in the reconciliation bill. Overall, food program and EITC cuts elsewhere in reconciliation, together with other low-income program cuts, are excessive. For welfare reform to succeed, it must save money by moving people from welfare to work, not by merely cutting them off or shifting costs to the states. The cost of excessive program cuts -- to working families, families with small children, low-income immigrants, disabled children, and the elderly receiving Supplemental Security Income -- would be grave. The Administration proposes a more acceptable level of cuts, coupled with strong programmatic reforms.

Other committees are making cuts in programs that would adversely affect millions of students and their families, children, the poor of all ages, farmers, and the environment.

The Senate Labor and Human Resources Committee would raise college loan costs to middle- and low-income students and parents, and tax colleges and universities. In particular, the Committee would cap the Direct Student Loan Program, reversing the program's significant progress and ending the participation of over 600 schools and hundreds of thousands of students. These actions hurt middle- and low-income families, make student loan programs less efficient, perpetuate unnecessary red tape, and deny to students and schools the free-market choice of guaranteed or direct loans.

The Agriculture Committee would cut farm spending over three times more than the President, reducing farm income and jeopardizing recent record gains in U.S. farm exports. Also, it would cut food stamps too much -- even more than the Senate welfare bill -- threatening the nutritional safety net for children, the elderly, and working families.

The Energy and Natural Resources Committee would open the Arctic National Wildlife Refuge (ANWR) to oil and gas drilling, threatening a rare, pristine ecosystem, in hopes of generating $1.3 billion in federal revenues -- a revenue estimate based on wishful thinking and outdated analysis. Moreover, the potential for long-term damage to this biologically-rich wilderness is simply too great. The Administration, instead, supports efforts to protect the refuge's coastal plain permanently.

Already, the President has made it clear that he will veto any reconciliation bill that includes Medicare and Medicaid cuts of the size that the budget resolution calls for. Also, as I wrote to the Energy and Natural Resources Committee on September 21, the President will veto any reconciliation bill that opens ANWR to oil and gas drilling. But our serious concerns do not end with the specific veto threats that we have issued. For the wide array of reasons discussed in this letter, this bill remains unacceptable to the Administration and to the American people.

This nation was founded on the dream that all families should be given the opportunity to improve their lives and the future of their children. The Republican plan undermines that dream and promotes the wrong set of priorities for the nation.

Attached is a more detailed review of our concerns.

Although we have major differences with Congress at this point, we hope to work with you to find a common path to balance the budget in a way that will improve the standard of living of all Americans.

Sincerely,

Alice M. Rivlin

Alice M. Rivlin
Director

Attachment

Identical letters sent to Honorable J. James Exon,
Honorable Robert Dole, and Honorable Thomas Daschle

CONCERNS WITH SENATE RECONCILIATION PROVISIONS

SENATE AGRICULTURE

Farm policy

The Administration objects to the $13.4 billion cut in farm program spending over seven years -- well over the $4.2 billion in seven-year savings in the President's balanced budget plan. Cuts of the Senate's magnitude would unacceptably reduce U.S. farm income and damage U.S. agricultural export opportunities in the world economy.

The bill does not direct funding to those who most need it, and would punch holes in the safety net for family farmers; while it would significantly protect large-scale farming, it would not significantly protect small-scale farming.

Moreover, farmers would no longer have to participate in the Federal Crop Insurance Program as a condition of receiving farm program benefits, potentially undoing the major reforms only recently achieved in that program.

The bill would cut international trade promotion and market development assistance. It would cut the Export Enhancement Program by 20 percent a year, and the Market Promotion Program by 32 percent a year, diminishing our ability to compete in international markets -- in stark contrast to our competitors who continue to subsidize their farmers substantially.

In addition, the bill would cut incentives for voluntarily accomplishing conservation goals. It would cut the Conservation Reserve Program in half (costing about 15 million acres of resource protection) compared to the Administration's baseline. It would prohibit the Wetland Reserve Program from offering permanent easements, thus requiring USDA to pay multiple times for the same piece of land in order to protect wildlife and water quality. Especially at a time when regulatory controls for wetlands protection are under attack, Congress should not cut incentive-based programs so drastically.

Food Stamps and Child Nutrition

The committee's proposal includes the Senate welfare bill's food stamp provisions and other provisions. All told, the committee would cut food stamps by $31 billion -- $4 billion more than the Senate welfare bill. The President's balanced budget plan includes a preferable funding level, saving $19 billion over seven years but preserving uniform, national eligibility for most of those now entitled to the program. We must preserve the national nutrition safety net, which assists about 27 million low-income children, elderly and working families.

While, generally, Senate-proposed changes to nutrition programs improve on those in the House welfare bill -- such as by rejecting block grants for child nutrition programs and WIC -- the Administration strongly opposes the food stamps block grant option, which the Senate welfare bill includes. By not requiring that all assistance go for food, the Senate would endanger the national program and move toward abdicating the federal role in combating hunger. Especially if Congress creates an AFDC block grant, we must preserve a national food stamp entitlement program; a national nutrition program helps put food on the table for low-income families who may lose their cash assistance, and it helps agricultural producers.

Moreover, the Administration strongly believes that all food stamp spending should go for food assistance, not just 80 percent, as the Senate block grant option would permit. Federal nutrition programs have produced measurably better health among the many people who get food assistance. National nutrition standards and a funding mechanism that lets the programs expand to meet greater needs in times of national or regional economic hardship are essential to feasible welfare reform.

<u>SENATE ARMED SERVICES</u>

The Administration is pleased that the Senate chose not to break faith with our service men and women by changing the method for computing military retirement pay, but instead chose to allow increased sales from the National Defense Stockpile to offset defense mandatory program increases.

The committee also proposes to sell the Naval Petroleum Reserves, as the President proposed. The Administration urges Congress not to rush the sale, enabling the federal government to receive fair market value for the assets.

<u>SENATE BANKING, HOUSING, AND URBAN AFFAIRS</u>

Banking Insurance Fund (BIF)/Savings Association Insurance Fund (SAIF)

The Administration strongly supports the Committee's action to deal with the financial problems of the Savings Association Insurance Fund (SAIF). It is essential to eliminate the perverse incentives created by a premium differential between SAIF and the Bank Insurance Fund (BIF). The bill would do so through a one-time special assessment on SAIF-insured deposits and by spreading Financing Corporation payments pro rata over all FDIC-insured institutions. In addition, we believe that the legislation should unambiguously provide for the SAIF's merger with BIF, which is essential to assuring that SAIF's structural vulnerabilities cause no further problems. While the Administration supports an ultimate merger of the thrift and bank charters, the difficult issues involved in the charter merger (including tax issues) should not interfere with enactment of a comprehensive solution to SAIF's financial problems that includes merging the deposit insurance funds. The Administration is also concerned that future congressional action to trigger the fund merger may carry a budgetary cost, creating an obstacle to it.

HUD Rental Subsidy Annual Adjustment Factor

The Administration is concerned about the equity of limiting the 1 percentage point cut in HUD's annual adjustment factor for subsidized rents to only one form of Section 8 rental assistance -- tenant-based certificates. The Administration prefers the House approach -- consistent with the Administration's 1995 and 1996 budget proposals -- of extending this reduced adjustment to all forms of Section 8 subsidies, including tenant-based certificates and subsidies attached to projects. Congress enacted this approach for one year only as part of the 1995 VA/HUD Appropriation Act, and will likely enact it again in the 1996 Appropriation.

SENATE COMMERCE, SCIENCE, AND TRANSPORTATION

Spectrum Auction

The Administration commends the Committee for including legislation to raise funds from spectrum auction, and believes the Committee's spectrum language is preferable to the House Committee's. Unlike the House provision, the Senate provision provides for paying (from auction proceeds) the costs that federal agencies bear in migrating from one portion of the telecommunications spectrum to another. This provision could be particularly important for the Departments of Defense and Justice and the Federal Aviation Administration. We should not require agencies to absorb these costs in their discretionary appropriations.

Rail Infrastructure

The Administration objects to the Committee's decision to spend $70 million over seven years to make available up to $100 million a year in guaranteed loans under the Federal Railroad Administration's Section 511 program. Railroads are financially healthy and have access to substantial financing through the private capital markets. In this era of declining discretionary budgets, subsidized loans to private, profitable corporations are objectionable.

The Administration also objects to spending $75 million to revive the Local Rail Freight Assistance program. The Administration proposed to terminate this program in the 1996 Budget, and both House and Senate appropriators chose to eliminate it as well. The federal government should not be in the business of handing out grants to private corporations.

SENATE ENERGY AND NATURAL RESOURCES

Arctic National Wildlife Refuge

As noted above, the President will veto any reconciliation bill that opens the Arctic National Wildlife Refuge (ANWR) to oil and gas drilling. Exploration and development activities would bring physical disturbances to the area, unacceptable risks of oil spills and pollution, and long-term effects that would harm wildlife for decades. Moreover, the estimate that ANWR will generate $1.3 billion in federal revenues from oil and gas leasing is wishful thinking, based on projected oil prices in the year 2000 of above $30 per barrel -- even though the Energy Information Agency now predicts prices will only be about $19 per barrel. The estimate also fails to consider new geological information showing lower recoverable oil estimates and Alaska's claims that its Statehood Act entitles it to 90 percent of all revenues -- not 50 percent, as the estimate assumes.

Hardrock Mining Reform

The Administration is concerned that the Committee's proposal to reform the antiquated 1872 hardrock mining law would, in fact, leave it largely intact. Most notably, the proposal essentially retains the notorious patenting provision whereby the government transfers billions of dollars of publicly-owned minerals at relatively little charge to private interests. The proposed "net" royalty on proceeds from minerals production on federal lands has excessive deductions, and would raise only a small amount of money to compensate taxpayers or fund the cleanup of abandoned mines that are degrading water supplies and otherwise harming the environment.

Additional Concerns

The Administration opposes the proposal to sell an additional 32 million barrels of Strategic Petroleum Reserve (SPR) oil, beyond the seven million proposed in the President's 1996 Budget and included in the 1996 Interior Appropriations Conference Report. The Administration is pleased with provisions which advance prospects for selling the United States Enrichment Corporation (USEC), although we are concerned about Senate provisions that would transfer exclusive rights to gaseous diffusion technology from the Energy Department to USEC and believe some changes are needed to successfully implement the Russian uranium agreement. In addition, while we appreciate inclusion of the Alaska Power Administration sale to current customers -- as the Administration has proposed -- we believe that all Power Marketing Administrations, except the Bonneville Power Administration, should be sold to their customers.

The Committee also has chosen to use the reconciliation bill as a catch-all for various objectionable policies, many of them having nothing to do with balancing the budget. The oil and gas royalties proposal includes a number of provisions that would make royalty collection far more difficult and costly for the federal government. The Ward Valley (CA) Land Transfer (which the Administration supports in concept) includes no environmental conditions. The Communication Site Fees proposal would prevent the National Forest and Bureau of Land Management (BLM) lands from implementing a fair market value fee schedule that they developed over the past three years, reducing and delaying revenues to the Treasury and to states and counties where the sites are located. The aircraft services proposal would raise the Interior Department's federal procurement costs and reduce efficiency. The Reclamation Reform Act proposal would unjustifiably allow large landowners to prepay, at a discounted rate, the highly subsidized debt they owe the U.S. for their share of capital costs of Bureau of Reclamation irrigation projects. The Collbran Project Transfer proposal, by delaying the transfer until 2000 but not adjusting the price tag or covering the power debt, would provide an unwarranted triple subsidy to the project's water district conservancy.

SENATE FINANCE

Medicare

The Administration strongly opposes the magnitude of the proposed Medicare cuts -- $270 billion over seven years. While Republicans say we need cuts of this size to "save" the Medicare Part A Trust Fund, in fact we need only about $90 billion in Part A savings to ensure the trust fund's solvency for the next 10 years. The rest of the Republican Medicare cuts would finance the Republican tax cut.

Further, the Republican plan imposes almost $70 billion in new financial burdens on beneficiaries. Most of it comes from setting the Part B premium to cover 31.5 percent of program costs. This increase is excessive. The Republican plan also more than triples the Part B premiums for some higher-income beneficiaries. For all beneficiaries, the Part B deductible would more than double by 2002. The Republican plan then compounds these direct new burdens on beneficiaries by imposing many hidden cuts that will force them, over time, to pay much more for their health care services.

For example, the Senate's new "Medicare Choice" option actually gives beneficiaries less choice. Though it promises to give beneficiaries free choice between traditional Medicare and all the options under Medicare Choice, the legislation applies distinctly uneven rules to Medicare and Medicare Choice, making the former much less attractive to providers than the latter. These incentives, along with a provision that applies the so-called "budget expenditure limiting tool" (BELT) of more cuts only to the traditional program, would reduce providers' willingness to serve beneficiaries in traditional Medicare. This will restrict beneficiary choice, not enhance it. Medicare Choice, as structured in the Republican plan, also would promote adverse risk selection that could increase costs for the traditional program. The Administration does not support efforts to use Medicare beneficiaries to experiment with untested concepts that could weaken the program.

The Medicare Choice "choice" is also a bad one for beneficiaries because they will lose protection from "balance billing," whereby providers charge beneficiaries more than Medicare approves. Medicare permits no balance billing by hospitals and only limited balance billing by physicians. Medicare Choice plans, however, will widely permit it. Physicians, and possibly other providers such as hospitals and skilled nursing facilities, in fee-for-service Medicare Choice plans will be able to charge patients whatever they want.

The same will be true for patients electing the catastrophic or medical savings account (MSA) plans. For managed care plans, the Senate bill appears to let each private plan decide whether to offer beneficiaries any protection from unlimited provider charges. There would be no Federal protection for beneficiaries in these plans. Whenever patients receive non-emergency care outside of the plan -- even if the plan authorizes such care -- beneficiaries would not be protected from excessive charges by physicians. Given the very tight caps that this bill would impose, provider pressures to balance bill will grow. If providers begin to move to Medicare Choice plans to escape balance billing limits, beneficiaries will face the choice of following them and paying more, or remaining in traditional Medicare where fewer doctors and hospitals are able to care for them.

Medicaid

The Administration strongly opposes both the magnitude of proposed Medicaid cuts -- which would cut federal payments to states by $182 billion, or 20 percent, below current law -- and the conversion of Medicaid into a block grant, eliminating guaranteed coverage to millions of Americans. By 2002, the cuts would amount to a 30 percent reduction below CBO's estimate of the cost to maintain current services. To reach these savings, per capita health care spending growth under Medicaid would have to fall to an average of 1.4 percent a year over the next seven years; by contrast, per capita spending in the private sector is projected to grow by 7.1 percent a year over this period. Given such a low rate of growth, states would face untenable choices: cutting provider payment rates, cutting benefits, or dropping coverage for millions of beneficiaries.

Furthermore, in converting Medicaid into a drastically smaller block grant program, the Committee bill reduces the guarantee of coverage on which millions of low-income families have depended. Over 36 million Americans -- individuals with disabilities, children, pregnant women, elderly nursing home residents, mentally retarded children and adults, mentally ill persons, and others -- who cannot pay for their own health care are now assured access to a package of basic services. Because this guarantee is eliminated, millions of children and many other vulnerable Americans could lose access to health care.

Although the Chafee amendment purported to "guarantee" coverage to certain groups, it does not define coverage. For example, it leaves the definition of who is disabled and, thus, eligible for guaranteed coverage entirely to the states. Further, given the size of proposed Medicaid cuts, the level of benefits that the states could guarantee could be minimal.

The Senate bill jeopardizes the income, homes, and cars of nursing home residents and their spouses. Under current law, federal Medicaid eligibility standards, which the Senate bill would repeal, protects these residents and their spouses from losing their homes and cars. Also under current law, spousal impoverishment provisions protect a minimum level of income and assets, not including the home and car. Because the Senate bill leaves both eligibility requirements and spousal impoverishment protections up to the states, the federal government would no longer assure that the income, homes, and cars of Medicaid recipients will be protected.

The bill also repeals federal nursing home quality standards for Medicaid and directs states to adopt whatever standards they choose. With an enormous cut in federal financial assistance, states may not be able to afford to develop and enforce standards to ensure a high quality of care and quality of life.

The bill also repeals protection for low-income Medicare beneficiaries under Medicaid. Currently, an estimated 5 million individuals receive Medicaid assistance with their Medicare premiums, deductibles, and other cost sharing. The need was so great that congressional Democrats and Republicans came together to create the Qualified Medicare Beneficiary (QMB) program. President Reagan signed legislation to create the program; President Bush signed a bill to expand it. These beneficiaries are doubly hit by Republican proposals. First, Republican *Medicaid* proposals eliminate guaranteed coverage of Medicare cost-sharing, potentially leaving beneficiaries ultimately liable. In addition, Republican *Medicare* proposals will exacerbate the hardship by increasing the premium amounts they must pay.

The Administration is concerned that the Committee bill repeals the Vaccines for Children Program (VFC), a 100 percent federally-funded entitlement for Medicaid-eligible, uninsured, under-insured, and Indian children. Although the bill requires states to cover immunizations for Medicaid-eligible children, thousands of uninsured, under-insured, and Indian children would lose coverage. Further, in converting Medicaid into a drastically reduced block grant, federal funding dedicated to immunizing children would decline, threatening our efforts to insure that 90 percent of all children under age 2 are properly immunized for the initial, and most crucial, doses of vaccine.

Earned Income Tax Credit (EITC)

The Administration strongly objects to the Committee's proposal to cut the EITC by $43.5 billion over seven years, raising taxes on 17 *million* households. The changes would affect nearly 24 million children.

By partially repealing the indexing of the EITC, the Committee's proposal would generate creeping tax increases each year. Working families would see their taxes rise by $302 in 1996 and by $471 in 2005 (in 1996 dollars). Families with two or more children would fare the worst under the proposal. In 1996, taxes would increase, on average, by $410 for over 7.4 million families with two or more children. Their taxes would increase by $644 by 2005 (1996 dollars). By 2005, 22 percent of all families with children eligible for the EITC under current law would lose that eligibility.

Under the proposal, 1 million EITC recipients would be taxed on their full social security benefits, increasing their taxes by an average of $859. The proposal also would repeal the EITC for very low-wage workers who do not reside with qualifying children. For these workers whose adjusted gross income is less than $9,500, average taxes would rise by $173.

The Administration believes strongly that Congress should not raise taxes on working families to finance tax breaks for the well-off. It should limit its changes to the compliance improvements that the Administration has proposed.

Tax Cuts

The Administration strongly opposes the Committee tax cut; it is fiscally irresponsible and would provide a disproportionate share of benefits to high-income families. At a time when Congress seeks to cut over $1 trillion to balance the budget, adding another $245 billion to the deficit through lower taxes forces more drastic cuts in public services and benefits for lower- and middle-income families. Without this huge tax cut, Congress would not need the drastic cuts in Medicare in the budget resolution, including the increase in premiums for the elderly at all income levels.

The tax cuts provide large benefits to those who need them the least. The capital gains cut, among other provisions, is overly generous and disproportionately benefits upper-income families. Overall, about 48 percent of the benefits from the Finance tax bill will accrue to families with incomes over $100,000 (the top 12 percent of families). At the same time, the combined effects of the tax cuts and cuts in the EITC will raise taxes on families with income under $30,000.

Pension Reversion

The Administration strongly opposes the "pension reversion" provision that would permit companies to withdraw "excess" pension assets. As the Pension Benefit Guaranty Corporation's board members stated in their October 17 letter to Chairman Roth, the Senate provision would "result in the removal of billions of dollars from the pension system, endangering workers' retirement income for the purpose of paying current expenses. This would increase the risk of loss for workers, retirees and the pension insurance system. Despite the nominal restrictions imposed ..., the proposal would effectively allow companies to remove assets from retirement plans and use these funds for any purpose... This is not the intended use of funds that have accumulated with the aid of the valuable tax incentives explicitly designed to promote pension savings for workers."

Such reversions risk a repeat of the pension raids of the 1980s, when reversions helped fuel corporate takeovers and buyouts. This short-sighted provision risks undermining our private retirement system. We must increase our savings for retirement and enhance, not diminish, public confidence in our pension system.

Health Benefits for Retired Unionized Coal Miners and their Families

A 1992 law combines federal and company funding to finance the health care for retired coal miners and dependents that was promised them in collective-bargaining agreements. A proposed amendment would release certain coal companies from their obligations, including those that signed an agreement to pay future costs for their former employees. The resulting lack of revenue could threaten the health care of nearly 100,000 retired coal miners and their families.

Child Support Enforcement

The Administration has significant concerns about a Committee proposal mandating that, in order to recoup administrative expenses, States collect an amount equal to a $25 application fee and a 10 percent fee on all non-AFDC child support collections. Such a fee, amounting to a cut in income, would withdraw vital support for children, unduly burdening low- and moderate-income families and possibly forcing some back on AFDC.

Welfare Reform

AFDC, Work and Child Care. The Committee included the Senate-passed welfare reform bill in its reconciliation package. The Senate bill is significantly preferable to the House welfare bill in promoting work and protecting children, but the bill nevertheless raises important issues:

- The Administration strongly supports the bipartisan Senate improvements to provide the child care that people need to move from welfare to work. Without sufficient child care funding, welfare reform will prove an enormous unfunded mandate on states. The Administration recommends that Congress improve the final bill by *adding more* child care money, not less. The Administration strongly supports the Senate child care provisions that gives states a separate funding stream for child care and provide services to help families stay off welfare.

- The Administration is pleased that the Senate has included maintenance of financial effort provisions in the bill. Congress should clarify these provisions, however, to tighten the definition of allowable expenditures.

- Congress should provide states with greater protection in a serious recession by strengthening the Senate's contingency grant fund. From 1989-93, AFDC caseloads grew by 32 percent and AFDC spending by $8 billion. But the Senate welfare bill's contingency fund provides only $1 billion over seven years.

Foster Care. The Administration has strong reservations about the bill's proposed cap on foster care administrative costs. At a time when sharp changes in welfare policy may affect foster care caseloads substantially, the proposed cap would restrict states' ability to safeguard the well-being of abused and neglected children.

Supplemental Security Income. Both the House and Senate bills go too far in the changes they would make to the SSI children's disability program. In general, the Administration favors the Senate provisions over the House bill's deep cuts, which go far beyond what's needed to correct the program's recent growth. The House bill would eventually prevent nearly a million disabled children who could be eligible under current rules from receiving cash. We support the bipartisan Senate decision to continue to provide SSI cash benefits for all eligible children. We strongly urge Congress to reduce hardship to disabled children now on SSI by exempting them from these new, stricter eligibility rules. If Congress applies these rules to current SSI recipients, however, the Administration recommends only applying them to children eligible as a result of maladaptive behavior.

The Administration also recommends the deletion of a Senate provision that would gradually raise the age requirements to elderly poor applying for SSI from 65 to 67, paralleling the rising age requirements for Social Security. The apparent consistency of this change masks an important difference between these two programs: Social Security recipients can retire early and get benefits, and most do so, but no early eligibility age exists for SSI. The Senate added this provision at the last minute without adequate public scrutiny and debate; Congress should drop it.

Benefits to Immigrants. Both the House and Senate bills go too far in cutting benefits to legal immigrants, and shifting costs to states with high numbers of immigrants. The Administration supports holding sponsors who bring immigrants into this country more responsible for their well-being, but Congress should make these changes equitably. The House bill bans benefits for over a million immigrants who are now enrolled in SSI, Medicaid, or food stamps. The Senate bill's benefit restrictions, however, distinguish between immigrants with and without sponsors (except for purposes of SSI). Focusing benefit restrictions on immigrants with sponsors is a more sensible approach than the House bill. The Senate bill, however, should include the immigrant exemptions of the House bill.

The Administration strongly opposes the Senate provision that would discriminate against U.S. citizens by denying benefits to legal immigrants even after they became naturalized citizens. We cannot have two categories of citizens, and a provision that treats naturalized citizens less favorably than the native born raises serious constitutional concerns. Equally objectionable is the Senate provision that would establish a class system for American citizenship by requiring sponsors' income to exceed 200 percent of poverty. Working families who are U.S. citizens should not have to pass a wealth test to be reunited with a family member. In addition, fairness dictates that Congress adopt the House provisions that exempt from benefit cut-offs those over age 75 and those too disabled to complete the naturalization process.

Several further changes could make the legislation more acceptable to the Administration. Immigrants who become disabled after entering the country should be able to get SSI. In addition, benefit restrictions should not apply to discretionary programs and such mandatory programs as student loans and the social services block grant; the administrative burdens on these programs of verifying everyone's citizenship is significant, and the budget savings are negligible. Refugees and others who came to the U.S. to avoid persecution should get adequate time to naturalize before being subject to benefit restrictions. Finally, the Administration has serious reservations about the bill's application of these provisions to Medicaid.

SENATE GOVERNMENTAL AFFAIRS

Civil Service Retirement

The Administration is concerned about the Committee's proposal to raise employee retirement contributions, which is tantamount to raising employees' taxes. We should not raise taxes on federal employees at a time when we are *reducing* their *numbers* and asking those that remain to provide the American people with a government that works better and costs less.

Also, the Administration is concerned about a Committee proposal to delay the cost of living adjustment (COLA) from January to April for federal civilian retirees. Unlike private and military retirees, most current federal civilian retirees are not covered by Social Security, making them entirely dependent on their retirement benefits to maintain an adequate standard of living.

SENATE JUDICIARY

Patent and Trademark Office (PTO) fees

The Administration is concerned about the Committee's proposal to extend the patent surcharge fund, and to deny PTO full access to its fees without discretionary appropriations. This withholding of fees increases patent pendency and delays the deployment of new technology to the marketplace. The President's budget supports the elimination of the patent surcharge fund beginning in fiscal 1999 and the PTO's full access, without appropriation, to all fees.

SENATE LABOR AND HUMAN RESOURCES

Student Loans

The Committee would get over 60 percent of its $10.8 billion in savings by cutting educational assistance to students and parents, and taxing colleges and universities. The Administration strongly opposes all of these provisions.

The President's direct lending program has been a great success, saving money and increasing access to education. Thus, the Administration strongly opposes the Committee's proposal to cap it. The program is easier for institutions to administer than the guaranteed loan program and gives students more flexible repayment options, including income-contingent repayment. By capping the program at 20 percent of total federal student loan volume, the Committee would eliminate up to half the institutions that are participating in this streamlined loan program. It also would prohibit other institutions from participating, including those that have already applied.

The Administration strongly opposes the Committee's proposed end to the federal subsidy of interest payments that Stafford loan recipients receive during the 6-month "grace period"; these undergraduate students' costs could rise as much as $700. In addition, the Administration strongly opposes the Committee's increase in the PLUS loan interest rate, as well as its tax of 0.85 percent of total federal loan volume on institutions of higher education, which would penalize institutions in which a high proportion of students take out loans.

The Committee proposes large cuts in the administrative funding needed to effectively manage the guaranteed student loan program, and to avoid student loan fraud and abuse. These cuts would seriously weaken the Education Department's ability to ensure that taxpayer funds are properly used and accounted for. The Administration also opposes the Committee's proposed changes which would severely weaken the department's ability to oversee guaranty agencies and to protect federal assets under their control.

<u>SENATE VETERANS' AFFAIRS</u>

GI bill

The Administration is concerned about the Committee's proposed increase in the GI bill contribution rate, which would effectively cut the base pay of most first-year enlistees by 3.5 percent. The GI bill is a valuable recruiting tool of the Services; an increase in the required contribution could have an adverse effect on military recruitment.

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

THE DIRECTOR

October 27, 1995

Honorable Daniel Patrick Moynihan
Ranking Member
Senate Committee on Finance
Washington, DC 20510

Pat
Dear Senator Moynihan:

Thank you for your letter earlier this week requesting an analysis on the impact of the House and Senate welfare bills on children. In particular, you asked for our assessment of the probable impact of the House and Senate bills on children entering or leaving poverty.

As you may be aware, nearly two weeks ago we released a distributional analysis of the House committee-reported reconciliation bill. This report included an analysis on the impact of the reconciliation bill on families with children. Attached for your consideration is a copy of this analysis.

We are currently working with affected agencies to develop a distributional analysis of the Senate reconciliation bill. Pursuant to your request, we will include an analysis of the impact of this bill on children entering or leaving poverty.

We expect these analyses to be completed in about one week. I look forward to sharing this information with you as soon as it is available.

Sincerely,

Alice M. Rivlin
Director

IDENTICAL LETTER SENT TO HONORABLE DANIEL PATRICK MOYNIHAN, HONORABLE SAM GIBBONS, HONORABLE BILL BRADLEY, HONORABLE PATRICK J. LEAHY, HONORABLE E. DE LA GARZA, HONORABLE GEORGE MILLER, HONORABLE WILLIAM CLAY, HONORABLE JOHN CONYERS, JR., HONORABLE BARBARA KENNELLY, HONORABLE HENRY WAXMAN, HONORABLE HAROLD FORD, HONORABLE EDWARD M. KENNEDY

Congress of the United States
Washington, DC 20515

October 24, 1995

Honorable Alice M. Rivlin
Director
U.S. Office of Management and Budget
Washington, D.C. 20503

Dear Director Rivlin:

As you know, we are currently meeting in conference committee to resolve the differences between the House and Senate versions of welfare reform legislation. We appreciated receiving the views of the Administration on this legislation from you in your letter to the Minority Leader. We will rely on this guidance as we consider the proposed dramatic changes in Federal law providing basic subsistence and protections for millions of low income Americans, particularly children.

We especially share the President's objective that children are protected under any welfare reform proposal that reaches his desk. As conferees, however, we do not believe that we have reliable and detailed information on the implications of the House and Senate bills for children.

We request you to provide us with any pertinent analyses available to you on the impact of the House and Senate welfare bills on children. In particular, we would like your assessment of the probable impact of provisions in the House bill and the Senate bill on children entering or leaving poverty.

It is critical that we receive these analyses immediately in order for us to make sound judgements on the bills before us, and to meet the President's objective of ensuring that welfare reform not punish children.

Sincerely,

Sam Gibbons

SAM GIBBONS
Ranking Member
House Committee on Ways and Means

DANIEL PATRICK MOYNIHAN
Ranking Member
Senate Committee on Finance

SIGNATORIES

MOYNIHAN

GIBBONS

BRADLEY

LEAHY

DE LA GARZA

MILLER

CLAY

CONYERS

KENNELLY

WAXMAN

FORD

KENNEDY

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

THE DIRECTOR

December 6, 1995

Honorable Sam Gibbons
Ranking Member
Committee on Ways and Means
2204 Rayburn House Office Building
U.S. House of Representatives
Washington, D.C. 20515

Dear Representative Gibbons:

We are pleased to provide you with a preliminary assessment of the potential poverty effects of the conference version of the reconciliation bill, as well as an analysis of the conference version of the welfare reform bill.

What is Included in the Analysis?

The analysis considers the potential effects of the conference provisions on the movement of children, families, and all individuals in and out of poverty. The following tables compare the potential effects of the House, Senate and Conference balanced budget and welfare plans on the number of persons and children with incomes below the poverty line, and estimates the effects these proposals have on the size of the poverty gap -- a measure of how short of the poverty thresholds a family's income falls. The analysis estimates the impact on poverty at full implementation, which will be reached in most program provisions by the year 2002.

This analysis includes two kinds of poverty tables. One uses the pre-tax cash definition of income that the Census Bureau uses for the official poverty statistics. The other table incorporates a commonly used alternative definition of income that is broader than the official poverty definition and takes into consideration a wider range of factors relating to income. It includes, for example, the effects of Federal tax policies (including the Earned Income Tax Credit) and near-cash in-kind assistance programs such as Food Stamps and housing programs. The discussion below references only the broader definition. Neither definition includes proposed changes in Medicaid and Medicare.

We also provide a table that addresses the sensitivity of these poverty estimates to the technical assumptions on which the model is based, including baseline differences between CBO and OMB, labor supply effects and an alternative State funding level. However, many possible alternative economic and demographic variables have not been modeled. In the long run, these variables are among the most important determinates of welfare caseloads.

Methodology

The analysis was performed using HHS's micro simulation model, based on data from the March 1994 Current Population Survey.

Similar to the earlier analysis of the House and Senate bills, policy changes simulated for the welfare bills include the impact on family income from proposed changes in AFDC, SSI, food stamps, child nutrition, and child support programs. In addition to the impact from welfare policy changes, we analyzed the effects on poverty of the entire reconciliation plans, including federal employee pension contributions, agriculture subsidies, family tax credit, the EITC, as well as the effects of appropriation actions for housing, labor and energy assistance programs. Changes in government provided health coverage are not included, nor are there any adjustments for medical costs.

For a more detailed explanation of the methodology used in this analysis, please refer to the attached earlier report "Potential Poverty and Distributional Effects of Welfare Reform Bills and Balanced Budget Plans."

Results of the Analysis

On November 9th, we provided Congress with a study assessing the potential poverty effects of the House and Senate welfare reform proposals. This analysis illustrated that the Senate welfare bill, using the alternative definition of income, could move 1.2 more children into poverty. The effects of the House version of welfare reform would have been even worse for children -- potentially moving 2.1 million more children into poverty, or .9 million more than the Senate version. According to our most recent analysis:

- the conference version of the welfare reform bill has a more serious effect on children than the Senate bill -- potentially moving 1.5 million children into poverty using the more comprehensive definition of income. This is .3 million more children than the Senate welfare provisions would move into poverty.

- when all of the congressional budgetary proposals that affect low-income families are considered in addition to changes in welfare programs, the poverty effects of the conference version of the reconciliation bill are only a slight improvement over the Senate budget plan. The conference proposal could potentially move 1.6 million children into poverty -- or only .1 million less than the Senate version.

Potential Changes and Future Analysis

As you are aware, the legislation continues to be revised. Some provisions, such as a food stamp cap, may be included in a stand-alone welfare bill. Since these provisions may have additional poverty effects, they could alter the attached estimates.

We are currently working with affected agencies to develop a distributional analysis of the conference agreement, similar to the analysis we provided for the House and Senate budget plans. We look forward to sharing this information with you as soon as it is available.

Sincerely,

Alice M. Rivlin

Alice M. Rivlin
Director

IDENTICAL LETTERS SENT TO HONORABLE SAM GIBBONS, HONORABLE GEORGE MILLER, HONORABLE MARTIN O. SABO, HONORABLE HENRY A. WAXMAN

Table I

THE IMPACT OF CONGRESSIONAL PROPOSALS ON POVERTY

Using a Comprehensive Post-Tax, Post-Transfer Definition of Income

Simulates effects of full implementation in 1993 dollars

	Effect of 1993 Changes		House Budget Plan		Senate Budget Plan		Conference Agreement	
	Prior Law	Current Law	Entire Plan	Welfare Bill	Entire Plan	Welfare Bill	Entire Plan	Welfare Bill
Children Under 18								
Number in Poverty (Millions)	10.8	10.0	12.3	12.1	11.6	11.2	11.6	11.5
Change From Current Law			2.3	2.1	1.7	1.2	1.6	1.5
Poverty Rate (Percent)	15.5	14.4	17.6	17.4	16.8	16.2	16.6	16.5
Change From Current Law			3.3	3.0	2.4	1.8	2.2	2.1
Families With Children								
Number in Poverty (Millions)	18.3	17.0	20.9	20.6	19.9	19.2	19.7	19.6
Change From Current Law			3.9	3.7	2.9	2.2	2.8	2.6
Poverty Rate (Percent)	12.6	11.7	14.4	14.3	13.8	13.3	13.6	13.5
Change From Current Law			2.7	2.5	2.0	1.5	1.9	1.8
Poverty Gap (Billions)	17.6	16.2	24.8	24.3	21.5	20.6	21.9	21.7
Change From Current Law			8.6	8.1	5.3	4.4	5.7	5.5
All Persons								
Number in Poverty (Millions)	29.5	28.1	32.6	32.1	31.6	30.7	31.4	31.1
Change From Current Law			4.5	4.0	3.5	2.6	3.3	3.0
Poverty Rate (Percent)	11.3	10.8	12.6	12.4	12.2	11.8	12.1	12.0
Change From Current Law			1.7	1.6	1.3	1.0	1.3	1.2
Poverty Gap (Billions)	48.6	46.8	57.4	56.2	54.0	52.3	54.6	53.6
Change From Current Law			10.6	9.3	7.2	5.5	7.8	6.7

Notes: The Census Bureau publishes a family of poverty statistics using alternative definitions of income. The definition of income displayed here includes the effect of taxes (including EITC), Food Stamps, housing programs, and school meal programs. Changes in government-provided health coverage are not included, nor are there any adjustments for medical costs. Numbers may not add due to rounding.

"Entire Plan" refers to reconciliation proposals as well as income effects from appropriation actions for housing, labor, and energy assistance programs.

Source: HHS's microsimulation model, based on data from the March 1994 Current Population Survey.

Table 2

THE IMPACT OF CONGRESSIONAL PROPOSALS ON POVERTY

Under The Pre-Tax Money Income Definition Used For Official Poverty Statistics

Simulates effects of full implementation in 1993 dollars

	Effect of 1993 Changes		House Budget Plan		Senate Budget Plan		Conference Agreement	
	Prior Law	Current Law	Entire Plan	Welfare Bill	Entire Plan	Welfare Bill	Entire Plan	Welfare Bill
Children Under 18								
Number in Poverty (Millions)	15.5	15.5	16.0	16.0	15.8	15.8	15.8	15.8
Change From Current Law			0.5	0.5	0.3	0.3	0.3	0.3
Poverty Rate (Percent)	22.3	22.3	23.1	23.1	22.8	22.8	22.8	22.8
Change From Current Law			0.7	0.7	0.5	0.4	0.5	0.4
Families With Children								
Number in Poverty (Millions)	26.5	26.5	27.5	27.5	27.2	27.2	27.2	27.1
Change From Current Law			1.0	1.0	0.7	0.6	0.6	0.6
Poverty Rate (Percent)	18.3	18.3	19.0	19.0	18.8	18.8	18.8	18.8
Change From Current Law			0.7	0.7	0.5	0.4	0.4	0.4
Poverty Gap (Billions)	41.6	41.6	50.6	50.6	47.0	46.9	47.7	47.5
Change From Current Law			9.0	9.0	5.4	5.3	6.1	5.9
All Persons								
Number in Poverty (Millions)	38.8	38.8	39.9	39.9	39.6	39.6	39.6	39.6
Change From Current Law			1.1	1.1	0.9	0.8	0.8	0.8
Poverty Rate (Percent)	14.9	14.9	15.4	15.4	15.3	15.2	15.3	15.2
Change From Current Law			0.4	0.4	0.3	0.3	0.3	0.3
Poverty Gap (Billions)	76.3	76.3	85.9	85.9	82.9	82.5	83.6	83.1
Change From Current Law			9.6	9.6	6.6	6.2	7.3	6.8

Notes: The definition used for official poverty statistics counts all cash income, but excludes the effect of taxes (and EITC), Food Stamps, housing programs, and other near-cash government assistance programs. Numbers may not add due to rounding.

"Entire Plan" refers to reconciliation proposals as well as income effects from appropriation actions for housing, labor, and energy assistance programs.

Source: HHS's microsimulation model, based on data from the March 1994 Current Population Survey.

Table 3

CONFERENCE WELFARE PROPOSAL: SENSITIVITY OF POVERTY ESTIMATES TO TECHNICAL ASSUMPTIONS
Using a Comprehensive Post-Tax, Post-Transfer Definition of Income

Simulates effects of full implementation in 1993 dollars

	Optimistic Assumptions	Assumptions Modeled				Pessimistic Assumptions
	States Increase Benefit Funding; Increased Economic Growth; and/or Non-Marital Birth Rates Decline	Two-Thirds of States Provide Child Benefit Vouchers After Time Limit; CBO Projection of Program Growth; Intermediate Labor Supply Effects	CBO Projection of Program Growth Under Current Law	Intermediate Estimate	More Conservative Labor Supply Effect of Time Limit	States "Race to the Bottom" and/or Decreased Economic Growth
Children Under 18						
Number in Poverty (Millions)	-?.?	11.2	11.3	**11.5**	11.7	+?.?
Change From Current Law	-?.?	1.2	1.3	**1.5**	1.7	+?.?
Poverty Rate (Percent)	-?.?	16.1	16.3	**16.5**	16.8	+?.?
Change From Current Law	-?.?	1.7	1.9	**2.1**	2.4	+?.?
Families With Children						
Number in Poverty (Millions)	-?.?	19.1	19.3	**19.6**	19.9	+?.?
Change From Current Law	-?.?	2.1	2.3	**2.6**	2.9	+?.?
Poverty Rate (Percent)	-?.?	13.2	13.4	**13.5**	13.7	+?.?
Change From Current Law	-?.?	1.5	1.6	**1.8**	2.0	+?.?
Poverty Gap (Billions)	-?.?	20.3	21.0	**21.7**	22.1	+?.?
Change From Current Law	-?.?	4.1	4.8	**5.5**	5.9	+?.?
All Persons						
Number in Poverty (Millions)	-?.?	30.6	30.8	**31.1**	31.4	+?.?
Change From Current Law	-?.?	2.5	2.7	**3.0**	3.3	+?.?
Poverty Rate (Percent)	-?.?	11.8	11.9	**12.0**	12.1	+?.?
Change From Current Law	-?.?	1.0	1.1	**1.2**	1.3	+?.?
Poverty Gap (Billions)	-?.?	52.2	52.9	**53.6**	54.0	+?.?
Change From Current Law	-?.?	5.3	6.0	**6.7**	7.1	+?.?

Notes: The Census Bureau publishes a family of poverty statistics using alternative definitions of income. The definition of income displayed here includes the effect of taxes (including EITC), Food Stamps, housing programs, ans school meal programs. Changes in government-provided health coverage is not included, nor are there any adjustments for medical costs.

Source: HHS's microsimulation model, based on data from the March 1994 Current Population Survey.

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

THE DIRECTOR

APR 26 1996

The Honorable Newt Gingrich
Speaker of the House of
Representatives
Washington, D.C. 20515

Dear Mr. Speaker:

I am enclosing for the consideration of the Congress the Administration's "Work First and Personal Responsibility Act of 1996," a comprehensive proposal to reform the Nation's failed welfare system. The President remains committed to working with the Congress to pass a bipartisan welfare reform bill this year that honors the values of work, responsibility, and family. This proposal will end the current welfare system by requiring work, demanding responsibility, strengthening families, and protecting children.

Under this legislative proposal, everyone who can work must go to work, and no one who can work can stay on welfare indefinitely. This proposal replaces Aid to Families with Dependent Children (AFDC) with a time-limited benefit conditioned on work. It imposes tough work requirements and time limits, including a lifetime limit of five years for receipt of welfare benefits. It gives States the means to provide child care that is essential to imposing tough work requirements and moving people from welfare to work. States are given broad new flexibility to tailor welfare reforms to local needs, but are also held accountable for continuing their commitment to move people from welfare to work. The proposal permits adjusting to changing economic circumstances and provides vouchers to meet the most basic needs of children in families whose benefits end.

The Work First proposal demands responsibility as well. It includes the toughest child support enforcement measures ever proposed. The proposal requires minor mothers to live at home and stay in school as a condition of receiving assistance and gives States the option to deny additional benefits for additional children born to parents who are on welfare.

The proposal achieves significant savings by reforming the Food Stamp and Child Nutrition programs, while preserving the national nutritional safety net. The Congressional Budget Office estimates that these reforms would save almost $22 billion over seven years through provisions such as counting energy assistance as income and tough new program integrity measures to crack down on Food Stamp fraud. The proposal gives States unprecedented flexibility to administer the Food Stamp program, with new work requirements and time limits on ablebodied, childless adults. It continues to index basic benefits with inflation, better targets food subsidies for family day care homes, and makes other adjustments in the Child Nutrition program. The proposal protects children by preserving the school lunch program and important child welfare programs for abused and disabled children.

The proposal achieves substantial savings in other areas by requiring sponsors who bring immigrants into the country to be held legally responsible for their financial well-being, and by better targeting eligibility for childhood disability benefits. It also includes two provisions that are part of the recently enacted Public Law 104-121. The first provision modifies the Social Security Act to deny benefits to adults who are on Supplemental Security Income due to drug abuse or alcoholism. The second provision improves program integrity measures through expanded continuing disability reviews. The savings from these enacted proposals should be applied towards the total savings to be achieved through welfare reform.

The Administration's welfare reform proposal reduces spending by $41 billion over seven years. This total includes the $3 billion in savings resulting from the enactment of Public Law 104-121 and reflects interactions with Medicaid proposals in the President's FY 1997 Budget.

I urge the Congress to act favorably and expeditiously on this important proposal. Welfare reform is at the top of the President's and the Nation's agenda. The Administration is confident that agreement can be reached this year on bipartisan welfare reform legislation that is tough on work and responsibility and serves the interests of our Nation's children. We look forward to working with the Congress to achieve this urgent national goal.

Sincerely,

Alice M. Rivlin

Alice M. Rivlin
Director

Enclosure

Identical Letter Sent to the President of the Senate

POTENTIAL POVERTY AND DISTRIBUTIONAL EFFECTS OF WELFARE REFORM BILLS AND BALANCED BUDGET PLANS

Presented by the Office of Management and Budget
Prepared with the Department of Health and Human Services,
the Department of the Treasury, and Other Agencies

November 9, 1995

TABLE OF CONTENTS

OVERVIEW

This report provides two analyses: (1) an analysis of the potential impact on poverty of the House and Senate welfare reform bills and Senate Democratic alternative, and of the House and Senate budget plans; and (2) an analysis of the distributional effects of the House and Senate budget plans and a preliminary analysis of the Administration's plan.

Today, millions of poor children are stuck in a welfare system that discourages work and responsibility, breaks up families, and fails to move people from poverty to independence. Most Americans, without regard to party, agree that we must reform welfare by imposing time limits, requiring people to work, demanding responsibility from young mothers and fathers, and strengthening families.

Over the past two-and-a-half years, the President has taken executive action, encouraged state experimentation, and spearheaded national legislation to reform the nation's failed welfare system. He cut taxes for working Americans by expanding the Earned Income Tax Credit (EITC), which rewards work over welfare; he signed an Executive Order to crack down on Federal employees who owe child support; he has granted 35 States the freedom to experiment with initiatives to move people from welfare to work; and he directed that Federal regulations be strengthened to prevent welfare recipients who refuse to work from getting higher food stamp benefits when their welfare checks are docked.

Throughout the welfare reform debate, the Administration has called for measures that will maximize the opportunities for families to work their way off welfare and out of poverty, and minimize the risks to children if they do not. The President endorsed the welfare reform bill sponsored by Senators Daschle, Breaux, and Mikulski, which every Senate Democrat supported. When that measure failed, the Administration worked with Senators in both parties to secure important improvements in the final Senate bill. In letters to Congress on welfare reform and budget reconciliation, the Administration has repeatedly called for other improvements.

As the President said in his Sept. 16 radio address, praising the bipartisan improvements that the Senate made,

> Despite the progress we've made, our work isn't done yet. We'll be working hard on this bill over the next few weeks to make sure the right incentives are there to move people from welfare to work, to make sure children are protected, and that states not only share the problem, but have the resources they need to get the job done. And we'll be working hard to build on the bipartisan progress we've made this week.

In that spirit, this report recommends:

- **Maintaining and strengthening improvements in the Senate welfare reform bill**: Providing the child care that mothers need to leave welfare for work; requiring states to maintain their financial effort; providing an adequate contingency fund to protect states and families in economic downturns; giving states performance bonuses for transforming their welfare systems to place people in jobs; preserving child welfare, Food Stamps, and child nutrition programs; and letting states decide for themselves whether to impose policies like the family cap.

- **Additional improvements in welfare reform**: Providing vouchers to children whose parents reach the 5-year time limit and cannot find work; and preserving the $50 child support pass-through.

- **A more balanced deficit reduction plan:** Rejecting efforts to cut the EITC; rejecting a Medicaid block grant; and moderating cuts in Food Stamps and Supplemental Security Income (SSI).

- **A higher minimum wage:** Raising the minimum wage, as the Administration has proposed, from $4.25 to $5.15 per hour over two years. The real value of the minimum wage is worth 27 percent less than in 1979 and, if Congress does not raise it this year, it will be worth less than at any time in the last 40 years.

Done right, welfare reform will help people move off welfare so they can earn a paycheck, not a welfare check. Done wrong, it will cause harm and fail to transform a broken system. With House and Senate committees meeting to work out their differences on their respective welfare reform and reconciliation bills, this report underscores the importance of working on a bipartisan basis to build on the Senate's progress, not turn back toward the House legislation.

Any serious plan to balance the budget in the coming years will include some cuts in programs that affect low-income Americans. We must make sure, however, that the cuts and benefits in a budget plan are distributed equitably, and that program reforms are designed to reward work and independence so that people can lift themselves and their children out of poverty.

After all, this year's efforts to balance the budget come after two decades of income stagnation and rising economic inequality. Since the early 1970's, most Americans have worked harder and harder just to stay in place; many have fallen behind. At the same time, the gap between rich and poor has reached its widest point since the government began to track it in 1947.

From the start, the President's economic program was designed to address these two problems. The Administration worked with the last Congress to cut the budget deficit in order to increase national savings, freeing up capital with which businesses could invest and, thus, create more high-wage jobs. While freezing overall discretionary spending, the Administration shifted public resources toward investments in education and training in order to enhance the skills of our future workforce, enabling them to compete better in the global economy. Because trade-related jobs, on average, pay more than other jobs, the Administration opened new markets across the globe for U.S. goods. Because no working family should have to live in poverty, the Administration sought to "make work pay" by expanding the EITC.

As the distributional analysis shows, both the House and Senate budget plans would exacerbate the trend toward rising income inequality; they would provide huge tax breaks for those who don't need them and finance them with deep cuts in benefits to middle- and low-income families with children. With the combination of tax, income and health benefit changes taken into account, families earning under $50,000 would pay more while those earning over $100,000 would pay less. Families with incomes of under $30,000 would be hit the hardest.

The President's plan, by contrast, would minimize the impact of cuts on low- and moderate-income families with children. At the same time, it would target tax relief to working families with children.

On poverty, in particular, this report includes two kinds of tables. One uses the pre-tax cash definition of income that the Census Bureau uses for official poverty statistics. The other incorporates a broader definition that takes into account tax policies such as the EITC and near-cash in-kind assistance, such as Food Stamps and housing. Neither definition includes proposed changes in health coverage, which would have dramatic impacts on low-income children -- far beyond changes in Aid to Families with Dependent Children (AFDC).

Under the broader definition of poverty, the House welfare reform bill could move 2.1 million children below poverty. Improvements included in the Senate bill have cut that number by nearly half, to 1.2 million. The Senate Democratic welfare bill could move 100,000 to 500,000 below poverty.

These numbers, however, do not reflect some gains that the Administration's economic policies have made in reducing poverty. For instance, they do not reflect the recent Census Bureau finding that the number of people in poverty fell by 1.2 million between 1993 and 1994, nor the fact that Food Stamp rolls have dropped by 2.0 million since March 1994.

No one, of course, can predict the future of poverty with any precision. The Administration's poverty analysis is based on long-term projections for full implementation of the changes, which do not try to predict a number of important variables that far into the future -- e.g., job growth, marriage and birth rates, and the long-term behavioral impact of a fundamental change in the culture of welfare.

If work-based welfare reform, tough child support enforcement, and a national campaign against teen pregnancy help promote work and responsibility and reduce births outside marriage, more people will lift themselves out of poverty and fewer will find themselves there in the first place. If, however, we do not enact real welfare reform that moves people from welfare to work and fails to reduce teen pregnancy and slow the growing rate of births outside marriage, the declines in poverty of the last two years will be reversed.

POVERTY ANALYSIS OF THE WELFARE REFORM AND BALANCED BUDGET PLANS

Changes in taxes and benefits proposed in the various budget and welfare plans will significantly affect income. Some of these proposed changes will move people across the poverty line. The poverty line was developed in the 1960's based on the amount of income estimated to be necessary for a family to sustain itself. It is adjusted annually by changes in the consumer price index, and varies by the number of children, elderly, and other persons in the household. In 1994, the average poverty threshold for a family of four was $15,141.

This analysis is complemented by the study of distributional effects and provides estimates of the various welfare bills' and budget plans' impacts on the number of people below the poverty line. The Office of Management and Budget coordinated an effort in which the Department of Health and Human Services, with the assistance of many other agencies, used computer models to produce these estimates of the poverty effects of various budget alternatives.

This analysis includes two kinds of poverty tables. One uses the pre-tax cash definition of income that the Census Bureau uses for the official poverty statistics. The other table incorporates a commonly used alternative definition of income that is broader than the official poverty definition and takes into consideration a wider range of factors relating to income. It includes, for example, the effects of Federal tax policies (including the Earned Income Credit) and near-cash in-kind assistance programs such as Food Stamps and housing programs. The discussion below references only the broader definition. Neither definition includes proposed changes in Medicaid and Medicare.

The following tables compare the potential effects of the House and Senate balanced budget plans on the number of persons and children with incomes below the poverty line, and estimate the effects these proposals have on the size of the poverty gap -- a measure of how short of the poverty thresholds a family's income falls. The tables also show the separate effects of the House-and Senate-passed bills welfare bills and the Senate Democratic welfare reform alternative, which every Democratic Senator supported and the Administration endorsed. The analysis estimates the impact on poverty at full implementation, which will be reached in most program provisions no later than 2005.

How should these results be interpreted?

A poverty study complements the distributional analysis that follows -- but it cannot provide as much information. There are several reasons why the distributional analysis provides a more comprehensive picture:

- Estimating the change in the number of people below the poverty line does not necessarily provide information on the change in individuals' well-being -- it only shows how many of those currently above the poverty line move below it. For example, a measure of poverty status cannot show the significant impact of income loss on the millions of families already below the poverty line.

- Estimating the change in the poverty gap gives some information on how far below the poverty line people's income moves. However, policies that affect those who are 10% to 25% above the poverty line will not have an appreciable effect on the poverty gap -- but will be highlighted by a distributional analysis.

- There is no commonly agreed-upon way to include in a poverty analysis the effect of changes in health coverage which are dramatic in both the House and Senate budget plans. While the lost health coverage is included in the distributional analysis, it is not part of the poverty analysis.

SUMMARY OF RESULTS

Progress since January 1993

The policies of this Administration have already reduced poverty in America and will help to offset the potential impact on poverty of possible cuts that could be enacted as part of any effort to reform welfare and balance the budget:

Effect of 1993 changes. The EITC and Food Stamp changes enacted in 1993 had a significant impact on low income working families. At full implementation, these changes would move 1.4 million persons, including 0.8 million children, out of poverty under the post-tax, post near-cash transfer definition of poverty. (See the first two columns in Table 1.) The current House- and Senate-passed budget plans would repeal significant portions of these expansions.

Economic progress. The Clinton Administration has cut the deficit in half and expanded the economy. The Census Bureau recently reported that in 1994 there were already 1.2 million fewer poor people (including 0.6 million children) than in 1993, under the more comprehensive income measure. Similarly, the Food Stamp rolls have dropped by 2.0 million people since they peaked in March 1994.

House and Senate Welfare Reform Bills

Number of children in poverty. Under the broader definition of income, the House welfare reform bill could move 2.1 million children below poverty. Improvements included in the Senate bill cut that number by nearly half, to 1.2 million. The Senate Democratic welfare reform bill, on the other hand, moves only 0.1 million to 0.5 million children below poverty[1].

Variables not included in poverty analysis. It is important to put these numbers in perspective. The poverty analysis is based on long-term projections that do not attempt to predict a number of important variables far into the future: effect of deficit reduction on job growth; marriage and

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[1]These estimates of the Senate Democratic bill are preliminary. The Senate Democratic welfare reform bill is being modeled, but results are not ready yet. The poverty effects are much smaller than that of the bills that were passed because it ensures States have adequate funding for work programs and child care; ensures that children can receive vouchers for housing and other needs after their parents reach the time limit for receiving cash assistance; ensures States have adequate funding for benefits regardless of the economy, and has much smaller cuts in SSI and food programs.

birth rates; and the long-term behavioral impact of a fundamental change in the culture of welfare. If work-based welfare reform, tough child support enforcement, and a national campaign against teen pregnancy succeed in promoting work and responsibility and reducing births outside marriage, more people will move themselves out of poverty and fewer people will find themselves there to begin with.

House and Senate Budget Plans

Number of children in poverty. The House budget plan could move 2.3 million children into poverty. The Senate budget plan could move 1.7 million children into poverty -- as many as 0.4 million as a result of deep cuts in the EITC.

Health care cannot be included in poverty analysis. The House and Senate budget plans would put millions of poor children at risk of losing medical coverage. These effects are not included in the poverty analysis but they would make millions of children worse off.

POLICY RECOMMENDATIONS TO PROMOTE WORK AND MINIMIZE THE IMPACT ON CHILDREN

Any comprehensive plan to balance the budget within the next decade will require spending cuts, some of which will affect low-income Americans. In its balanced budget plan, the Administration has sought to make sure that cuts and benefits are distributed equitably.

Throughout the budget and welfare reform debates, the Administration has called for measures that will maximize the opportunities for families to work their way off welfare and out of poverty, and minimize the potential risk to children if they do not. Many of these improvements were included in the Senate-passed welfare reform bill. Others have been recommended repeatedly by the Administration in letters to Congress on welfare reform and budget reconciliation.

The following policies which the Administration has called for would significantly decrease the potential impact on children, and increase the prospect that people will bring their families out of poverty through work:

A. Maintain and Strengthen Improvements in the Senate Welfare Reform Bill

The Senate adopted a number of bipartisan improvements over the House bill that significantly increase the prospects for people to leave welfare for work and reduce the risks that children will be harmed. These include rejecting House provisions that would block grant child welfare and child nutrition programs and mandate the family cap and the cutoff of unwed teen mothers, and instead adopting the following measures to promote work and protect children:

- *Child Care.* The poverty effects of welfare changes depend in large part on how many people get jobs. In particular, welfare reform should provide the child care mothers need so they can leave welfare for work. The House bill cuts child care funding. The Senate increased child care funding by $3 billion over the next five years. But the impact of that improvement is not captured in this poverty analysis because the child care funding increase in the Senate bill expires after the year 2000. (This analysis is modeled on full implementation; generally 2002.) Making that increase in child care permanent would reduce the poverty impact in two ways: by improving the prospects for recipients to leave welfare for work, and by reducing the pressure on States to divert money away from benefits in order to pay for child care.

- *Contingency Fund and Maintenance of Effort.* Another critical variable is how States respond, especially in the event of an economic downturn that would increase caseloads and reduce revenues. The House bill includes an inadequate rainy day loan fund and no requirement for states to maintain their effort. The Senate bill includes a $1 billion contingency grant fund and an 80% maintenance of effort requirement. The Administration has sought to maintain and strengthen these improvements through a tightly drawn, permanent maintenance of effort provision and a contingency fund with a more effective trigger mechanism and a greater amount of funds in reserve. The Administration and CBO project that the current Senate contingency fund will run out in a few years even with a growing economy, so it should be strengthened to provide states and families greater protection in a serious recession.

- *Performance Bonuses.* For welfare reform to succeed in moving people from welfare to work, states will need to transform the culture of welfare to reward success instead of failure or the status quo. The House bill gives states a perverse incentive to save money by throwing people off the rolls, and lets them count people as "working" if they were simply cut off welfare -- whether or not they have moved into a job. The Senate added performance bonuses for states with successful work programs, but funded them out of the overall block grant. Providing additional money for performance bonuses -- rather than reducing the block grant to pay for them -- would increase the number of people who leave welfare for work and reduce the number of children at risk.

B. Other Improvements in Welfare Reform

The Administration has recommended two other improvements to the Senate welfare reform bill that would reduce the potential impact of the final legislation on children:

- *Vouchers for Children.* The Senate Democratic welfare reform bill, which the Administration endorsed, provided vouchers for children whose parents reach the 5-year time limit and cannot find work. Requiring or allowing states to provide vouchers in the amount of the child's benefit after the time limit would reduce any potential impact by ensuring that children receive adequate housing and other necessities.

- *Child support for AFDC families.* Families on welfare currently receive the first $50 of child support that their absent parents pay. The House and Senate bills would eliminate this provision.

C. A More Balanced Deficit Reduction Plan and Other Changes

A more balanced deficit reduction plan would leave children much better off than the House- and Senate-passed budget plans. The overall budget cuts in the House and Senate welfare and reconciliation bills far exceed the level of cuts in the President's balanced budget plan. Moderating these cuts and enacting the following changes would promote work and protect children:

- *Do not cut the EITC.* The House and Senate budget plans would undermine rewards to work by cutting assistance to people who work -- often at low wage jobs. The EITC changes in 1993 led to a significant reduction in poverty, while the EITC cuts in the Senate budget bill could lead to an additional 0.4 million children moving below the poverty line. Retaining the current EITC rewards work and reduces poverty.

- *Cut fewer current SSI recipients from the rolls.* The Senate bill would cut off 160,000 children currently receiving SSI. The House would cut even deeper. Applying changes only on a prospective basis would lessen the poverty impact.

- *Moderate Food Stamp cuts.* The House cuts Food Stamps 26% by 2002; the Senate 19%. The House bill puts an inflexible cap on food stamp spending, which could leave working families vulnerable in an economic downturn. Moderating the cuts to the levels suggested by the Administration would substantially reduce the poverty effects. In addition, to ensure the continuation of the nutritional safety net, food stamps should not be block granted.

- *Moderate immigrant cuts.* Both the House and Senate bills go too far in cutting benefits to legal immigrants, and shifting costs to States with high numbers of immigrants. The Administration supports holding sponsors who bring immigrants into this country more responsible for their well-being, but these changes should be made equitably.

- *Do not block grant Medicaid.* While proposed changes in Medicaid do not show up in the poverty tables, the distributional analysis points out that they could have dramatic impacts on children in low-income families, far beyond the cuts in AFDC. As the following distributional analysis shows, the 20% of families with children with the lowest incomes would lose health coverage worth $1,199 (Senate) to $1,271 (House). The Administration's plan, which rejects a Medicaid block grant, achieves a balanced budget in a more equitable way and minimizes the impact on children.

- *Increase the minimum wage.* The Administration has proposed to increase the minimum wage from $4.25 to $5.15 over two years. The real value of the minimum wage is now 27% below its value in 1979. If it is not increased this year, it will be worth less than at any time in the last 40 years. This continuing decline in the real value of the minimum wage makes it harder and harder for parents to raise their children out of poverty and makes it more and more difficult to move people from welfare to work. Increasing the minimum wage could decrease the poverty effect of the welfare and budget changes without significant budgetary costs.

Table 1

THE IMPACT OF CONGRESSIONAL PROPOSALS ON POVERTY

Using a Comprehensive Post-Tax, Post-Transfer Definition of Income

Simulates effects of full implementation in 1993 dollars

	Effect of 1993 Changes		House Budget Plan		Senate Budget Plan		Senate Democratic Welfare Plan* (S.1117)
	Prior Law	Current Law	Entire Plan	Welfare Bill	Entire Plan	Welfare Bill	
Children Under 18							
Number in Poverty (Millions)	10.8	10.0	12.3	12.1	11.6	11.2	10.1 to 10.5
Change From Current Law			2.3	2.1	1.7	1.2	0.1 to 0.5
Poverty Rate (Percent)	15.5	14.4	17.6	17.4	16.8	16.2	
Change From Current Law			3.3	3.0	2.4	1.8	
Families With Children							
Number in Poverty (Millions)	18.3	17.0	20.9	20.6	19.9	19.2	17.2 to 18.0
Change From Current Law			3.9	3.7	2.9	2.2	0.2 to 1.0
Poverty Rate (Percent)	12.6	11.7	14.4	14.3	13.8	13.3	
Change From Current Law			2.7	2.5	2.0	1.5	
Poverty Gap (Billions)	17.6	16.2	24.8	24.3	21.5	20.6	
Change From Current Law			8.6	8.1	5.3	4.4	
All Persons							
Number in Poverty (Millions)	29.5	28.1	32.6	32.1	31.6	30.7	28.3 to 29.3
Change From Current Law			4.5	4.0	3.5	2.6	0.2 to 1.2
Poverty Rate (Percent)	11.3	10.8	12.6	12.4	12.2	11.8	
Change From Current Law			1.7	1.6	1.3	1.0	
Poverty Gap (Billions)	48.6	46.8	57.4	56.2	54.0	52.3	
Change From Current Law			10.6	9.3	7.2	5.5	

Notes: The Census Bureau publishes a family of poverty statistics using alternative definitions of income. The definition of income displayed here includes the effect of taxes (including EITC), Food Stamps, housing programs, and school meal programs. Changes in government-provided health coverage are not included, nor are there any adjustments for medical costs. Numbers may not add due to rounding.

Source: HHS's microsimulation model, based on data from the March 1994 Current Population Survey.

*These estimates of the Senate Democratic bill are preliminary. The Senate Democratic welfare reform bill is being modeled, but results are not ready yet. The poverty effects are much smaller than that of the bills that were passed because it ensures States have adequate funding for work programs and child care; ensures that children can receive vouchers for housing and other needs after their parents reach the time limit for receiving cash assistance; ensures States have adequate funding for benefits regardless of the economy; and has much smaller cuts in SSI and food programs.

Table 2

THE IMPACT OF CONGRESSIONAL PROPOSALS ON POVERTY

Under The Pre-Tax Money Income Definition Used For Official Poverty Statistics

Simulates effects of full implementation in 1993 dollars

	Effect of 1993 Changes		House Budget Plan		Senate Budget Plan		Senate Democratic Welfare Plan* (S.1117)
	Prior Law	Current Law	Entire Plan	Welfare Bill	Entire Plan	Welfare Bill	
Children Under 18							
Number in Poverty (Millions)	15.5	15.5	16.0	16.0	15.8	15.8	15.3 to 15.7
Change From Current Law			0.5	0.5	0.3	0.3	-0.2 to 0.2
Poverty Rate (Percent)	22.3	22.3	23.1	23.1	22.8	22.8	
Change From Current Law			0.7	0.7	0.5	0.4	
Families With Children							
Number in Poverty (Millions)	26.5	26.5	27.5	27.5	27.2	27.2	26.1 to 26.9
Change From Current Law			1.0	1.0	0.7	0.6	-0.4 to 0.4
Poverty Rate (Percent)	18.3	18.3	19.0	19.0	18.8	18.8	
Change From Current Law			0.7	0.7	0.5	0.4	
Poverty Gap (Billions)	41.6	41.6	50.6	50.6	47.0	46.9	
Change From Current Law			9.0	9.0	5.4	5.3	
All Persons							
Number in Poverty (Millions)	38.8	38.8	39.9	39.9	39.6	39.6	38.4 to 39.4
Change From Current Law			1.1	1.1	0.9	0.8	-0.4 to 0.6
Poverty Rate (Percent)	14.9	14.9	15.4	15.4	15.3	15.2	
Change From Current Law			0.4	0.4	0.3	0.3	
Poverty Gap (Billions)	76.3	76.3	85.9	85.9	82.9	82.5	
Change From Current Law			9.6	9.6	6.6	6.2	

Notes: The definition used for official poverty statistics counts all cash income, but excludes the effect of taxes (and EITC), Food Stamps, housing programs, and other near-cash government assistance programs. Numbers may not add due to rounding.

Source: HHS's microsimulation model, based on data from the March 1994 Current Population Survey.

* These estimates of the Senate Democratic bill are preliminary. The Senate Democratic welfare reform bill is being modeled, but results are not ready yet. The poverty effects are much smaller than that of the bills that were passed because it ensures States have adequate funding for work programs and child care, ensures that children can receive vouchers for housing and other needs after their parents reach the time limit for receiving cash assistance, ensures States have adequate funding for benefits regardless of the economy, and has much smaller cuts in SSI and food programs.

SENSITIVITY OF POVERTY ESTIMATES TO TECHNICAL ASSUMPTIONS

The following table (Table 3) shows how the estimates of the poverty effects of the Senate-passed welfare bill vary under alternate technical assumptions. The point estimates included in the comparison with other Congressional welfare bills and House and Senate-passed budget plans are in the column labeled "Intermediate Estimate".

Areas less sensitive to technical assumptions. Estimates of the effects of the cuts in Food Stamps, SSI, and the Earned Income Tax Credit are not very sensitive to technical assumptions. The effects of these cuts vary primarily by the population growth and economic assumptions that underlie the estimate of the budget savings, where Administration and CBO estimates are similar.

Areas more sensitive to technical assumptions. While a significant portion of poverty changes related to AFDC are a function of Federal budget cuts, the total AFDC estimate is rather sensitive to alternate assumptions. Three alternate technical assumptions have been modeled; alternate demographic and economic assumptions have not been modeled. As the table shows, the alternate assumptions modeled show the Senate-passed welfare bill moving from 0.9 million to 1.4 million children below the poverty line. If smaller deficits increase economic growth, States increase welfare funding, or there is a decline in the numbers of out-of-wedlock births, the effect could be considerably less than 0.9 million. On the other hand, if the Nation falls into a recession or States "race to the bottom" to cut assistance, the effect could be considerably more than 1.4 million.

ALTERNATE ASSUMPTIONS THAT HAVE NOT BEEN MODELED

In the long run, economic and demographic variables are among the most important determinates of welfare caseloads. Other than the differences between Administration and CBO baseline assumptions, alternative economic and demographic variables have not been modeled. The poverty effects are also sensitive to alternative State funding levels that have not been modeled.

- *Economic Growth and Unemployment.* An extended period of strong economic growth would reduce the poverty effects. Since AFDC recipients usually have a harder time than most finding and keeping jobs during a recession, and the House-passed bill in particular has almost no countercyclical protection, the poverty effects would be greater if unemployment rates increased substantially.

- *State funding for benefits.* The estimates assume States maintain current State funding levels for benefits until recipients reach the time limit, and then use the time limit savings to fund work programs and child care. Poverty effects would be greater if States reduced their funding in a "race to the bottom" and smaller if States increased their funding to offset the loss of Federal dollars.
- *Marriage and birth rates.* Some recent changes in birth rates -- such as the sudden increase in the late 1980's -- were not predicted, and had a tremendous impact on welfare caseloads. If work-based welfare reform, tough child support enforcement, and a national campaign against

teen pregnancy can reduce teen pregnancy, out-of-wedlock births, and/or increase marriage rates, the poverty effects will be smaller. If out-of-wedlock birth rates continue to grow and marriage continues to decline, the poverty effects could be greater.

ALTERNATE ASSUMPTIONS THAT HAVE BEEN MODELED

Three variations have been modeled for the Senate welfare bill. No variations have been modeled for the House bill. These variations include:

- ***What effect does a time limit have on employment?*** The base estimate for the Senate analysis assumes that 40 percent of parents reaching the time limit will find some kind of employment. The range of hours worked and wages received reflects the predicted earnings for long-term AFDC recipients, based on the earnings of non-AFDC single mothers with similar education, work experience, number of children, and test scores.

  The more conservative labor supply column of the table assumes that only 20 percent of these parents find jobs, with most of those jobs being part-time. This assumption increases the number of children moved below the poverty line by 0.2 million. This assumption is consistent with those CBO has used in scoring the welfare bills. (There is no data on which to base an estimate of the number finding employment. No parent has ever reached a time limit in any of the State welfare reform waivers that includes a time limit.)

- ***What would AFDC look like under current law in 2002 and 2005?*** CBO's baseline projects slower program growth under current law than the Administration's baseline includes. These types of projections are inexact. Were CBO's program growth assumptions incorporated into these estimates, the estimate of the number of children moved below the poverty line would be 0.1 million fewer.

- ***What do States do after the mandatory time limit?*** Waiver requests indicate that a number of States will want to end assistance completely when the time limit ends. Some States, however, may choose to pay cash benefits with State funds or provide in-kind vouchers. If States with two-thirds of the national caseload provided housing and other vouchers worth the children's portion of the AFDC benefit, the number moved below the poverty line would be 0.2 million smaller.

SENATE WELFARE BILL SENSITIVITY OF POVERTY ESTIMATES TO TECHNICAL ASSUMPTIONS

Using a Comprehensive Post-Tax, Post-Transfer Definition of Income

Simulates effects of full implementation in 1993 dollars

	Optimistic Assumptions	Assumptions Modeled				Pessimistic Assumptions
	States Increase Benefit Funding; Increased Economic Growth; and/or Non-Marital Birth Rates Decline	Two-Thirds of States Provide Child Benefit Vouchers After Time Limit; CBO Projection of Program Growth; Intermediate Labor Supply Effects	CBO Projection of Program Growth Under Current Law	Intermediate Estimate	More Conservative Labor Supply Effect of Time Limit	States "Race to the Bottom" and/or Decreased Economic Growth
Children Under 18						
Number in Poverty (Millions)	-?.?	10.9	11.1	11.2	11.4	+?.?
Change From Current Law	-?.?	0.9	1.1	1.2	1.4	+?.?
Poverty Rate (Percent)	-?.?	15.7	15.9	16.2	16.4	+?.?
Change From Current Law	-?.?	1.3	1.6	1.8	2.0	+?.?
Families With Children						
Number in Poverty (Millions)	-?.?	18.7	18.9	19.2	19.5	+?.?
Change From Current Law	-?.?	1.7	1.9	2.2	2.5	+?.?
Poverty Rate (Percent)	-?.?	12.9	13.1	13.3	13.5	+?.?
Change From Current Law	-?.?	1.2	1.3	1.5	1.7	+?.?
Poverty Gap (Billions)	-?.?	19.2	19.9	20.6	21.0	+?.?
Change From Current Law	-?.?	3.0	3.7	4.4	4.8	+?.?
All Persons						
Number in Poverty (Millions)	-?.?	30.2	30.4	30.7	31.0	+?.?
Change From Current Law	-?.?	2.1	2.3	2.6	2.9	+?.?
Poverty Rate (Percent)	-?.?	11.6	11.7	11.8	11.9	+?.?
Change From Current Law	-?.?	0.8	0.9	1.0	1.1	+?.?
Poverty Gap (Billions)	-?.?	50.9	51.6	52.3	52.7	+?.?
Change From Current Law	-?.?	4.1	4.8	5.5	5.9	+?.?

Notes: The Census Bureau publishes a family of poverty statistics using alternative definitions of income. The definition of income displayed here includes the effect of taxes (including EITC), Food Stamps, housing programs, and school meal programs. Changes in government-provided health coverage is not included, nor are there any adjustments for medical costs. Numbers may not add due to rounding.

Source: HHS's microsimulation model, based on data from the March 1994 Current Population Survey.

DISTRIBUTIONAL ANALYSIS
OF THE BALANCED BUDGET PROPOSALS

Both the Administration and the Congress have plans to balance the budget. The proposals are similar in several ways: the plans eliminate the deficit, provide tax cuts, and require spending reductions. However, the plans are quite different in how they treat families at different income levels. By planning to vastly reduce benefits to middle and low income families with children while providing substantial tax breaks to those with high income, the proposals passed by the House and Senate shift the burden of balancing the budget to the most vulnerable families -- families with children and low or no wages. In contrast, the Administration reaches a balanced budget in a more equitable way by minimizing the impact of cuts on low and moderate income families with children and targeting tax relief to non-wealthy working families with children.

WHAT IS A DISTRIBUTIONAL ANALYSIS?

This analysis complements the study of potential poverty effects by providing detailed estimates of the various budget plans' impacts on families' incomes and health coverage. The Office of Management and Budget coordinated an effort in which the Department of Treasury and the Department of Health and Human Services used computer models to produce these estimates of the various budget alternatives. Many other agencies also contributed to the analyses of the provisions included in the budget plans.

Unlike the poverty study, this analysis describes how the effects of these plans would be distributed across families at a range of different income levels. It illustrates which income groups will gain and which will lose under the various budget plans and estimates, in dollar terms, the change in income for each of these groups. The analysis is based on fully-implemented policy changes, and is presented in 1996 dollars.

WHAT IS INCLUDED AND WHAT IS NOT INCLUDED IN THE DISTRIBUTION?

There are two components included in the distribution analysis. One component measures the effect of the various tax plans on the after-tax income of households in different income brackets. The other is a benefit component, which shows proposed cuts in programs such as AFDC, SSI, Food Stamps, child nutrition, housing assistance, energy assistance, federal retirement benefits, and some health benefits.

The study focuses only on tax changes and changes in programs that provide direct income support and health coverage to individuals and families. Therefore, the study does not include some significant components of the budget plans now being debated by Congress that do not affect income or health coverage. For example, the analysis does not include the effect of proposed reductions in education, job training, transportation, and public health programs, or the reductions in provider payments in the Medicaid and Medicare programs.

A more complete explanation of what was measured and how the analysis was conducted is included in both the distribution tables and methodology section following this discussion.

RESULTS OF THE DISTRIBUTIONAL ANALYSIS

An analysis of the effects of the Senate passed and revised House passed budget plans shows a dramatic imbalance. With the combination of tax, income support and health benefit changes, families with income below $50,000 would lose while those with income $100,000 and over on average would gain substantially.

Changes in Taxes

The Administration's plan provides tax relief to middle income families while the Republican Congressional plans target upper income families. One comparison makes this clear. All three plans -- House, Senate and Administration -- provide an average tax cut of $250 for families with incomes between $30,000 and $50,000. The Republican plans, however, give 13 times as much in tax benefits to those with incomes of $200,000 and over as they give to those with incomes between $30,000 and $50,000, and 40 times as large a tax cut as the Administration would give to those with incomes $200,000 and above. The Administration plan provides three times as much tax relief to those with incomes between $30,000 and $50,000 as it gives to those with incomes of $200,000 and above.

Earned Income Tax Credit. While the Administration's plan would give some tax relief to all income groups and maintain the EITC for working families, the House and Senate passed plans would increase taxes on lower income families through cuts in the EITC. The House-passed plan would raise taxes on average for families with incomes under $10,000. The Senate-passed plan goes even further, raising taxes on average for families with incomes under $30,000, while giving those with income of $200,000 and over an average tax break of $3,416.

Reductions in Benefits Affecting Income

Both the House and Senate passed budget plans have proposed very deep cuts in income and other assistance programs for low income families. To balance the budget, improve efficiency and encourage work, the Administration's plan also includes cuts to low-income benefit programs. While the benefit reductions in the Administration's plan for families with income below $30,000 would reduce their average annual income by only $64, these same families would suffer a $411 loss in income under the House plan, and a $252 loss under the Senate plan.
Worse yet, the deepest cuts passed by the House and Senate affect the poorest 20% of families with children (those at or below 121% of poverty). Their average income would decrease by $1,549 (10.8% of income) under the House plan and $825 per year (5.8% of income) under the Senate plan.

Reductions in Health Coverage

The contrast between the Administration plan and the House and Senate passed bills is even sharper when changes in health coverage are considered. The Administration plan would obtain Medicare savings from reform of provider payments and, with respect to Medicaid, would reduce disproportionate share payments and modestly reduce per capita payments. Medicaid would continue as an entitlement, and coverage would continue for everyone who is eligible under current law -- with all poor children covered by 2002. As a result of these policies, there are only modest effects on families (States may reduce some optional services). In addition, the Administration plan would help people continue their health insurance when they lose a job that provides it. Medicare recipients would see their costs drop, as provider payment reforms will reduce co-payments.

The Republican Congressional plans, on the other hand, will increase costs for Medicare recipients and may end the Federal guarantee of Medicaid coverage for many low income children, disabled, and elderly. The House-passed bill would reduce annual health coverage by $493 for the average household below $30,000 -- and $1,271 for the lowest quintile of families with children (those below 121% of poverty). The Senate-passed cuts are as deep -- reducing the annual value of health coverage by $496 for the average household with income below $30,000, and by $1,199 for families with children below 121% of poverty.

COMPARISON OF TAX AND BENEFIT CUTS

While it is not entirely clear at what income level families on average are helped rather than hurt by the Republican Congressional plans, one thing is clear -- they hurt families below $50,000, and help those above $100,000.

Families below $30,000. The House-passed plan gives these families an average tax cut of $11 while cutting annual income and health assistance by $904. The Senate actually raises taxes on the average family in this income range, while cutting health and income assistance by $748.

Families between $30,000 and $50,000. The Administration and Republican Congressional plans would give these families approximately $250 on average in tax relief. However, the House-passed plan would on average cut their income and health assistance by more than that amount -- $294 -- and the Senate-passed plan would cut it more -- $385. In addition, there are a lot of service cuts -- such as education and training -- that are not included in the analysis.

Households $100,000 and above. The House-passed plan would give these families an average of $1,613 in tax benefits, and the Senate-passed plan gives $1,642. At the same time, the Senate plan would reduce these upper income families' annual income and health coverage only $376, the House plan even less -- $155.

WHAT DO THE RESULTS OF THE DISTRIBUTIONAL ANALYSIS SHOW?

This study illustrates that the cuts in the Republican budget plans disproportionately affect low and middle income families -- especially families with children. This imbalanced impact is especially striking when looking at the cumulative tax and benefit cuts across different income levels. An overall picture of the House and Senate passed budget plans reveals that cuts in benefits get deeper and deeper for families with lower and lower incomes. Alternately, the tax breaks get larger as one goes up the income scale. For example, 20% of families with children with the lowest incomes would lose an average of $1,549 in annual income and $1,271 in annual health coverage under the House budget plan -- for total benefit cuts of $2,820. Under the same plan, families with income of $200,000 and over would receive an average of $3,269 in annual tax breaks. So while low income families with children would lose over $2,800 in assistance, those with high incomes would receive over $3,000 or more.

These plans, if enacted, would further exacerbate a troubling 20 year trend toward an increasing degree of income inequality. The results raise a fundamental question. Do we as a nation want to continue an effort to reward work and raise the incomes of low income families? Or do we want to move in the other direction, by cutting benefits and by limiting the rewards for work for low income families in order to give tax breaks to the people at the top of the income distribution?

Table 4

Average Tax, Income, and Health Coverage Changes Per Household

House, Senate, and Administration Balanced Budget Plans

Family Economic Income	Percent of Families	House Budget Plan	Senate Budget Plan	Administration Plan
Benefit Cuts Affecting Income				
Less than $30,000	40%	-$411	-$252	-$64
$30,000 to $50,000	21%	-$122	-$97	-$21
$50,000 to $100,000	27%	-$70	-$92	-$22
Over $100,000	12%	-$55	-$97	-$18
Health Coverage Cuts				
Less than $30,000	40%	-$493	-$496	$22
$30,000 to $50,000	21%	-$172	-$288	$28
$50,000 to $100,000	27%	-$90	-$169	$8
Over $100,000	12%	-$100	-$279	$32
Total Income And Health Coverage Cuts				
Less than $30,000	40%	-$904	-$748	-$42
$30,000 to $50,000	21%	-$294	-$385	$7
$50,000 to $100,000	27%	-$160	-$261	-$14
Over $100,000	12%	-$155	-$376	$14
Tax Benefits				
Less than $30,000	40%	$11	-$53	$36
$30,000 to $50,000	21%	$251	$249	$251
$50,000 to $100,000	27%	$648	$700	$473
Over $100,000	12%	$1,613	$1,642	$287
Over $200,000	3%	$3,269	$3,416	$82
Top 1%	1%	$5,422	$5,626	$63

Notes: See "Methodology" section of this paper for a description of the methodology and assumptions used in the analysis.

Family Economic Income (FEI) is a broad-based concept used in tax modeling that ranks household income by absolute dollar amounts. FEI is constructed by adding to AGI unreported and underreported income; IRA and Keogh deductions; nontaxable transfer payments such as Social Security and AFDC; employer-provided fringe benefits; inside build-up on pensions, IRAs, Keoghs, and life insurance; tax-exempt interest; and imputed rent on owner-occupied housing. Capital gains are computed on an accrual basis, adjusted for inflation to the extent reliable data allow. Inflationary losses of lenders are subtracted and gains of borrowers are added. There is also an adjustment for accelerated depreciation of noncorporate businesses. FEI is shown on a family rather than a tax return basis. The economic incomes of all members of a family unit are added to arrive at the family's economic income used in the distributions.

Table 5

Aggregate Changes in Tax Benefits, Income, and Health Coverage By Income Group

House, Senate, and Administration Balanced Budget Plans

Dollars in Billions

Family Economic Income	Percent of Families	House Budget Plan	Senate Budget Plan	Administration Plan
Benefit Cuts Affecting Income				
Less than $30,000	40%	-$18.0	-$11.0	-$3.2
$30,000 to $50,000	21%	-$2.8	-$2.2	-$0.5
$50,000 to $100,000	27%	-$2.0	-$2.7	-$0.6
Over $100,000	12%	-$0.7	-$1.3	-$0.2
Total	**100%**	**-$23.5**	**-$17.3**	**-$4.7**
Health Coverage Cuts				
Less than $30,000	40%	-$21.5	-$21.7	$1.0
$30,000 to $50,000	21%	-$3.9	-$6.6	$0.6
$50,000 to $100,000	27%	-$2.6	-$4.9	$0.2
Over $100,000	12%	-$1.3	-$3.7	$0.4
Total	**100%**	**-$29.5**	**-$36.9**	**$2.3**
Total Income And Health Coverage Cuts				
Less than $30,000	40%	-$39.5	-$32.7	-$2.2
$30,000 to $50,000	21%	-$6.7	-$8.8	$0.1
$50,000 to $100,000	27%	-$4.6	-$7.6	-$0.4
Over $100,000	12%	-$2.0	-$5.0	$0.2
Total	**100%**	**-$53.0**	**-$54.2**	**-$2.4**
Tax Benefits				
Less than $30,000	40%	$0.5	-$2.3	$1.6
$30,000 to $50,000	21%	$5.7	$5.7	$5.7
$50,000 to $100,000	27%	$18.8	$20.4	$13.8
Over $100,000	12%	$21.6	$22.0	$3.8
Over $200,000	3%	$9.1	$9.5	$0.2
Top 1%	1%	$5.9	$6.2	$0.1
Total	**100%**	**$47.0**	**$45.8**	**$24.9**

Notes: See "Methodology" section of this paper for the definition of family economic income and a description of the methodology and assumptions used in the analysis.

Table 6

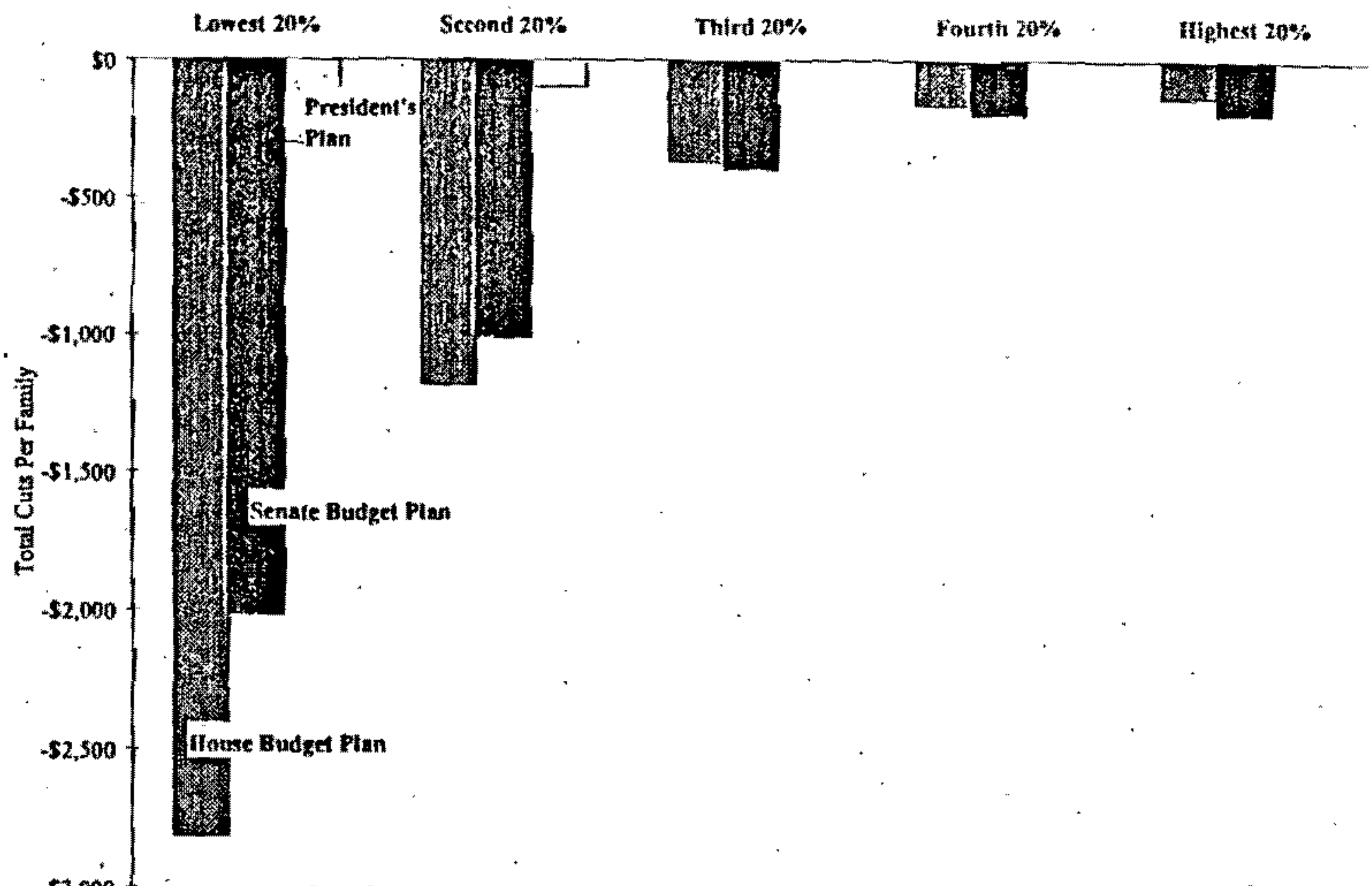
Tax Benefits By Quintile

House, Senate, and Administration Balanced Budget Plans

Family Economic Income Quintile	House Budget Plan	Senate Budget Plan	Administration Plan
Average Tax Benefits Per Family (In Dollars)			
Lowest	-$12	-$26	$12
Second	$32	-$77	$57
Third	$242	$233	$242
Fourth	$530	$578	$430
Highest	$1,340	$1,380	$396
Top 10%	$1,752	$1,771	$243
Top 5%	$2,377	$2,416	$126
Top 1%	$5,422	$5,626	$63
Aggregate Tax Benefits By Income Group (In Billions of Dollars)			
Lowest	-$0.3	-$0.6	$0.3
Second	$0.7	-$1.7	$1.2
Third	$5.3	$5.1	$5.3
Fourth	$11.6	$12.7	$9.4
Highest	$29.3	$30.2	$8.7
Top 10%	$19.2	$19.4	$2.7
Top 5%	$13.0	$13.2	$0.7
Top 1%	$5.9	$6.2	$0.1

Notes: See "Methodology" section of this paper for the definition of family economic income and a description of the methodology and assumptions used in the analysis. Family economic income (FEI) ranks households based on dollar income while adjusted family income (AFI) takes family size into account. As a result, quintile tables based on AFI and FEI should not be added together.

Low Income Families With Children Are Hit Hard By Republican Budget Proposals
Total Income And Health Coverage Cuts Affecting Families With Children



Cuts In Annual Benefits and Health Coverage Per Family By Quintile (AFI)

Table 7

House, Senate, and Administration Balanced Budget Plans
Effects of Spending Cuts On Families with Children

Average Income and Health Coverage Loss Per Family By Quintile

Adjusted Family Income Quintile	House Budget Plan		Senate Budget Plan		Administration Plan	
	Dollars	% of Income	Dollars	% of Income	Dollars	% of Income
Benefit Cuts Affecting Income						
Lowest	-$1,549	-10.8%	-$825	-5.8%	-$224	-1.6%
Second	-$630	-2.7%	-$385	-1.6%	-$114	-0.5%
Third	-$191	-0.5%	-$160	-0.5%	-$41	-0.1%
Fourth	-$84	-0.2%	-$85	-0.2%	-$20	-0.0%
Highest	-$76	-0.1%	-$97	-0.1%	-$14	-0.0%
Health Coverage Cuts						
Lowest	-$1,271		-$1,199		-$82	
Second	-$558		-$631		$17	
Third	-$181		-$240		$45	
Fourth	-$80		-$118		$25	
Highest	-$60		-$103		$5	
Total Income and Health Coverage Cuts						
Lowest	-$2,820		-$2,024		-$306	
Second	-$1,188		-$1,016		-$97	
Third	-$372		-$400		$4	
Fourth	-$164		-$203		$5	
Highest	-$136		-$200		-$9	

Notes: Adjusted family income (AFI) ranks families based on their income as a percent of the poverty line. These results should not be added to the figures in Table 6 because family economic income does not include family size in the ranking factors. Also, this table includes only families with children, while table 6 includes all households.

See "Methodology" section of this paper for a description of the methodology and assumptions used in the analysis.

Table 8

House, Senate, and Administration Balanced Budget Plans
Effects of Spending Cuts On Families with Children

Aggregate Income and Health Coverage Loss By Quintile

Dollars In Billions

Adjusted Family Income Quintile	House Budget Plan	Senate Budget Plan	Administration Plan
Benefit Cuts Affecting Income			
Lowest	-$11.6	-$6.2	-$1.7
Second	-$4.8	-$3.0	-$0.9
Third	-$1.4	-$1.2	-$0.3
Fourth	-$0.6	-$0.6	-$0.2
Highest	-$0.6	-$0.8	-$0.1
Total	**-$19.0**	**-$11.8**	**-$3.1**
Health Coverage Cuts			
Lowest	-$9.5	-$9.0	-$0.6
Second	-$4.3	-$4.8	$0.1
Third	-$1.4	-$1.8	$0.3
Fourth	-$0.6	-$0.9	$0.2
Highest	-$0.5	-$0.8	$0.0
Total	**-$16.3**	**-$17.4**	**$0.1**
Total Income and Health Coverage Cuts			
Lowest	-$21.2	-$15.2	-$2.3
Second	-$9.1	-$7.8	-$0.7
Third	-$2.8	-$3.0	$0.0
Fourth	-$1.3	-$1.6	$0.0
Highest	-$1.1	-$1.6	-$0.1
Total	**-$35.5**	**-$29.2**	**-$3.0**

Notes: Adjusted family income (AFI) ranks families based on their income as a percent of the poverty line. These results should not be added to the figures in Table 3 because family economic income does not include family size in the ranking factors. Totals may not add due to rounding.

See "Methodology" section of this paper for a description of the methodology and assumptions used in the analysis.

METHODOLOGY

RANKING HOUSEHOLDS AND DEFINITIONS OF INCOME

Ranking Households. There are two types of distributional analysis included in this document. Tables which include changes in tax benefits are based on Family Economic Income (FEI), which does not include an adjustment for family size. Tables which focus on spending cuts affecting families with children are based on Adjusted Family Income (AFI), similar to analysis CBO has done in the past. Figures in tables based on FEI and AFI should not be added together, since they do not rank families in the same way. In an FEI table, each quintile consists of 20% of all households, ranked by absolute dollar income. An AFI table ranks families by their income as a percent of the poverty threshold for a family of that size. Since it adjusts for family size, AFI places 20% of persons into each quintile, rather than 20% of families. In addition, the definitions of income are not identical.

Family Economic Income (FEI). Family Economic Income is a broad-based concept. FEI is constructed by adding to Adjusted Gross Income unreported and underreported income; IRA and Keogh deductions; nontaxable transfer payments such as Social Security and AFDC; employer-provided fringe benefits; inside build-up on pensions, IRA's, Keoghs, and life insurance; tax-exempt interest; and imputed rent on owner-occupied housing. Capital gains are computed on an accrual basis, adjusted for inflation to the extent reliable data allow. Inflationary losses of lenders are subtracted and gains of borrowers are added. There is also an adjustment for accelerated depreciation of non-corporate businesses. FEI is shown on a family rather than a tax return basis. The economic incomes of all members of a family unit are added to arrive at the family's economic income used in the distributions.

Adjusted Family Income (AFI). Adjusted family income is derived by dividing family income (after-tax cash income plus food, housing, school lunch, and other near-cash assistance provided by the government) by the poverty level for the appropriate family size.

MODELING OF TAX CHANGES

The change in Federal taxes under the House, Senate and Administration plans is estimated at 1996 income levels but assuming fully phased in law and long-run behavior. The effect of IRA proposals is measured as the present value of tax savings on one year's contributions. The effect of the prospective capital gains indexing proposal in the House plan is the fully phased in tax savings, multiplied by the ratio of the sum of the present value of prospective capital gains indexing over 17 years to the sum of the present value of fully phased in indexing over 17 years, holding realizations constant. The effect on tax burdens of the capital gains exclusion in the House and Senate plans and prospective indexing in the House plan are based on the level of capital gains realizations under current law. Provisions which expire before the end of the budget period and provisions which affect the timing of tax payments but not liabilities are not distributed. The incidence assumptions for tax changes is the same as for current law taxes.

MODELING OF SPENDING CUTS

This analysis estimates the impact of H.R. 4, the reconciliation bill, and appropriations bills as passed by the House and Senate. Provisions of H.R. 4 that are analyzed include the AFDC block grant and benefit prohibitions, immigrant provisions and changes to the SSI and Food Stamp programs. Reconciliation actions that are analyzed include changes to housing assistance, Medicare, and Medicaid. A detailed list of the provisions that are included in the analysis follows. The analysis also includes a preliminary estimate of the impact of policy proposals that are included in the Administration's budget -- which include changes to SSI eligibility for children, Food Stamp program changes, immigrant provisions and Medicaid proposals.

The analysis focuses on changes in policy that will directly affect family income. It does not include the effects of changes in services provided, such as more difficult access to health care services resulting from reductions in Medicare payments to health care providers, or reduced job training or Head Start funds.

The goal of the study was to undertake a balanced analysis to obtain a credible, conservative estimate. As with most studies this complex, involving numerous assumptions, it can be argued that some aspects of the assumptions overstate and others understate the impacts of the proposals. Several factors and decisions have contributed to what, on balance, is a reasonable estimate. First, as described above not all provisions are modeled. Second, the data do not identify all persons who would potentially be affected by the program cuts. For example, the analysis assumes that none of the Medicare provider cuts affect beneficiaries and the study assumes that no states implement the option to block grant food stamps. These estimates do account for interactions between proposals.

Furthermore, the model makes relatively conservative assumptions regarding state maintenance of effort in the AFDC and Medicaid programs and the labor supply response of persons who lose AFDC benefits. The study assumes that states do not reduce state spending in response to the block granting of AFDC. Instead, it is assumed that states, at first, follow the Federal lead and keep aggregate cash benefits at the 1994 levels implicit in the block grant. The study assumes that later they reduce average benefits per household to offset any caseload growth, and retain the savings resulting from time limits to fund work programs and child care. Under the Medicaid block grant, State funds would be matched up to a Federal cap. The study assumes that States would increase spending only enough to receive their full Federal allotment (this assumption only affects the estimate of the value of health benefits and does not affect the poverty rates).

The study also incorporates a labor supply response to the time limit. For estimating the effects of the House proposal, the labor supply response (i.e. the subsequent work effort of persons who lose benefits) assumes that 20 percent of cases denied AFDC because of the time limit will go to work part-time at a wage rate equal to the median wage of women who formerly received AFDC and then went to work. These assumptions are based the limited skills and work experience, low scores on tests of aptitude, and chronic health and other problems of these long-term recipients.

The Senate assumptions, developed after the House analysis was completed, are based on the work of academic researchers and the work efforts of single mothers who don't receive AFDC but have similar characteristics. The study estimates that more than 40 percent of long-term welfare recipients will work at least part-time when they lose AFDC benefits due to the time limit. The average earnings for all recipients, including those with no earnings, would be $4,700 per year, and the highest ten percent would earn an average of $24,500 per year.

The overall estimates in this analysis were obtained using the Department of Health and Human Services' TRIM microsimulation model. TRIM (for Transfer Income Model) is based on a nationally-representative sample of the non-institutionalized U.S. population, the March Supplement of the Current Population Survey. This survey of about 60,000 households is conducted monthly by the Census Bureau and the Bureau of Labor Statistics. Using the survey data, TRIM computes income, benefits, and taxes for each person under current law, then aggregates these individual amounts for U.S. totals. These current law totals can then be compared to similarly computed estimates for the alternative policies contained in the Congressional proposals.

The tables that show impacts by income quintile and family type use a definition of income similar to that of the Census Bureau in calculating the official poverty count, but the definition captures more fully the effects of government policies. For these tables, most cash and near-cash income as well as taxes are counted when determining income. That is, this definition of income counts all cash income as the Census does, but adds the value of food stamps, school lunches, the Earned Income Tax Credit (EITC), and housing assistance and deducts from income the employee portion of Social Security (FICA) and federal income taxes.

The tables compare the impact of the various plans with current law and show a single-year impact of the proposals as if they were fully implemented in 1996 dollars. The following proposals were included in each analysis:

ANALYSES OF THE HOUSE PASSED H.R. 4

AFDC

- Deny benefits to non-citizens, with certain exemptions
- Combine AFDC and related programs into a block grant and reduce spending, accounting for both Federal and state reductions
- Impose a 5-year lifetime limit on AFDC receipt, with a 10% hardship exemption
- Eliminate the $50 child support pass-through
- Deny cash benefits to parents younger than age 18 with children born out-of-wedlock
- Deny benefits for children born or conceived while the mother received AFDC

SSI

- Deny benefits to non-citizens, with certain exemptions
- Deny cash SSI Disability benefits to non-institutionalized children, with some exceptions

Food Stamps

- Deny benefits to non-citizens, with certain exemptions
- Limit the annual benefit increase to 2% per year
- Freeze the standard deduction at 1995 levels
- Reduce and freeze the excess shelter expense deduction at 1995 levels
- Count state and local energy assistance as income when determining eligibility and benefits
- Require single, childless adults to participate in work or training after 3 months of receipt
- Eliminate indexing of $10 minimum benefit for small households

Child Support

- Increase paternity, increase the establishment of support awards, and increase collections

Nutrition Programs

- Establish a school nutrition block grant at reduced funding levels
- Combine CACFP, WIC, and Summer Food into a single block grant with reduced funding.

ANALYSES OF HOUSE ACTIONS

Includes all the provisions of H.R. 4 above plus:

Housing

- Impose a minimum rent of $50
- Increase the proportion of income paid for rent from 30% to 32% for Section 8
- Reduce the Fair Market Rent from the 45th percentile rent to the 40th percentile rent
- Eliminate new Section 8 certificates

Medicare

- Increase part B premiums from 25% of program costs to 31.5%[2] and eliminate the premium subsidy for high income beneficiaries.
- Reduce managed care benefits for beneficiaries currently enrolled in HMO's

Medicaid

- Eliminate entitlement and establish a block grant at reduced spending to save $170 billion between 1996 and 2002

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[2] For both the Congressional and Administration plans, the analysis assumes a permanent extension of the Medicare Part B premium at 25% of program costs is part of the baseline. No effects of extending it are included in the numbers. Under current law this provision expires after 1998.

Other Actions

- Eliminate the Low-Income Home Energy Assistance program (LIHEAP)
- Increase Federal employee contributions to pension funds
- Reduce the pension benefits of future Federal retirees
- Reduce direct payments to farmers and cap total acreage in the Conservation Reserve Program
- Combine several child care programs into a block grant and reduce spending

ANALYSES OF SENATE PASSED H.R. 4

AFDC

- Limit participation and benefits of non-citizens, with certain exemptions
- Combine AFDC and related programs into a block grant and reduce spending, accounting for both Federal and state reductions
- Impose a 5-year lifetime limit on AFDC receipt, with a 20% hardship exemption
- Eliminate the $50 child support pass-through

SSI

- Deny benefits to non-citizens, including current recipients, with certain exemptions
- Restrict SSI Disability benefits to children meeting the medical listings

Food Stamps

- Limit participation and benefits of non-citizens, with certain exemptions
- Reduce and freeze the standard deduction
- Count all energy assistance received as income when determining eligibility and benefits
- Reduce the maximum benefit
- Require children 21 and younger in the household to file with parents
- Require single, childless adults to participate in work or training after 6 months of receipt
- Eliminate indexing of $10 minimum benefit for small households

Child Support

- Increase paternity, increase the establishment of support awards, and increase collections

Nutrition Programs

- Round down reimbursement rates and delay indexation
- Implement a two-tier means-test for benefits in family day care homes.

ANALYSES OF SENATE ACTIONS

Includes all the provisions of the Senate passed H.R. 4 above plus:

Food Stamps
- Reduce and freeze the standard deduction further than in H.R. 4

Housing
- Impose a minimum rent of $25 in public housing
- Reduce the Fair Market Rent from the 45th percentile rent to the 40th percentile rent
- Reduce the number of new Section 8 certificates

Medicare
- Increase Part B premium to $89 in 2002
- Eliminate Part B premium subsidy for high income households
- Increase the Part B deductible to $210 in 2002
- Reduce managed care benefits for beneficiaries currently enrolled in HMO'S

Medicaid
- Eliminate entitlement and establish a block grant at reduced spending to save $172 billion between 1996 and 2002

Other Actions
- Reduce funding for the Low-Income Home Energy Assistance program (LIHEAP)
- Increase Federal employee contributions to pension funds
- Delay the cost-of-living adjustment of Federal retirees
- Reduce direct payments to farmers and cap total acreage in the Conservation Reserve Program

PRELIMINARY ANALYSES OF ADMINISTRATION'S BUDGET

SSI
- Tighten eligibility criteria for receiving SSI benefits.

Food Stamps
- Reduce spending while maintaining the federal entitlement, increasing state flexibility and cracking down on fraud.

Child and Adult Care Feeding Program (CACFP) Subsidies
- Target family day care home meal subsidies more towards lower income children.