WASH POST 3/27/95

CALL NATHAN - BROOKINGS STUDY?

WR Block Grants

David S. Broder

Welfare Fault Line

The welfare reform bill passed by the House last week may be the most consequential of the Republican Contract With America proposals yet approved on that side of the Capitol. It faces substantial alteration in the Senate and a potential presidential veto. But its passage by the House is still a dramatic reversal of 60 years of social policy.

In essence, the plan ends the open-ended federal guarantee of income, food and other services to low-income families with children and, instead, provides a fixed sum block grant for each state to use as it sees fit to assist single mothers and their kids. The states would be barred from providing cash assistance to anyone for more than five years, from aiding legal immigrants who have not become citizens or giving additional dollars to women who have more children while on welfare. Beyond that, their discretion is very broad.

The issues embedded in this proposal are fundamental: How do you affect behavior in the underclass? What training and support are required to move women from welfare to work? Where will the jobs be found? Can you punish irresponsible behavior by adults and at the same time protect children?

As important as any of these is the question of federal vs. state responsibility for the "safety net" social programs. The Democrats, predictably, opposed the measure almost unanimously because of their commitment to Washington as the protector of needy people, a commitment that was born in the Depression and strengthened in the Great Society years.

Republicans, however, are split, as the Senate debate will show. Their division illustrates once again the differences between the disciples of Richard Nixon and the followers of Ronald Reagan, a political/policy fault line that has been spotlighted in this column on other occasions.

The first view has been articulated by Richard P. Nathan, a domestic policy adviser during the Nixon administration, now the director of the Rockefeller Institute of Government at the State University of New York in Albany.

Nathan, in a forthcoming article, points out that the Nixon administration sought to decentralize responsibility for services like education, job training, community development and law enforcement "for which conditions and needs vary among communities and where local decision-making was felt to be especially important."

But it sought further centralization of "safety net" programs, involving both cash and in-kind assistance, where "national action ensures that benefits are uniform throughout the country," and not subject to the shifting political winds of 50 state legislatures.

As Nathan notes, when Nixon tried in vain to persuade Congress to enact a national system of uniform cash welfare payments, which he argued would "empower" individual recipients and be cheaper to administer, Ronald Reagan "as governor of California fought the Nixon plan."

... give the states full responsibility for welfare; in return, the federal government would have paid all the bills for Medicaid, the joint federal-state health program for the needy. That plan too was blocked in Congress; as it turned out, it would have been a good deal for the states.

Now the Republican governors who lead 30 of the 50 states are cheering on the House move to "block grant" welfare money, without asking for any offsetting shift of responsibility for Medicaid to Washington.

Nathan—and others—argue that the states will rue the day when recession or simple population growth increases the welfare caseload and the federal dollars remain frozen.

His warning is underlined in an essay by John J. DiIulio Jr. and Donald F. Kettl, published by the Brookings Institution. "Perhaps it will prove possible to have the cake of effective welfare reform and eat the fruits of 'less government' too," they write. "But there is absolutely nothing in the wide and growing body of empirical research on the intergovernmental administration of work-oriented welfare reform programs to support this hope.

"Much to the contrary, every relevant study indicates that nationally initiated Contract-style welfare reforms can be achieved only where significant resource increases are made in the government bureaucracies that administer the new programs."

They quote a report by Lawrence M. Mead of Princeton on the successful welfare-to-work program pioneered by Wisconsin Republican Gov. Tommy Thompson. The reason it has worked, Mead says, is close supervision of clients by an expanded corps of social workers. "Dependency is falling precisely because government is growing, and not in spite of it."

That is a sober message for the Senate—and the states—to ponder.

WELFARE

The House last week approved sweeping welfare-reform legislation that would create block grants for state welfare programs, impose a five-year limit on cash benefits, ban cash aid to unmarried parents under age 18, and repeal the automatic guarantee to benefits for low-income mothers and their children.

In the Senate, the Finance Committee is considering welfare reform. W. TIMES 3.29.95

USA TODAY 3/29/95

MOTOR VOTER: A Chicago federal judge ordered Illinois to comply with the federal "motor voter" law, which requires states to register voters by mail and at state offices that provide driver's licenses, welfare and other services. California, Pennsylvania and South Carolina also have refused, saying the law is an unfunded federal mandate, an invitation to fraud and an infringement on states' rights.

WR-Block Grants

CLINTON WELFARE BILL SHOULD BE ENACTED

Testimony
Richard P. Nathan
Subcommittee on Human Resources
U.S. House Committee on Ways and Means

August 9, 1994

As a veteran of welfare reform debates going back 25 years to when a Republican President for whom I worked (Nixon in his first term) tried to climb this mountain, I have thought long and hard about the Clinton welfare reform proposal (H.R. 4605), the Work and Responsibility Act of 1994. If I could wave a magic wand and have the Clinton bill enacted as written, I would do so. I remember well the hard issues we wrestled with to design Nixon's Family Assistance Plan, which was not enacted. It had its flaws. No reform bill in the hotbox of welfare policy can fully satisfy people like myself who make our living as policy analysts. Nor is every provision of the Clinton bill just what personally I would like. Nevertheless, on balance, and taking into account the arguments below about how crucial it will be to implement this new program effectively, I would be pleased to see the Congress adopt the Clinton bill. The fear of course is that in the cauldron of welfare emotionalism the bill will be changed in ways that would be harmful to the poor, especially poor children. This is a dangerous time for social policy. Still, if you could adopt the Clinton plan as written, I would say do it. It represents a sensible middle ground that in many ways builds intelligently on existing law.

In the usual way, the Clinton welfare reform bill and the statements made about it overpromise. If this legislation is passed, the federal government must avoid what has happened too often in the past in this field;

we promise the sun and we deliver sun spots. The JOBS title of the 1988 Family Support Act is an illustration of this implementation gap. The Family Support Act passed in 1988 is a balanced law that aids the states in adopting policies to get welfare families heads into the regular labor force. But based on research we have done at the Rockefeller Institute of Government, the funding for this law has been too limited, and the work done to implement it has gone slowly.[1]

Economists have a concept in theory called signalling. The idea is that what we tell people makes a difference in their economic behavior. In the case of welfare policy, we have been signalling like crazy for years now, but we have not made enough of a difference. Our signal has been that you should not have a child until you can support that child, that you shouldn't live a life of dependency on the state, and that children born to very young single mothers are likely to have a hard time of it. Almost every welfare plan I can remember - left, right, and center - has signalled (indeed preached) that work is better than welfare, that families should be self supporting, and that both parents of a child should be part of this self-support system. We have in fact shouted this to the rooftops. And yet illegitimacy rises (not just among the poor of course) and welfare roles are up. Many people exit welfare quickly, but the big cost and the big problem is the long stayers. This group overrepresents teenagers who have children out of wedlock and lead a life of welfare.

Everyone who knows about this field knows that in promising jobs after two years the Clinton bill sends a strong signal that presents lots of problems as to whether we can really do this. I credit the framers of the

Clinton bill for their phasing in of this requirement, although even with the phase-in, the goals sought are tremendously ambitious.

Why then do I say we should pass the bill?

My experience and my research suggest five points that lead me to this conclusion:

1. As a member of board of the Manpower Demonstration Research Corporation, I have closely studied MDRC reports that show that work/welfare programs work - not well enough in many places, but that they do work. It would be desirable to do demonstration research on the effects of time limits on welfare. However, that takes time. If there is no welfare reform legislation this year, I think this kind of research should be pushed, but even under the best of conditions it will not produce results that this Congress or the next can consider.

2. At the Brookings Institution and Princeton University, we conducted a national implementation study of the CETA public service jobs program in the late seventies. Contrary to what everyone remembers (CETA is remembered as a big flop), the CETA public service employment program worked pretty well. In its early days, reasonably job-ready people did useful work in the community. Hugh Price, the new president and chief executive officer of the National Urban League, has urged a new public service jobs program to deal with low-level public infrastructure needs, of which we have many. The bill before you ties in well with his proposals.

3. My third reason for saying go ahead even though big challenges are raised by the Clinton proposal is that there is money in it. It provides critically needed additional money to the states to make their JOBS programs work.

4. The fourth reason for my conclusion involves management. As a student of implementation in government, I have observed that we learn a lot of things by doing them. Yes, we should plan more carefully and take management factors into account in doing so. Some of this was done in writing the Clinton welfare bill. But the fact remains that it bites off a huge chunk, and that there will need to be a lot of adjustments along the way if we are serious about this stronger signalling strategy for welfare. Still, I conclude we need to make a more substantial commitment to job creation for welfare family heads, both for people already on the roles and as a signal to other young people that the government won't just support you forever on welfare if you have a baby you can't support.

5. The final reason for my conclusion involves the importance of jobs as the best route out of welfare. This is the approach New York State is taking now under social services commissioner Michael J. Dowling. The New York program is called "Jobs First." At a recent hearing in New York City on this approach, an employer in the Bronx who hires welfare family heads in a home health-care program said he didn't like to hire women who have cycled through one training program after another. He called them "training junkies," and said many of them are just playing the system. Education for skills and training are the right answer for many welfare family heads, but I think we have gone too far in this direction in the past decade. Training is not the answer for many welfare family heads.

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These five points reflect my reasoning as to why the Clinton bill should be enacted. It is ambitious and tends to be oversold. But what else is new? In my view the bill represents as good a balance as we are likely to get now. If there is an opening this year to put the knotty welfare issue behind us by enacting this bill in the 103rd Congress, I hope you will do it.

If a full-scale welfare bill cannot be enacted this year, I hope consideration will be given to a two-step approach. By that I mean enacting some changes now to aid and push the states in implementing the JOBS program, holding off until the 104th Congress to debate more fundamental changes. The Clinton bill recommends $2.8 billion over five years in additional funding for the JOBS program. It also provides $4.2 billion for child care, $1.5 billion of this amount for the working poor. There is another $300 million for pregnancy prevention, plus $600 million to strengthen child support enforcement. If half of this funding could be authorized now - $4 billion divided among these several purposes - it would help the states beef up their JOBS programs and related services in order to build a better base for the kinds of more far-reaching changes sought in the form of time limits and the institution of a President Clinton's proposed WORK program.

Richard P. Nathan is director of the Rockefeller Institute of Government and provost of the Rockefeller College of Public Affairs and Policy, the State University of New York. He is also chairman of the board of the Manpower Demonstration Research Corporation. This testimony does not represent the views of either the Rockefeller Institute or the Manpower Demonstration Research Corporation. It states the author's position.

NOTES

1. Irene Lurie and Jan L. Hagen, *Implementing Jobs: The Initial Design and Structure of Local Programs*, The Nelson A. Rockefeller Institute of Government, State University of New York, 1993.

Testimony on
An Alternative to the House-Passed Welfare Reform Bill

April 27, 1995

U.S. Senate Committee on Finance

Richard P. Nathan, Director
Rockefeller Institute of Government, University at Albany/SUNY

H.R. 4, *the welfare bill passed by the House on March 24, reflects frustration about mandates from Washington that require states to spend money to solve social problems that in the public's perception have not been solved or sufficiently relieved by existing programs.*

The House welfare bill, along with companion legislation on Medicaid now being considered, would put a lid on federal spending for poor children and their care givers, and would also enable states to cut the money they spend on this population.

Capping these federal entitlements and eliminating the requirement that states match federal spending for entitlements to poor families with children is strong medicine.

Based on experience with welfare reform issues and block grants going back to the seventies and Nixon's New Federalism, the purpose of this testimony is to present a system of ideas that hopefully can be of assistance to the Committee in framing an alternative to H.R. 4.

The five main points advanced are:

1. **There is no such thing as a pure block grant that gives complete freedom to the states to use federal-aid funds as they choose.**

2. **A new system of block grants for welfare should combine streams of federal-aid funding to the states for major welfare purposes on a basis that gives them increased policy making discretion and at the same time permits them to merge programs administratively in order to deal on a holistic basis with the problems of poor children and their care givers. Real life is not separated into federal-aid categories.**

3. **The reform approach suggested here reflects a basic difference between two types of federal grants-in-aid, those for entitlements to individuals and those for services provided by the states. In doing so, it creates two new block grants, one for family assistance and the second for activities administered by the states to get welfare family heads into jobs and prevent child abuse and neglect.**

4. **The most important point in this testimony is that the tasks of preventing unwanted pregnancies and saving welfare families are tremendously difficult and cannot be accomplished by requirements and prohibitions in federal laws as in the case of the strings included in the block grants created in H.R. 4. Accomplishing these tasks**

requires money for activities to reduce welfare dependency, unwanted pregnancies, and child abuse and neglect.

5. **While block grants for welfare have advantages in providing greater flexibility to the states and giving them incentives to control costs, a major drawback is their inability to respond to emergency conditions, such as a national recession or serious economic problems in particular regions of the country or individual states. Provision should be made for dealing both with emergencies and inflation quickly and automatically in a new system of welfare block grants. The "Rainy Day" loan provision of H.R. 4 is a very small umbrella.**

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Three Types of Grants

There are three main types of federal grants - those to states and localities for operating and capital purposes and those for entitlements to people that flow through the states. The latter type of grants - entitlement grants - now dominate the federal aid landscape, accounting for two-thirds of all federal aid to states and localities.

We have created block grants in the past for operating and capital purposes, but have never blocked entitlement grants. Doing so represents a sea change for American intergovernmental relations. The essential question is whether the national government should guarantee aid (money, food, health care) to the poor for so-called "safety net" functions. Republicans in the past have said these safety net functions - guaranteeing such aid - should be a national responsibility. President Reagan repeated his position on this point many times, as for example when he said in his 1982 State of the Union Message: "We'll continue to re-direct our resources to our two highest budget priorities - a strong national defense to keep America free and at peace and a reliable safety net of social programs for those who have contributed and those who are in need."

Personally, I have misgivings about block-granting entitlement-type grants, but my message is, "If you're going to do it, do it right." The main conceptual point in this testimony is that there needs to be a separation in grant-blocking between entitlement block grants and operating block grants.

H.R. 4

For many observers, the House welfare reform bill is viewed as a "block" grant. It caps federal spending and removes the matching requirement for the states to aid poor families. Without going into the history here (see attachment) or a technical discussion of block grants, let's for the moment accept this designation as a block grant, even though H.R. 4 is better described as capping entitlements for Aid to Families with Dependent Children (AFDC), foster care, and child nutrition.

The framers of this legislation want to stop the growth of programs for poor families. Their block grant also has strings - *tough ones*. It not only caps spending, it prohibits the states from using federal funds to aid poor families under certain circumstances, specifically if children are born to a woman under age 18, if they are born to a woman already on welfare, and if they are in a family in which the care giver has been receiving AFDC for more than five years.

A Two-Block Approach

There is more to be said about this bill, but for now the points made are sufficient to set the scene for advancing suggestions about an alternative to H.R. 4. Rather than create five block grants as in H.R. 4, I propose a simpler framework that would give the states greater freedom and that would consist of two blocks. One block grant would be for family assistance. It could combine the funding streams for AFDC, the child nutrition programs, and Medicaid for poor (i.e., AFDC categorically-eligible) families into a single block. I understand there is sentiment for retaining child nutrition programs separately, i.e., for school meals and WIC. I reiterate that this testimony is meant to suggest a framework of ideas as an alternative to H.R. 4; there are many variations as to the ways this approach could be applied.

Like other block grants, there would be earmarks for the several funding streams in this family assistance block grant. This, for example, was done in the case of the 1981-enacted block grant for alcoholism, drug prevention and treatment, and mental health services. States should be allowed to merge these family assistance aid streams administratively and to transfer up to some level (say 10 percent) of the funds among them. They would thus have much greater freedom than they do now, or that they would have under H.R. 4, to decide on the purposes, structure, benefit levels, etc., of these streams of spending.

This family assistance block grant would be big enough - especially if it includes health care for poor families - to give states a critical mass of funding and real and good options for program flexibility and management efficiency. The opportunity to link health care (especially managed care) to other family assistance benefits for poor children and their care givers would give the states a wide range of opportunities to reduce family dependency. Thirty-seven states already administer AFDC and Medicaid in the same agency.

However, I do not think that the food stamp program - which is basically a federal voucher with a strong work-incentive effect - should be included in this family assistance block grant.

Although the strings described above in H.R. 4 would not be included in this first block, related provisions setting priorities and requirements for work and workfare would be included in the second block grant in this two-block plan.

The Second Block

The second block grant would provide funds to the states for activities to get families off of welfare. This should include job referral, job placement, workfare jobs where unsubsidized jobs are not available, child care while the care giver (usually the mother) is working, job counseling and referral, and in some cases education (particularly for very young mothers) and training to develop job skills, etc. It should also include funding for day care for the children of welfare family heads and possibly also foster care and adoption services. Again, these services could be merged administratively by the states to deal with family needs on a holistic basis. As stated earlier, real life is not separated into federal-aid categories.

This second block grant overcomes what I regard as a very serious problem with H.R. 4, namely that it eliminates the funding for the current JOBS program. The 1988-passed JOBS program has not been pushed hard enough, but it does work in many places, and it involves services that are absolutely essential to reducing welfare dependency. The welfare-services block grant proposed here would not only preserve the ideas and aims of the JOBS program, it would change it fundamentally. It would place more emphasis on work. It would include targeting requirements in what I believe is the best way to do this - namely, tied to the activities needed to get families off of welfare. It could, for example, stipulate that single poor parents under age 22, if they are not in school, should be placed in a "workfare" job to work off their welfare benefits. Child care would have to be provided, which is an advantage of having a block grant that would permit the states to merge federal aid for a range of family services. The second group that would get priority for workfare jobs (again similar to H.R. 4) would be long-timers on welfare, i.e., welfare family heads who have received aid for five years. They too would be a priority group to be placed in a workfare job if a regular job is not available for them.

I believe this formulation is consistent with the spirit of H.R. 4 - allowing the states to decide who should be eligible for welfare assistance and giving them greater management flexibility. In fact, H.R. 4 is more rigid and prescriptive than current law in this respect. The alternative suggested here consisting of priorities for workfare and related child care and employment services tied to the funding provided for these purposes is both more realistic than H.R. 4 and more appropriate to the basic idea of a block grant. States could go beyond these priority groups and would determine the terms of work requirements and workfare on a basis that reflects both their particular conditions and their planning for the use of available funds.

I interpret the current groundswell of support for welfare block grants as indicating a high confidence level on precisely this basis on the part of the Congress in the ability of the states to shape and manage their own social programs.

Key Point

The key to this two-block plan is that there would be money in the second block so that it is reasonable to expect that states can actually get people off of welfare and into jobs. This is not an unfunded mandate, which unfortunately is the case of the welfare prohibitions and work requirements in H.R. 4. I also favor some provision for state maintenance of fiscal effort in the work-and-child-care field, say 20 percent state matching.

This second work-and-child-care block should have another important provision. It should assure that there are case managers for all employable welfare families. That person should not be allowed to have more than 100 cases. This is the Riverside, California "GAIN" model. These front-line case managers are essential to reducing welfare. They need to have the time and resources to do their job. They are the workers who, among their other duties, are involved in the crucial efforts to convince young people (especially teenagers, both female and male) to delay having children when they cannot conceivably care for them on a basis that enables the parents to get into the mainstream labor force. This is a big proposition to assure effective case management. But without some attention to the "Who" and "How" of welfare reform, we are putting too much reliance on preachments and prohibitions from on high.

Such implementation activities are the short suit of American government. More hard thinking needs to be given in the current welfare-reform debate to this implementation dimension of reform, particularly as it applies to the state role of moving welfare family heads into the labor force. The governors were right when they complained recently that H.R. 4 is too prescriptive to be sensibly workable and really flexible.

Judith M. Gueron, president of the Manpower Demonstration Research Corporation, made a similar point in recent testimony before this Committee.

> *Over time, funding welfare benefits and work programs under a single block grant is likely - in low-grant states and possible others as well - to have the perverse effect of squeezing out work programs. Under fiscal pressure and with short time horizons, states will hesitate to make the up-front investments that can both produce future savings and transform welfare into the work-directed program favored by most Americans.*

I also believe that some portion of existing state spending for the blocked family assistance programs should be retained. States might do this themselves, but the law should be clear. For example, states might be required to retain 90 percent of the current nominal dollars in the programs folded into the two block grants.

A Welfare Stabilization Board

This two-block plan would include an administrative structure designed to avoid potential problems with H.R. 4. I propose creating a Welfare Stabilization Board that would include representatives from the Executive Branch, the Congress, and perhaps also the states. Its job would be to oversee the new system and adjust these two blocks as conditions change nationally or in particular regions and states.

As stated earlier, there need to be ways under a new approach to welfare reform to deal with emergency conditions, such as a recession, rapid inflation, or a disaster. The initial recourse should be automatic - and it should be grants, not loans.

There have been previous laws and proposals in Congress to provide such counter-cyclical federal aid. Under President Ford in 1976, a version of this idea (called the Anti-Recession Fiscal Assistance Act) was enacted for $1.25 billion. A similar counter-cyclical revenue sharing bill was included in President Carter's 1977 Economic Stimulus Program for $1.34 billion, also with triggers based on the unemployment rate. Trigger mechanisms like this are used for unemployment insurance. There is a similar trigger mechanism for emergency loans in H.R. 4.

It is essential to include such a feature in the family assistance block grant proposed here. It could, for example, automatically trigger emergency funds when there is a quarter-to-quarter decline in national GNP or the unemployment rate exceeds some level. There are ways to do this nationally, regionally, an on a state-by-state basis. Such a triggering device could be fully automatic or could be subject to Congressional disapproval within a certain time, with the stipulation that failure to disapprove constitutes favorable action. The Welfare Stabilization Board also should have the power to recommend (perhaps on request from the President) that the Congress provide emergency funds to selected states due to special problems on a basis where the Congress would have to consider these recommendations within a fixed amount of time (say 60-days).

There also needs to be provision in new welfare legislation to take account of future increases in costs. On an annual basis, there should be cost-of-living adjustments in the family assistance block grant - for example increases of 5 percent or the annual increase in the Consumer Price Index, whichever is higher. This 5 percent level represents the lowest figure for the escalator clause among proposals advanced to cap Medicaid spending. Since Medicaid funding for acute care for families on welfare would be the biggest chunk in the family assistance block grant suggested here, I would hope that this position, favoring a 5 percent annual escalator clause, could be considered as part of a broadened and more flexible alternative to H.R. 4. I recommend further that add-on emergency and annual payments under a family assistance block grant be distributed under a different formula than that for the folded-in grants, which funding I assume will be distributed according to the existing shares of the states. Instead, annual increments could be distributed according to a formula to be developed by the Welfare Stabilization Board and approved by the Congress and the President that would have the purpose over time of gradually bringing other "need" factors into account in the allocation of family assistance block grant funds.

The Welfare Stabilization Board, representing two branches of the national government and perhaps also the states, should in addition have general oversight responsibilities to assess and report regularly on what is happening under this changed welfare system.

* * * * *

There is no such animal in the federal-aid corral as a "pure" block grant. All of the block grants, particularly those enacted over the past 25 years since Nixon's New Federalism, have been broader and less conditional than the previous "categorical" grant programs which they replaced. They all have strings, but fewer strings, than the predecessor programs. The alternative to H.R. 4 proposed in this testimony has fewer strings than H.R. 4 and affords greater policy and administrative flexibility to the states. It controls costs and emphasizes work-over-welfare. At the same time, it deals realistically with the implementation challenge of workfare, adjusts for inflation and fiscal and social emergencies, and provides an oversight mechanism.

This proposed alternative approach is not a cover for more spending or business as usual for the welfare population. It would turn more responsibility over to the states than H.R. 4. It would emphasize work, not education and training, as the best route to self sufficiency. Such an alternative to H.R. 4 could provide the basis for a compromise on which the Administration, leaders in the Senate, and state officials could come together. When the critical moment comes, most likely in the budget process later this year, such a plan hopefully could muster enough support to be veto proof and to attract 60 votes in the Senate. This is not a disingenuous effort to muddy the waters or change the direction of the policy debate. Rather it is an alternative to the House-passed bill that also would make far-reaching changes in social policy in the nation.

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<u>**Attachment to Testimony**</u>

A Note on the History of Block Grants

Richard P. Nathan
April 27, 1995

The nomenclature of grants is not easy to explain when it comes to terms like "block grant." Historically, one can go back to the pre-Constitutional period for cases in which broad intergovernmental fiscal subventions were made to the states. During the period when the United States operated under the Articles of Confederation, the Continental Congress adopted the first grants-in-aid to the states, putting aside land for the support of public schools in territory west of the Ohio River.

It was not, however, until the twentieth century in the Woodrow Wilson years that the United States developed specific cash grants to the states that came to be known as "<u>categorical</u>" grants.

In an important way, the history of block grants is an outgrowth of this steady narrowing of categorical grants with specifications about their eligible uses, often a requirement of matching funds from the states, as well as other requirements regulating the use of these funds. Increasingly over time, there have been strong reactions to these practices, often referred to as the "proliferation" of federal grants and criticized for heavy handedness and intrusiveness on the part of the federal government.

Earlier Block Grants

Lyndon Johnson saw the writing on the wall. It was during his presidency that the idea of broader and less conditional block grants began to take hold in response to what the chairman of Johnson's Council of Economic Advisors, Walter Heller, called *"the hardening of the categories."*

In 1966, President Johnson proposed a block grant that consolidated several relatively small public health grants into a single more comprehensive grant for a range of health services. Then, a year later in 1967, Johnson took a bigger leap into grant blocking (although not enthusiastically) when his administration, with Republican urging, backed the creation of the law enforcement assistance grant. LEAA funds were distributed on a formula basis to states with a requirement that 75 percent of the funds provided be passed on to localities.

Block grants in the modern era have involved the consolidation of pre-existing categorical grants into broader grants with the combined stream of grant funds from the folded-in programs allocated to states and/or localities on an automatic formula basis. President Nixon's New Federalism saw the creation of several such block grants, notably for community development, employment and training, and social services. Nixon also won passage of the general revenue sharing program in 1972, which provided flexible aid on a formula basis to states and localities. But this was not called a block grant, because the use of this aid was not limited to a particular function of government like law enforcement, community development, etc.

Three Types of Grants

Federal grants come in three basic types as to the nature of their end uses - entitlement grants, operating grants, and capital grants. Nixon's New Federalism called for blocking operating and capital grants, but not entitlement grants. That is, not Medicaid or Aid for Families with Dependent Children (AFDC). Nixon was a spender when it came to grants, and also for that matter other domestic policies in general. Besides his revenue sharing program (which involved distributing $5 billion per year in new funds to states and localities) Nixon's block grants included funds known as *"sweeteners."* The term referred to extra funds provided on top of the money contained in the categorical grants bundled together in a new block. Nixon added these sweeteners as an inducement to state and local officials to support his initiatives.

But, to reiterate, the main idea in understanding block grants is that Nixon did not recommend blocking entitlement grants. The term refers to grants that transfer income (both in cash and in-kind) to individuals and families based on defined conditions of need. States determine eligibility for benefits under these grants within federal guidelines. The national government reimburses the states for the benefits provided on an open ended basis. Whoever qualifies receives aid, and the state is reimbursed accordingly. The food stamp program is not a grant-in-aid. Food stamps are federal government vouchers, although administrative funds for the food stamp program are paid to the states as a grant-in-aid.

Nixon's "New Federalism"/FAP and FHIP

In advocating the sorting out functions in American federalism, Nixon argued that income transfers (cash, health care, foster care, school lunches, food stamps) should be made more - not less - national in order to assure equal treatment of the needy and to share this fiscal burden on a national basis. Neither Nixon's Family Assistance Plan (FAP) for welfare reform or his Family Health Insurance Plan (FHIP), which was similar to Clinton's 1993 proposal, were enacted. Actually, if FAP and FHIP had been enacted in the seventies, it would have saved a lot of grief over the past two decades, *right now especially*.

Reagan's "new federalism"

President Reagan's brand of "new federalism" (he didn't use the term, but the press did to describe his program) departed from Nixon's approach on this very point. In 1982 Reagan advanced his "swap and turnback" plan, which had the national government taking over Medicaid. In exchange, the states were to pick up the full responsibility for AFDC.

So, Reagan was on the fence intellectually on this federalism issue. He would centralize one income transfer program (Medicaid) and devolve another (AFDC). As it turned out, Reagan's "swap and turnback" plan never went anywhere; it was not even introduced in the Congress.

In the 1981 Omnibus Budget Reconciliation Act (OBRA), Ronald Reagan won enactment of nine new programs called "block grants" by his administration. They were for operating and capital functions - not for entitlement-type programs. Three were in the health field - for the prevention and treatment of substance abuse and mental health, preventive public health services, and maternal and child health care. Four of the "blocks" contained only one pre-existing grant. So, at least in my view, Reagan as a grant blocker was overrated.

Reagan's block grants and Nixon's, have one point in common that is very important when considering the ideas advanced by the new majority in the House of Representatives. Over time, these grants have *lost value*, both in nominal dollars and in real terms, i.e., adjusted for inflation. A recent report by Steven D. Gold from the Center for the Study of the States of the Rockefeller Institute of Government on nine block grants (some of Nixon's and some of Reagan's) showed that four declined in actual dollars over the ten year period 1983-93, one remained about the same, and all nine lost ground in real terms. (See table attached.)

The "Newt Federalism"

Enter the new House Republican majority in 1995: They are decidedly <u>not</u> on the fence intellectually when it comes to block grants for welfare-type (that is, entitlement) programs. Early on in the "100 Days," Speaker Gingrich and his House Republican colleagues set about creating block grants for entitlement grant-in-aid programs with a vengeance. The New Majority at one point advocated capping and blocking existing grants to create five new block grants - for AFDC, school lunches, foster care, Medicaid, and food stamps.

This is a distinction with a difference. Grants for payments to individuals now account for 63.3 percent of total federal aid outlays. Under the new Republican majority in the House they are, in effect, repealing the national safety net, which President Nixon built up and which Reagan said should be preserved.

The Essential Question

James Madison is much maligned when conservatives attribute to him and to the <u>Federalist Papers</u> the idea of devolving such welfare functions. Madison's Constitutional purpose was nation building, to centralize. Classical public finance theory in a similar way in the modern period assigns redistributional functions to the broadest population group in order to achieve equal (or close to equal) treatment for the needy and to share this fiscal burden widely. As a nation, we have done this - or at least moved in this direction strongly - since the nineteen thirties. The United States is by no means first among the industrial democracies in carrying out this safety-net function centrally, but in our own distinctive incremental bargaining process we have come a long ways. To block income-transfer programs to the poor is not just a management change. It represents *a basic change in direction* for American social policy.

BLOCK GRANTS OFTEN GROW SLOWLY IF AT ALL

Nine block grants were created in 1981 as part of the Reagan-Stockman New Federalism. The size of each of these block grants from 1983 to 1993 is shown below. They fall into two categories:

- *Little if any increase.* Five block grants have decreased or remained about the same in terms of spending—those for Social Services, Low-Income Energy Assistance, Community Services, education (Chapter 2), and the Job Training Partnership Act. (JTPA had a large increase in 1984 and no growth thereafter.) Since inflation was 44% between 1983 and 1993, the real size of these grants fell sharply.
- *Sporadic growth.* The other four block grants went through extended periods of little if any growth but had increased funding in the 1990s. The Prevention/Treatment of Substance Abuse Block Grant had a big funding increase from 1989 to 1991 but little growth otherwise. The Preventive Health and Health Services Block Grant did not start to grow rapidly until 1992. The Maternal and Child Health Block Grant did not start to increase until 1987. The Community Development Block Grant did not significantly exceed its 1983 level until 1993.

BLOCK GRANT OBLIGATIONS
(millions of dollars)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Social Services	$2675	$2700	$2725	$2584	$2697	$2700	$2710	$2762	$2804	$2800	$2800
Low-Income Energy Assistance	1975	2075	2100	2008	1822	1532	1380	1443	1610	1500	1346
Community Services	373	348	368	352	368	363	319	322	436	360	372
Prevention/Treatment of Substance Abuse[1]	468	462	490	469	509	487	806	1193	1269	1080	1108
Preventive Health & Human Services	85	87	89	87	89	85	84	83	91	129	143
Maternal and Child Health	478	399	478	457	497	526	554	554	587	650	664
Chapter 2 (Improving school programs)	462	451	500	477	501	478	400	519	449	446	440
Community Development[2]	2380	2380	2388	2053	2059	1973	2053	1972	2203	2397	2790
Job Training and Partnership Act[3]	1415	1886	1886	1783	1840	1809	1788	1745	1778	1773	1692

1. The prevention and Treatment of Substance Abuse Block Grant included mental health until FY92.
2. Community Development Block Grant data does not include undistributed allocations, nor does it include spending on the [illegible] portion of the Block Grant.
3. The JTPA Block Grant is for the Adult and Youth Training Block Grant portion of the JTPA program..

Source: U.S. Office of Management and Budget, *Budget Information for the States, FY 1985-FY1995.*

Source: Rockefeller Institute of Government, Center for the Study of the States, <u>State Fiscal Brief</u>, January 1995, No. 26

TESTIMONY OF ROBERT GREENSTEIN, EXECUTIVE DIRECTOR
CENTER ON BUDGET AND POLICY PRIORITIES

Senate Finance Committee
March 9, 1995

Thank you for this opportunity to testify on the important topic of welfare reform. I am Robert Greenstein, executive director of the Center on Budget and Policy Priorities. In the late 1970s, I served as Administrator of the Food and Nutrition Service, the U.S. Department of Agriculture agency that administers the food stamp program and other food assistance programs. I recently served as a member of the Bipartisan Commission on Entitlement and Tax Reform appointed by President Clinton and the Congressional leadership.

I. The Goals of Welfare Reform

The Family Support Act of 1988, the last major federal welfare reform effort, was a bipartisan effort based on the premise that the AFDC program should become a system that embodies "mutual responsibility." Parents had a responsibility to move toward self-sufficiency by participating in education, training, and work activities and the government had the responsibility to assist families by providing cash assistance as well as training opportunities and needed child care. In addition, noncustodial parents had the responsibility to pay child support. Within the structure of mutual responsibility, the Family Support Act struck an important balance between the sometimes competing goals of promoting work and responsibility and maintaining a safety net beneath poor children. The social contract embodied in the Family Support Act stood in stark contrast to the original purpose of the AFDC program — to provide cash assistance to poor single parents so that mothers could stay home to raise their children.

In recent months the welfare reform debate emanating from the *Contract with America* has shifted away from the principle of mutual responsibility. The House Ways and Means Committee proposal would convert the AFDC program to a block grant with fixed funding for the next five years. The proposal would eliminate the entitlement status of the AFDC program — no child would be assured of receiving help in times of need, regardless of the depth of the child's poverty or the parent's willingness to comply with program rules and work requirements. The proposal would mandate that states deny federal block grant assistance to a number of categories of poor families, including those headed by a minor mother and those that had received aid for a total of five years, regardless of the parents' willingness to work or their inability to find a job. While including high work participation rates, the proposal fails to commit the resources necessary for states to conduct serious programs that move parents from welfare to work.

In short, the House Ways and Means Committee proposal would end what are now the government's obligations under the Family Support Act's system of mutual responsibility. The government would no longer be required to provide support for poor families with children and resources would fall well short of what is needed to increase efforts to move parents to work.

In my view, welfare reform should be about promoting work, requiring responsibility of both parents, and maintaining a safety net for poor children within a federal-state partnership that assures states the flexibility they need to create innovative programs. Maintaining the entitlement status of AFDC does not mean that welfare should be "something for nothing." Instead, reform should build on the Family Support Act's vision of mutual responsibility. In part because of insufficient JOBS funding, this vision has not been fully achieved.

Because only a small number of parents have been required to participate in JOBS programs, the AFDC system frequently does little to help families solve their problems and move toward self-sufficiency. A reformed AFDC system would be one in which all able-bodied parents were expected to work or prepare themselves for work. Furthermore, a reformed system would provide the necessary supports — such as child care and health care — for parents to move successfully into the workforce. As the results from the Riverside County, California GAIN program have illustrated, it is possible to create a welfare system that requires a high level of participation in welfare-to-work programs and yields strong results. The Riverside program increased earnings and employment rates and decreased welfare use. Judith Gueron, president of the Manpower Demonstration Research Corporation, described the Riverside effort as a "high performance JOBS program" stating:

> More than any other place I know of, this program communicates a message of high expectations. When you walk into a GAIN office in Riverside, you are there for one purpose: to get a job. At orientation, job developers announce job openings; throughout, program staff convey an upbeat message about the value of work and people's potential to succeed. If you are in an education program — and about half of Riverside GAIN participants are — you are not marking time, as you can in some locations. You know that if you do not complete the program, or at least make progress in it, staff who are closely monitoring your progress will insist that you look for a job.[1]

The Riverside model may not work in every location or for all participants and it is not a simple cure for poverty; three years after enrolling in the Riverside JOBS program, 41 percent of the families were still receiving assistance. The Riverside program and other successful welfare-to-work initiatives such as the San Jose-based Center for Employment Training program represent examples of how the AFDC program can become a work-focused system, but their results also illustrate that even such successful programs are unlikely to remove the need for a safety net beneath poor children.

Welfare reform should also address the very troubling issue of out-of-wedlock childbearing in general and teen pregnancy in particular. In doing so, however, it is important to note that a careful reading of the research indicates that welfare is not a primary reason for the increase in out-of-wedlock childbearing or the prevalence of teen pregnancy. Last summer, a group of 76 leading researchers — including most of the leading experts in the area of welfare incentives and family

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[1] Testimony of Judith M. Gueron, President, Manpower Demonstration Research Corporation, before the Subcommittee on Postsecondary Education, Training, and Life-Long Learning, House Committee on Economic and Educational Opportunity, January 19, 1995.

structure — issued a statement on welfare and out-of-wedlock childbearing. The statement said: "Most research examining the effect of higher welfare benefits on out-of-wedlock childbearing and teen pregnancy finds that benefit levels have no significant effect on the likelihood that black women and girls will have children outside of marriage and either no significant effect, or only a small effect, on the likelihood that whites will have such births. Indeed, cash welfare benefits have fallen in real value over the past 20 years, the same period that out-of-wedlock childbearing increased....the evidence suggests that welfare has not played a major role in the rise in out-of-wedlock childbearing."

While welfare is not a primary cause of out-of-wedlock childbearing or teen pregnancy, it is clear that there are far too many children growing up in poor families without fathers and far too many teenagers cutting their childhoods short by prematurely become parents. Unfortunately, we know little about what works to reduce teen pregnancy. For that reason, I believe that welfare reform should include a commitment of resources for demonstration projects that test a variety of prevention approaches. Reform should not consist of simplistic "silver bullet" solutions such as denying aid to young unmarried mothers and their children that are unlikely to produce large reductions in out-of-wedlock births but will surely increase destitution among these vulnerable families.

When teens do become parents and need assistance, the welfare system should be structured to improve the future prospects of these vulnerable families. Teen parents should live in supervised settings either with parents or with other responsible adults. They should be required to attend school or training. In Ohio's Learning, Earning and Parenting (LEAP) Program, teen parents were required to attend school. A system of bonuses and sanctions was put in place to encourage attendance. This program and the Teenage Parent Demonstration Program have shown that programs combining requirements, support services, and financial incentives can increase school attendance and, to some extent, graduation rates. These programs also are not panaceas — many participants are unable to succeed in the education settings available and teens who dropped out of school prior to enrolling in the program often were unsuccessful. Requiring school attendance while searching for new ways to reach these more difficult cases, however, does represent a promising policy initiative.

Finally, the welfare reform debate has led to a reexamination of the federal role in providing a safety net for poor families with children. Some have suggested that all responsibility for programs that provide cash assistance and nutrition aid be given to the states. The House Ways and Means Committee proposal, for example, would significantly limit the federal role. By establishing a block grant with essentially fixed funding, the proposal would require states to bear nearly all of the costs associated with increased need resulting from recession, falling wages, or changing demographics. The proposal would also allow states complete flexibility to determine which families received assistance. States would not be required to establish uniform eligibility criteria.

I strongly favor providing states with increased flexibility in many areas. States have been unnecessarily saddled with rules that inhibit their ability to design innovative JOBS programs and expand participation requirements. They also have been hampered by rules that mandate how earnings and assets are to be treated, restrict the eligibility of two-parent families, and define how stepparents' income should be counted. In these and other areas, states could and should be given more flexibility.

The federal government, however, does have a role to play in providing a safety net for poor children. The Committee on Federalism and National Purpose, chaired by then-Senator Daniel Evans (R) and then-Governor Charles Robb (D), called in 1985 for a major realignment of federal and state roles. The Committee proposed a much larger federal role in financing and setting national standards for Medicaid and AFDC, accompanied by the devolution of scores of federal programs to the states. In issuing its recommendations, the Committee affirmed a principle that has undergirded most thoughtful examinations of federalism issues — income security for the poor should largely be a federal responsibility. The Committee wrote:

> "Wherever it occurs, poverty is a blight on our whole society, and Americans in similar circumstances should be treated alike. Children whose early years are damaged by the effects of poverty in one state may later become voters, employees, and possibly welfare recipients in other states."
>
> "Safety net programs also should furnish benefits that can be expected to provide for basic necessities. Welfare programs in many states fall far short of this mark. Even when combined with the cash value of food stamps, AFDC benefits were at or below 60 percent of poverty-level income in 10 states in 1984, and the median level of benefits was 73 percent of the poverty line." [These levels are lower today.]
>
> "Only the federal government can effectively bring about greater uniformity and adequacy of welfare services. This is because it is the only source of nationwide political authority and because it is the only level of government that commands the necessary resources."[2]

II. Entitlements, Spending, and Flexibility

While the Ways and Means bill contains many new prescriptive provisions, the elimination of assured benefits for needy children who qualify for assistance represents the most sweeping change in our nation's safety net.

There appear to be two basic premises that underlie the call for the elimination of the program's entitlement status: first, that "welfare spending" is out of control and cannot be curtailed as long as the targeted programs retain their entitlement status, and second, that block grants are needed to accord states increased flexibility. In fact: 1) welfare spending is not one of the major factors behind our long-term deficit problems; 2) if Congress wishes to cut the cost of these

[2] Daniel J. Evans and Charles S. Robb, Chairmen, *To Form a More Perfect Union: The Report of the Committee on Federalism and National Purpose*, December 1985, pp. 13-14.

programs, a block grant structure isn't needed to do so; and 3) a block grant structure isn't needed to accord states increased flexibility.

As the Bipartisan Commission on Entitlements and Tax Reform demonstrated, overall expenditures for entitlements are growing faster than our ability to pay for them. If action is not taken to address this problem, the nation will face serious fiscal difficulties in the early decades of the next century. It is important to recognize, however, that health care entitlements and Social Security are responsible for virtually all of the long-term rise in entitlement spending as a percentage of the Gross Domestic Product (GDP). Expenditures on programs like AFDC and food stamps are not driving the long-term rise in entitlement spending that will bedevil the nation in the decades ahead. (See the Appendix for a more complete discussion of spending on low-income programs.)

- According to the Entitlement Commission's estimates, between now and 2030, Medicare will rise from 2.4 percent of GDP to 7.9 percent. Medicaid will climb from 1.3 percent to 3.1 percent of GDP, while Social Security will rise from 4.8 percent to 6.7 percent.

- By contrast, the Commission projected that means-tested entitlements other than Medicaid will not rise at all as a percentage of GDP after the year 2000. In fact, the latest CBO forecast suggests they will decline a bit as a percentage of GDP.

I would note that AFDC in particular (including cash benefits, emergency assistance, Title IV-A child care, JOBS, and that part of child support enforcement costs that are attributable to AFDC families) constitutes 2 percent of entitlement spending and 1 percent of total federal spending. When food stamp and Medicaid benefits for AFDC families are added in, the total rises, but remains a modest share of overall federal spending at three percent.

On a related note, while some believe the AFDC system provides overly generous benefits to recipients, the typical AFDC family of three receives between $8,000 and $9,000 annually in cash and nutrition aid, or less than three-quarters of the poverty line. While some AFDC families also receive housing assistance, most do not; three-fourths of AFDC families do not receive any federal housing assistance.

Indeed, when one looks at the combined AFDC and food stamp package, there have been significant benefit declines in recent decades. AFDC and food stamp benefits combined have fallen more than a quarter in purchasing power since 1970. The combined benefit package has now receded, in inflation-adjusted terms, to the level of AFDC benefits alone in 1960, before the food stamp program was created.

Still, Congress may decide to reduce spending on these programs. If Congress wishes to do so, it does not need to end the entitlement status of these programs. In 1980, 1981, and 1982, Congress made significant reductions in means-tested benefit programs without removing their entitlement status. Congress altered the eligibility and benefit rules in ways that saved substantial amounts. While reductions in benefits for poor families and elderly and disabled individuals would not be without significant consequences. Congress could follow this route again — and cut expenditures without block granting these programs — if it wished to do so.

As budget cuts are made to reduce the deficit, however, there should be some balance among various parts of the budget. As David Stockman used to say, the targets for budget-cutting should be weak claims on federal resources, not weak clients. Low-income programs should not bear a highly disproportionate share of those cuts. The various budget-cutting measures now moving through the House of Representatives, including the welfare reform proposals, raise concerns on this front, as they cut assistance for low-income programs far more deeply than other areas of government spending. The various reductions contained in the House welfare reform legislation — in cash assistance for poor families and poor disabled children, nutrition aid for low-income households, and various benefits for legal immigrants — are likely to total well above $50 billion over five years. (When the Medicaid cuts that are being discussed are added, this total will increase substantially.) Furthermore, the cuts included in the House rescission bills disproportionately impact programs for low-income people. While low-income programs comprise only 12 percent of the discretionary budget, about 60 of the rescissions come from these programs. Given the fiscal agenda outlined in the *Contract with America*, it is likely that at least some of these savings will be used to pay for tax cuts.

State Flexibility

Proponents of converting AFDC and other programs to block grants often argue such a change is necessary to ensure states are given substantial freedom to craft their own programs. Here, too, the basic premise is flawed; it is quite possible to expand state flexibility within an entitlement framework. Many of the rules currently governing these programs could be simplified or eliminated to give greater leeway to states. Ironically, as I will explain later, block grants might even have the perverse effect of *constraining* state flexibility because they are likely to leave states with insufficient resources to pursue work-based welfare reform while at the same time maintaining a safety net.

Moreover, ending the entitlement status of programs such as AFDC and food stamps would eliminate a defining feature of the safety net erected over the past six decades to protect poor children from destitution. The funding structure of the safety net is designed to ensure that these programs expand automatically to meet rising need, such as during recessions. If the programs instead received a fixed amount of funding each year, this critical feature would be lost. If funding proved insufficient in a given year, states would be forced to cut benefits, create waiting lists, or fill the gap entirely with state funds. A public assistance system structured in this manner would provide some aid to the poor, but it could not truly be called a "safety net." As a tight-rope walker would attest, a safety net that is only in place some of the time offers little security.

III. Profound Consequences of Block Grant proposals

Eliminating the entitlement nature of programs such as AFDC would have profound consequences, both for poor children and for states and localities.

- **If the capped amount is inadequate for cash assistance (or similar block granted programs), funds could prove insufficient part-way through the year.** If the money for AFDC ran out in August, what would happen to a poor child whose mother flees an abusive spouse in September and applies for assistance? Either that family would be refused assistance or put on a waiting list, or the state would have to pay the cost of that family's aid *entirely* with state funds. Many poor families with children could be left with no means to pay for rent, utilities, or other basic necessities if the AFDC program loses its entitlement status.

- **Block grants cannot respond to the increases in need that occur during economic downturns.** Under the current financial structure for AFDC and food stamps, additional federal funds automatically flow into states when a recession hits and more families apply for aid. For example, between June 1990 and June 1992, as the national unemployment rate jumped from 5.1 percent to 7.7 percent, the number of people receiving food stamps rose by more than five million. If AFDC became a block grant, additional federal resources would not be available during a recession. A fixed amount would be allocated to states each year. If unemployment subsequently rose and funding for AFDC proved insufficient, states would have to bear 100 percent of any additional cost themselves by raising taxes or cutting other programs more deeply in recessions. If states were unwilling to increase state resources for safety net programs, they would have other unpalatable options — instituting across-the-board benefit cuts, making some categories of needy families and children ineligible for the rest of the year, or placing poor families that recently lost their jobs on waiting lists.

  If states do not provide assistance to newly poor families during times of heightened unemployment, many of the families affected would be those in which the parents typically work and do not receive welfare. During an economic downturn, the newly poor are often those who recently lost their jobs and either are not covered by unemployment insurance or have exhausted those benefits. These families would include many two-parent families — the subpopulation whose participation in AFDC and food stamps rises most sharply in recessions.

  The problems that would arise for states can be illustrated by examining how actual state-by-state funding levels in fiscal year 1993 would compare to their estimated levels if the Ways and Means cash assistance block grant had been enacted in 1989. This block grant approach does not allow funding to adjust based on changes in need, although there is a small population adjustment fund of $100 million a year. *In all but two states, the Ways and Means Committee proposal would have provided less federal funding than was actually received in 1993.* In seven states - Alaska, Arizona, Florida, Hawaii, Nevada, New Hampshire, and New Mexico - the shortfall would have been more than 40 percent. In California, the shortfall would have been nearly $900 million (28 percent); in New York, $583 million (31 percent); in Florida, $277 million (54 percent).

These shortfalls would have occurred just at the time when state revenues typically shrink. During economic downturns, tax collections generally fall and many state programs are cut.

- **The loss of the automatic increase in federal funding during a recession would weaken the national and state economies.** As Alice Rivlin wrote in 1992, over the past several decades "social insurance and welfare programs not only provided income to individuals and families facing economic disaster, they also made economic disaster less likely. If economic activity dropped off sharply, the downward spiral would be cushioned, since individuals drawing social insurance benefits and welfare would be able to buy necessities and pay their rent or mortgages. This increased purchasing power would bolster the income of producers and prevent layoffs of workers and forced home sales. Thus, both welfare programs and social insurance would act as automatic stabilizers for the economy."[3] If programs such as AFDC or food stamps become capped entitlements and funding does not rise during a recession, the automatic stabilizer role played by these programs would be significantly diminished or lost altogether.

- **A capped entitlement status fails to afford protection against further reductions in block grant funding in the appropriations process.** Under federal budget rules, appropriators can lower the funding ceilings (the "caps") on capped entitlements and use the savings to meet the discretionary spending caps or fund other discretionary programs. While such action has not frequently been taken in the past, it could become a more inviting route for appropriators in the future as the discretionary caps tighten. In addition, appropriators could simply appropriate less than the capped amount. This has happened in the past with the Social Services Block Grant.

  It is of note that low-income programs that are capped entitlements have been subject to larger funding reductions in recent years than have low-income discretionary programs. For example, funding for the Social Services Block Grant, converted in the early 1970s from an open-ended entitlement to a capped entitlement, has fallen about 60 percent since then, after adjusting for inflation. Total appropriations for all low-income programs that are capped entitlements have declined nearly 20 percent since 1981, after adjusting for inflation. By contrast, total appropriations for low-income discretionary programs have declined seven percent over this period in inflation-adjusted terms.[4]

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[3] Alice M. Rivlin, *Reviving the American Dream, the Economy, the States, and the Federal Government*, The Brookings Institution, 1992, pp. 90-91.

[4] This excludes subsidized housing programs which are an anomaly. Appropriations for subsidized housing programs have fallen substantially since 1981, but actual expenditures for these programs have risen substantially over the same period. This seeming contradiction reflects the unique features of the fiscal structure of housing programs.

- **A capped block grant also would not respond to changes in need that occur for other reasons.** The needy population grows not only in times of recession, but also when the overall population increases, when the child population increases, when wages fall, when natural disasters occur, and when demographic changes increase the number of single parent families.

  While the House Ways and Means Committee proposal includes a $100 million fund distributed each year based on each state's population growth, this fund would fall well short of addressing the increased need due even to population growth in many states. Between 1991 and 1992, California's population grew by 1.6 percent. If the block grant were to adjust for population growth, California's block grant amount would increase by 1.6 percent — or by more than $50 million if applied to 1993 spending levels. Under the Ways and Means plan, however, California would only receive a share of $100 million. Between 1991 and 1992, California's population growth represented 16.6 percent of total U.S. population growth (as measured by the proposal). Thus, under the proposal, California would receive just $17 million in funds meant to address population growth.

- **A block grant structure would misallocate funds among states.** Any formula that could be used to allocate block grant funds among states would be based on data for a year in the past; the formula would not be able to reflect economic and demographic changes since that time. States whose economies had grown robustly since the year in which the data were collected would receive more funds than warranted, while states where economic conditions had deteriorated would receive too little. For example, between 1987 and 1993, the percentage of total federal AFDC benefits that went to Illinois residents fell from 4.9 percent to 3.6 percent. In Florida, by contrast, the percentage of total federal AFDC benefit expenditures going to Florida residents increased from 1.8 percent to 3.6 percent.

- **It would be problematic to develop a formula for allocating block grant funds among the states.** If the formula reflected current expenditure patterns, it would penalize states with low benefit levels and risk locking them into that status permanently. Under the current structure, poor states that typically have very low benefit levels face a favorable federal match rate that makes it somewhat easier for them to raise their benefit levels. For example, between 1990 and 1992, Alabama raised its maximum AFDC benefit level for a family of three from $118 per month to $164 per month — a 40 percent increase. (This left Alabama's monthly benefit level at only 18 percent of the federal poverty line for a family of three.) Because Alabama is a relatively poor state, the federal government pays more than 70 percent of its AFDC benefit costs. When it chose to raise its benefit level, the federal government therefore helped considerably in defraying the additional costs.

  By contrast, under the Ways and Means Committee block grant structure, if Alabama increases its benefit level, it would have to absorb 100 percent of the additional costs.

It is important to note that even under the current entitlement structure which assures that the federal government shares in states' costs when they increase benefit levels, or raise them to keep pace with inflation, AFDC benefits fell in real terms by 45 percent between 1970 and 1994 in the typical state.

Moreover, if the formula gave each state the same percentage of federal funds that it currently receives, this would fail to recognize the differences that will occur among states in coming years in unemployment levels, rates of population growth, demographic changes, and wages. If the formula attempted to adjust for these factors, it would rely on outdated data, always reflecting economic and demographic conditions several years earlier. Reliable state poverty, income, and population data are only available with a considerable time lag. For example, state poverty data would be three to four years out of date when block grant funding formulas were set.

- **During a recession, the hardest-hit states would likely be subject to a "triple whammy."** First, there would be insufficient federal funds flowing into the states, since the federal funding level would not automatically rise with a recession. Second, the allocation formula would not recognize the depth of the downturn in states that had been hit hardest. Finally, the states hit hardest by the recession would generally face large declines in state revenues and be among the states least able to provide state funds to respond to the additional need the downturn had created.

- **Poorer states could be particularly disadvantaged by a block grant proposal.** As federal funds fell increasingly short of actual need, all states would have to fund this widening gap with state rather than federal dollars. Poorer states that currently enjoy higher federal match rates would be hard-hit. States such as Mississippi and Louisiana would lose more than 70 cents for every additional dollar needed to maintain current levels of assistance compared to a loss of 50 cents for each dollar of additional program cost in states such as Connecticut and California. States that have the least capacity to raise funds through their tax system would be the most disadvantaged — the ten states with the most favorable federal AFDC matching rates are among the twelve weakest states in terms of their capacity to raise revenues through their tax system, according to a measure developed by the Advisory Commission on Intergovernmental Relations.

IV. Would A Rainy Day Fund Solve The Problem?

The Ways and Means Committee proposal does include two "rainy day" funds intended to assist states in the event of unexpected increases in need. An analysis of these two funds underscores the inadequacy of these funds, in part reflecting the inherent problems with a rainy day approach.

Under the Ways and Means bill, a state would be allowed to borrow from a $1 billion federal fund if its three-month average unemployment rate: 1) exceeded 6.5 percent; and 2) was at least 10 percent higher than the state's average unemployment rate in the same three-month period of either of the two prior years. There would be a $100 million limit on the loan to any state and no state could receive a loan equal to more than half of its basic grant. States would have to repay the loans, with interest, within three years. In assessing this proposal, the following issues should be considered:

- A loan approach means that when poverty and thus AFDC caseloads rose during a recession, states would ultimately be required to bear 100 percent of the added cost. States would have to pay the federal government back with interest within a three year period. This represents a striking departure from current policy. In a recession, the federal government pays for at least half of a state's increase in AFDC costs and essentially all of the increase in food stamp costs. That is, currently, the national government helps share these consequences of national economic trends.

- States in which unemployment remained at elevated levels for an extended period of time could be forced to repay their loans during a period when state coffers were bare. In California, the unemployment rate breached the seven percent level in December 1990 and has yet to fall back below this level. Experience with a loan fund run by the federal government for the unemployment insurance system suggests that states will often opt for benefit cuts to avoid taking out such loans.[5]

- The small fund also would likely fall short of the increased need. During the last recession, in fiscal year 1990, the federal government committed $863 million more to AFDC than in fiscal year 1989; in 1991, it committed $1.9 billion more than in 1989; and by 1992, some $3 billion more was expended than in 1989. Over this three-year period, the federal government committed nearly $6 billion in additional resources, nearly six times as much as the $1 billion loan fund.

- A large number of states that experience substantial increases in unemployment and poverty either would not qualify for a loan at all, or would not qualify until too late in the downturn. *Had the loan fund been in effect during the last recession, 10 states would not have qualified for a loan at all and another 14 states would not have qualified until 1992.* Yet most of these states faced sharply increased need. The 14 states[6] that would have qualified for a loan some time in fiscal year 1992 had already experienced big jumps in their caseload before that. On average, their caseloads rose by 27 percent between fiscal year 1989 and fiscal year 1991.

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[5] See, for example, General Accounting Office, *Unemployment Insurance: Program's Ability to Meet Objectives Jeopardized*, September 1993.

[6] These 14 states are Arizona, Arkansas, Colorado, Georgia, Idaho, Indiana, Maryland, Nevada, Oregon, South Carolina, Texas, Virginia, Washington, and Wyoming. The 10 states that would never have qualified for a loan at all are Hawaii, Iowa, Kansas, Minnesota, Nebraska, North Carolina, North Dakota, South Dakota, Utah, and Wisconsin. In these 10 states, the AFDC caseload rose by an average of 17 percent from 1989 to 1992.

- As with other economic indicators, the lag in the collection of accurate state data would also be problematic. A state would have to wait up to five months after its unemployment rate surpassed 6.5 percent before the federal government would have data showing the state's three-month average unemployment rate had passed this level. In the meantime, thousands of additional families could have applied for AFDC assistance.

- The federal rainy day fund also would ignore factors other than unemployment that can cause the need for public assistance benefits to rise in a state, such as a natural disaster or falling wages for low-paid jobs. Finally, states would have great difficulty planning under the program; they would not know when or if they would qualify for a loan.

Under the second rainy day fund, the House Ways and Means bill would allow states to accumulate unspent block grant funds and draw them down when need increased in the state. The effect of this fund is also likely to be very limited. The fixed level of federal AFDC funding for the next five years is significantly below how much federal funding is expected to be provided under current law, even in the absence of a recession. The low level at which federal funding is fixed diminishes the likelihood that states will accumulate much in savings. Moreover, if a recession hits, it would quickly overwhelm whatever modest amounts most states have been able to accumulate.

V. Increasing State Flexibility Within an Entitlement Framework

As the House Ways and Means bill demonstrates, converting entitlement programs into block grants does not necessarily result in providing states with increased flexibility. Block grants can be designed with extensive federal prescriptions while entitlements can be designed to provide states with far-reaching flexibility.

The Shape of a Redesigned Federal-State Partnership

If the federal-state AFDC partnership is to be redesigned to give states greater flexibility within an entitlement framework, policymakers at both levels of government will need to engage in a serious debate about the appropriate role of the federal government in the new system.

The federal government could substantially pare back the AFDC requirements currently imposed on states, while maintaining the federal-state financial structure for the program. This could be done by identifying and eliminating many provisions of the federal statute that needlessly restrict state flexibility in shaping their own cash assistance programs. This would largely eliminate the need for states to secure waivers from federal agencies. Under this approach, each state would be able to develop standards regarding matters such as: the definition of income and how it should be treated, what resources are permitted and under what circumstances, and what requirements (JOBS, work, school attendance) must be meet to qualify for assistance. In addition, states should have flexibility to develop their own demonstration projects that would operate in only part of a state.

While the federal government should require states to operate programs that move able-bodied welfare recipients toward self-sufficiency, states would have substantial freedom to design the specific contents of these programs. States would be able to designate the kinds of training and work-related services offered in their programs. States may want to institute new employment strategies, including wage subsidies, microenterprises, and employment vouchers. Some states may choose to require parents to work after a set period of time in the private sector or in a publicly funded work slot.

In a limited number of areas where a pressing national problem exists and research has identified a promising approach, the federal government might require that states follow a particular model. For example, the federal government may want to require that teenage parents on welfare be required to live with responsible adults and to attend school if they have not obtained a diploma.

Other than in these areas, few federal rules need apply. The federal government could establish some basic standards — such as that parents who are willing to work and meet all requirements receive either cash assistance or a work assignment and that eligible poor children be assured of receiving assistance. The federal government would continue to match state benefit expenditures, as it now does, and the individual entitlement structure of the program would be maintained.

Finally, federal funds should support research and evaluation activities to identify effective program strategies and technical assistance to ensure that states can apply lessons from the research.

Granting states broad flexibility within an entitlement structure would likely provide states *greater* flexibility than a block grant in many areas. Under a block grant, if a state received significantly less federal funding than it would if the program remained an entitlement, the state could be forced to curtail innovative work or self-sufficiency programs. Suppose a recession hit and a state's caseload climbed. To provide basic benefits and keep families from becoming destitute a state might be forced to cut back spending for work programs or other initiatives designed to promote self-sufficiency. Although states could instead choose to deny aid to eligible families (since the program would no longer be an entitlement to individuals), some states might be unwilling to deny basic support to a family that, without the assistance, might be unable to pay rent. In short, if states receive limited federal resources under a block grant structure, they may be unable to implement many of the initiatives for which they have sought permission through the waiver process — such as expanded earnings disregards so AFDC families can keep more of their earnings when they go to work, more realistic asset rules, and expanded work programs so more families may be subject to work requirements.

To some extent, states already face this dilemma under current law, because they pay part of the cost of both AFDC benefits and the JOBS program. Many experts have identified the early 1990s recession — and the resulting increase in the need for cash assistance — as one of the key reasons that most states did not spend enough on the JOBS program to draw down the full amount of federal funding available to them and enroll more of their caseloads in work-related activities. This trade-off would become much more difficult for states under a block grant structure because federal funding would no longer expand to help states meet increased need.

VI. The Future of Welfare to Work Initiatives

While welfare reform should enhance state flexibility, a fundamental goal of reform should also be to expand our efforts to move more parents from welfare to work. States should be provided the resources needed to run substantial training, work and education programs that prepare and move parents to work as well as to support child care for families with young children in which the parent is required to work.

The House Ways and Means Committee proposal imposes stringent work participation rates on states but provides no additional resources for states to meet these standards. It repeals the JOBS program, thereby eliminating any requirement that states provide training and employment services for parents. In addition, another House committee has block granted — and reduced — the funding available for child care assistance, a support necessary for moving families from welfare to work. (The IV-A child care program for AFDC recipients in training and the transitional child care program, both currently entitlement programs, would be eliminated by this provision and folded into the block grant.) If, in coming years, states were to place increasing numbers of AFDC recipients into work activities or employment, there would be no additional federal money to cover any portion of these increased child care costs.

Under this proposal, states would confront difficult choices in allocating limited funds between increasing numbers of child care slots for recipients required to participate in work programs and child care assistance for the working poor. Indeed, it is likely that some states could be forced to reduce child care for the working poor and thereby place in jeopardy the ability of some working poor parents to keep working and remain off welfare.

If our goal is to require and support work among parents on welfare, then the federal policy must commit necessary resources and require serious welfare employment initiatives at the state level. The Ways and Means bill fails on both counts. It not only neglects to provide resources to support training and employment programs and child care services, but it permits states to meet some or all federal work participation standards by terminating families from aid, regardless of whether a family finds work or was denied benefits for any other reason. Thus, under the bill's work standards, a state that simply reduced its caseload by time-limiting benefits to families after one year, could count that reduction in its caseload toward its work program participation rate. It is likely that many of these affected families would have received no employment-related assistance and would fail to find work.

VII. Conclusion

The welfare system needs substantial reform. The AFDC program needs to become a work-focused system in which all parents who are able are expected to work or prepare for work. In addition, an effort must be made to reduce teen pregnancy as well as demand responsibility of absent parents.

Many have called for converting the AFDC program, as well as other basic safety net programs, into a block grant with fixed funding. Increasing state flexibility and reducing federal costs can be accomplished without eliminating the entitlement nature of the AFDC program, and moving to a block grant structure with fixed funding could make it more difficult to convert the program to a work-focused system.

If the AFDC program is converted to a block grant, states would likely have less flexibility to operate innovative programs that move parents from welfare to work while maintaining a basic safety net beneath poor children. Under the block grant structure proposed by the House Ways and Means Committee, states would face significantly reduced resources over the next five years, making it difficult for them to develop welfare-to-work programs that require an up-front investment. In addition, if need in a state rises, it would no longer receive any assistance in meeting those increased costs from the federal government, increasing the likelihood that it would have to scale back its work-based efforts.

Savings can also be achieved without converting the program to a block grant. Such reductions, however, would not be without costs. If welfare-to-work programs are to be expanded, for example, increased — not decreased — federal funds will be required, at least in the short-term.

A reworked federal-state partnership which retains the entitlement structure but offers states far more flexibility could produce a system that is more responsive to local circumstances, while maintaining a federal safety net beneath poor children. Child poverty is a national concern and protecting poor families should remain a federal as well as a state responsibility.

APPENDIX: What Do We Spend On "Welfare"?

Recent arguments that federal "welfare" spending is both excessive and ineffective sometimes have relied on a few highly publicized but questionable assertions — that the federal government has spent $5.3 trillion on "welfare" programs since 1964 without decreasing poverty and that the typical family in the Aid to Families with Dependent Children (AFDC) program receives $15,000 in benefits per year. This analysis examines these assertions about welfare spending in detail. It focuses on three issues: 1) the current level of spending on programs targeted to low-income people and the extent to which these programs conform to the popular definition of "welfare"; 2) the total amount spent on low-income programs during the past few decades and the effect of this spending; and 3) the benefits received by the typical family on AFDC.

While all agree the AFDC system is in need of substantial reform, it is important that misconceptions about "welfare spending" not drive the policy debate.

Key Findings

Total Spending on Means-Tested Programs

- According to the Congressional Research Service, total federal spending on programs targeted on low-income people totaled $208 billion in 1992. The CRS list includes programs that do not provide cash or cash-like assistance, such as Head Start and education and training programs. Many of the programs listed provide services and benefits to families with incomes above the poverty line.

- Total spending on AFDC recipients represents a small proportion of entitlement spending and total federal spending. In 1994, spending on AFDC, food stamp benefits for AFDC families, and Medicaid spending for AFDC recipients totaled about five percent of entitlement spending and about three percent of total federal spending.

- Spending on non-medical means-tested programs is not responsible for the projected long-term growth in entitlement spending and the budget deficit. The Bipartisan Commission on Entitlement and Tax Reform projected that spending on low-income entitlements excluding Medicaid would remain a constant and very small fraction of the economy after the year 2000.

What Does it Mean to Have Spent "$5 Trillion" On "Welfare Programs" since 1964?

- Robert Rector of the Heritage Foundation has stated in congressional testimony that "Since the onset of the War on Poverty, the U.S. has spent over $5.3 trillion on welfare. But during the same period, the official poverty rate has remained virtually unchanged." In order to arrive at the $5.3 trillion figure, "welfare spending" must be broadly defined to include spending on all means-tested programs, even those programs that confer a significant amount of benefits on families above the poverty line.

- Even if one accepts Rector's definition of "welfare spending," his figure suggests that 16 percent of total federal spending over the past 30 years has been spent on means-tested programs. Isolating the AFDC program, since 1964 spending on AFDC totaled less than 1.5 percent of federal outlays.

- Rector's suggestion that "welfare spending" has accomplished little, as evidenced by his claim that the poverty rate has remained virtually unchanged, misses several key points. First, between 1964 and 1973, when a strong economy was coupled with more generous antipoverty programs, the poverty rate fell from 19 percent to 11 percent. Second, the upward drift in the poverty rate over the past 15 years appears primarily to reflect changes in the economy — most notably, declining wages. Third, the official poverty rate data only measures cash income. It does not include benefits from poverty programs that provide benefits in-kind such as Medicaid, and food and housing programs. Yet the bulk of the increase in antipoverty spending in recent decades has been in the in-kind programs. These programs cannot be said to have failed in reducing poverty when they are not counted in measuring poverty.

What is the Value of Benefits Provided to AFDC Families?

- In 1994, the average AFDC family of three was eligible for a maximum of $415 per month, or $4,980 per year, in cash assistance. Combined AFDC and food stamp benefits for the average AFDC family of three was $664 per month (about $8,000 a year), or about two-thirds of the poverty line.

- About three-quarters of families receiving AFDC do not live in subsidized housing. These families must pay for food, clothing, shelter, and transportation with a family income that averages between $8,000 and $9,000 per year for a family of three, depending on whether the family also receives benefits through the Special Supplemental Nutrition Program for Women, Infants and Children (WIC), the school lunch and breakfast programs, and the Low-Income Home Energy Assistance Program (LIHEAP). When one factors in the average amount that AFDC families that do receive housing assistance appear to save on housing costs, even these families remain below the poverty line.

Total Spending on Means-Tested Programs

According to the Congressional Research Service (CRS), federal, state and local governments spent a total of $290 billion in 1992 on programs that target their benefits or services on low-income people. Federal spending on these programs totaled $208 billion, or about 15 percent of total federal outlays. The programs on the CRS list include cash assistance, medical aid, nutrition assistance, education funding, housing assistance, job training, and energy aid.

The largest component of the federal spending on low-income programs was medical aid, mainly composed of Medicaid. Medical aid comprised 38 percent of federal spending on means-tested programs. With the exception of the earned income credit — which is growing as a result of the expansion passed in the 1993 Omnibus Reconciliation Act — Medicaid expenditures are expected to grow faster between 1994 and 1999 than any other means-tested entitlement program. Non-medical related spending on means-tested programs totaled $129 billion in 1992, or nine percent of total federal spending.

While the CRS list provides useful information on expenditures for low-income programs, the programs included in its analysis go far beyond the popular image of "welfare." The list includes many programs that provide services, not income assistance, to low-income people. Programs such as the Job Training and Partnership Act (JTPA) and Head Start do not provide cash, food, housing, or similar aid to help poor families purchase basic necessities.

Many of the programs on the CRS list serve people who do not receive AFDC, including the working poor. In fact, many of the recipients of these programs are in low- or moderate-income households whose incomes are *above* the poverty line. For example, in tax year 1996, the earned income credit will provide benefits to families whose incomes fall below $28,600 — or about 177 percent of the poverty line for a family of four. Similarly, the WIC program provides nutrition assistance to recipients whose family incomes equal up to 185 percent of the federal poverty line. And reduced-price school meals are provided only to children from families with incomes between 130 percent and 185 percent of the poverty line. Poor children do not receive them.

The CRS list includes programs that are both entitlements and discretionary. Entitlement programs provide benefits to anyone who meets the eligibility criteria while discretionary programs are only able to serve as many eligible individuals as resources appropriated to the programs allow.

Low-Income Entitlement Spending

As Table 1 indicates, the federal government spent $177 billion in 1994 on means-tested entitlement programs.[1] Table 1 also shows (for programs for which such data are available) the percentage of spending in each program that goes to families receiving AFDC and to elderly and disabled people. Most of this spending did not go to AFDC families. Of note:

- Only about 16 percent of Medicaid spending — the largest means-tested entitlement program — is spent on health care for AFDC recipients. The average cost of Medicaid services for a child receiving AFDC is only about one-quarter the cost of caring for an elderly Medicaid recipient and about one-seventh the cost of caring for a disabled individual.

- Spending on AFDC (including AFDC benefits, JOBS, emergency assistance, Title IV-A child care, and the portion of child support enforcement costs attributable to AFDC families), food stamp benefits for AFDC families, and Medicaid spending on AFDC families constitute only about five percent of total entitlement spending and about one-quarter of means-tested entitlement spending.

- Spending on low-income elderly and disabled persons constitutes a much higher percentage of total means-tested entitlement spending, about 46 percent.[2]

It also is important to consider the extent to which growth in means-tested entitlements is projected to contribute to the overall growth in entitlement spending. The Bipartisan Commission on Entitlement and Tax Reform estimated that by 2030, total entitlement spending would grow

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[1] Congressional Budget Office, "The Economic and Budget Outlook: Fiscal Years 1996-2000," January 1995.

[2] To determine the proportion of food stamp benefits that went to elderly and disabled persons and AFDC recipients, data from *Characteristics of Food Stamp Households, Summer 1992* issued by the U.S. Department of Agriculture was used. Data on the distribution of Medicaid expenditures are from the Urban Institute report, "Medicaid Expenditures and Beneficiary Trends, 1988-1993" by John Holahan, David Liska, and Karen Obermaier. The Food Stamp data do not indicate the amount of food stamps that go to elderly and disabled individuals. Instead, the data indicate the value of food stamp benefits that go to households including an elderly or disabled person. Thus the full value of food stamp benefits going to these households are included in the calculation of the proportion of food stamps benefits that go to elderly and disabled people. This leads to an overstatement of the proportion of food stamp benefits that go to these individuals. However, the estimated proportion of food stamp benefits going to elderly and disabled persons represents only 4 percent of the estimated total value of means-tested entitlement benefits going to elderly and disabled people. Similarly, the entire value of food stamps that go to households that also receive AFDC is included in the calculation to determine the proportion of food stamp benefits going to AFDC families. Because some households that receive AFDC include some members who are not a part of the AFDC unit, this also leads to an overstatement of the proportion of food stamp benefits going to AFDC families. Finally, it should be noted that benefits going to elderly and disabled people are not wholly independent of benefits going to AFDC families. An AFDC household could include a member who receives SSI. In such a case, the family member that receives SSI would not be included in the AFDC unit and, therefore, would not actually be an AFDC recipient, but the family would receive income from both the AFDC and SSI programs. Furthermore, a household that includes an AFDC unit might also include an elderly or disabled person who might be part of the food stamp unit.

Table 1: Federal Means-Tested Entitlement Programs - 1994

Means-Tested Entitlements	Benefit or Service Provided	Population Served	1994 Federal Spending	Program Spending as a % of Total Entitlement Spending	Program Spending as a % of Total Federal Outlays	% of Program Spending That Goes To AFDC Recipients	% of Program Spending That Goes To The Elderly and Disabled
Medicaid	health care coverage	AFDC and SSI recipients Low-income children "Medically Needy" persons	$82 billion	10.4%	5.6%	16%	72%
Food Stamps	in-kind nutrition assistance	Households with incomes below 130% of poverty	$25 billion	3.2%	1.7%	54%	13%
SSI	cash aid	Poor elderly and disabled	$24 billion	3.0%	1.6%	0% *	100%
Family Support	cash aid (AFDC), child support enforcement, child care, JOBS	Poor families with children	$17 billion	2.2%	1.2%	93%	0% *
EIC** (refundable portion only)	refundable tax credit	Primarily families with children that have incomes below $25,300 (in tax year 1994)	$11 billion	1.4%	0.8%	data not available	data not available
Child Nutrition	school lunches, school breakfasts, child care feeding, etc	Children with incomes below 185% of the poverty line	$7 billion	0.9%	0.5%	data not available	0%
Other	veteran's pensions, student loans, and other smaller programs		$9 billion	1.1%	0.6%	data not available	data not available
Total:			$177 billion	22%	12%	Estimate: 25%-33%	Estimate: 49%-52%

* Note: An SSI recipient can not also receive AFDC. However, a family may include both AFDC and SSI recipients. For example, in a three person family, two people may be part of an AFDC case while the third receives SSI due to that individual's disability.

**Note: The earned income credit was expanded under the 1993 Omnibus Budget Reconciliation Act. In Tax Year 1996, the expansions will be fully phased-in. Because most EIC recipients receive their credit after filing their annual tax returns, the majority of the budgetary impact of the EIC is felt in the fiscal year following the tax year. By FY 1997, the refundable portion of the EIC is projected to cost $23 billion.

SOURCE: Author's calculations based on data from the Congressional Budget Office, "The Economic and Budget Outlook: Fiscal Years 1996-2000," January 1995.

from 12 percent to 21 percent of Gross Domestic Product.[3] This growth is driven primarily by Social Security, Medicare and Medicaid, not non-medical means-tested programs such as AFDC or food stamps.

- Social Security spending is projected to rise from about 4.8 percent of GDP in 1994 to 6.7 percent in 2030 while Medicare spending is projected to rise from about 2.3 percent of GDP to 7.7 percent.

- Medicaid, which is means-tested, also is expected to rise as a percentage of GDP because health care costs are expected to continue to grow rapidly. In 1994, Medicaid spending totaled 1.2 percent of GDP and is projected to rise to 3.1 percent by 2030.

- The Commission projected, however, that after 2000, spending on non-medical means-tested entitlement programs would grow at the same rate as the economy, remaining at about 1.5 percent of GDP (see Figure 1).[4] There are reasons to believe that this overstates the actual size of these programs. For example, the Congressional Budget Office estimates that the sub-category of entitlements other than Social Security, health care, and federal retirement programs will *shrink* as a percentage of GDP from 2000 to 2005.

These figures make clear that thoughtful reform is needed to control the costs of entitlement spending. It is a mistake, however, to look toward non-medical means- tested entitlements as the culprit of long-term entitlement growth.

Discretionary Spending on Low-Income Programs

Just as spending on means-tested entitlements is not the source of the projected growth in federal spending, neither is spending on discretionary programs for low-income people. In 1995, about $63 billion was appropriated for low-income discretionary programs — about one-eighth of total discretionary appropriations. These include education, nutrition, health, employment, and housing programs that target their services or benefits on low- and moderate-income people.

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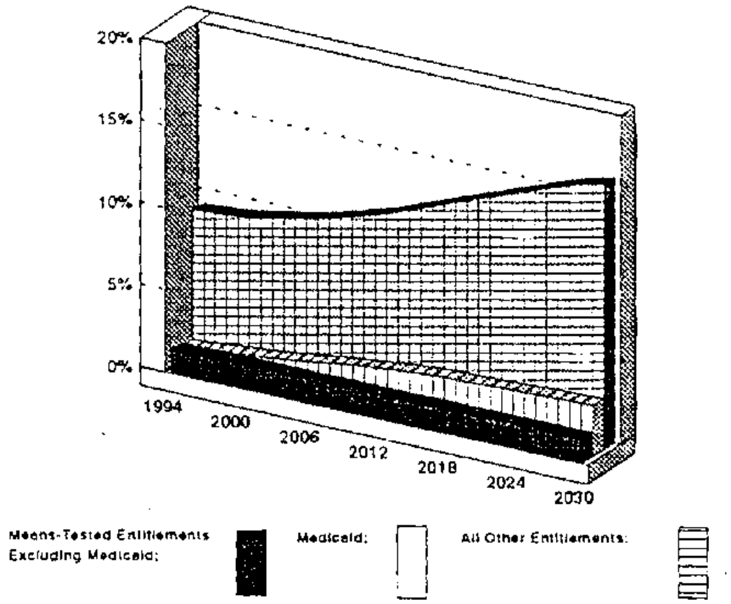
[3] The Gross Domestic Product is a measure of the size of the overall economy.

[4] The Bipartisan Commission on Entitlement and Tax Reform did not compute a separate estimate of the growth rate of non-medical means-tested entitlement spending. The Commission did project that all entitlements other than Social Security, Medicare, Medicaid, and federal retirement benefits would grow at the same rate as the economy after 1999. In 1994, non-medical means-tested entitlement spending comprised 60 percent of spending on entitlements other than Social Security, Medicare, Medicaid, and federal retirement payments.

FIGURE 1:
FEDERAL ENTITLEMENT SPENDING AS A PERCENT OF THE ECONOMY
1994 - 2030



SOURCE: Center on Budget and Policy Priorities calculations based on data from the Bipartisan Commission on Entitlement and Tax Reform and the Congressional Budget Office, January 5, 1995.

Overall support for these programs is well below what it was prior to the budget cutbacks of the early 1980s.[5]

While funding for low-income programs has decreased overall, the need for the programs has increased. Since 1981, the number of poor people needing assistance has risen. In 1993, the most recent year for which data are available, 39.3 million Americans lived in poverty, 7.5 million more than in 1981. While the number of poor people may have edged down somewhat since 1993, it is certain to be well above the 1981 level.

One way to measure the extent to which funding for low-income discretionary programs has kept pace with need is to consider the ratio of spending on these programs to the number of poor people. (Many of these programs serve low-income people whose incomes are well above the poverty line. Therefore, such a comparison is only illustrative.) The increase in the number of people living in poverty, coupled with the reductions in funding for low-income non-entitlement

[5] Total appropriations for low-income non-entitlement programs are 39 percent below fiscal year 1981 levels, after adjusting for inflation. Much of this decline, however, results from reductions in appropriations for low-income housing programs. Because housing programs "spend-out" their appropriated funds over many years, this drop in appropriations has *not* resulted in a reduction in outlays on housing assistance programs. When housing programs are removed from the comparison, the overall reduction since 1981 in appropriations for low-income non-entitlement programs is seven percent.

programs, has resulted in a sharp reduction in funding *per poor person.* Between 1981 and 1995, funding for low-income, non-entitlement programs other than housing programs fell by about 25 percent per poor person.[6]

What Does it Mean to Have Spent "$5 Trillion" on "Welfare Programs" Since 1964?

In congressional testimony presented on January 13, 1995, Robert Rector of the Heritage Foundation stated that "Since the onset of the War on Poverty, the U.S. has spent over $5.3 trillion on welfare. But during the same period, the official poverty rate has remained virtually unchanged...".[7]

To come to a figure of $5.3 trillion, "welfare spending" has to be broadly defined to include any means-tested program, including programs in which a significant amount of the benefits go to families above the poverty line. As noted earlier, such a definition goes far beyond the common conception of "welfare." Furthermore, when considering what such a figure means, it is important to place it in context.

- Between 1964 and 1994, the federal government spent a total of more than $31 trillion (in 1993 inflation adjusted dollars). Total GDP over that period equaled almost $143 trillion.[8]

- Even if one accepts Rector's definition of "welfare spending," his figure suggests that 16 percent of total federal spending — and 4 percent of total GDP — over the past 30 years was spent on means-tested programs.

- Combined federal spending since 1964 on AFDC, Medicaid, SSI, and the major nutrition entitlement programs totaled about $2 trillion. While this is a large dollar amount, it amounts to less than 1.5 percent of total GDP and about 6.6 percent of total federal outlays over that period.[9]

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[6] For this analysis, the 1993 poverty population — the last year for which data are available — was used when considering the level of 1995 discretionary funding per poor person.

[7] Robert Rector, Testimony before the Subcommittee on Human Resources of the Ways and Means Committee, U.S. House of Representatives, January 13, 1995.

[8] In this section, all dollars are presented in 1993 dollars using the GDP implicit price deflator. By using 1993 dollars, the numbers are comparable to those used in Rector's testimony.

[9] The Congressional Budget Office mandatory spending category entitled "Family Support" was used for the calculation of total AFDC spending. The Family Support category includes AFDC cash payments as well as the child
(continued...)

- Spending on AFDC alone over this 30 year period totaled less than 1.5 percent of federal outlays.

Rector also suggests that this spending has been of little worth because he claims the official poverty rate has remained virtually unchanged since the War on Poverty began. This statement is problematic for several reasons.

First, a large fraction of this spending consists of programs that assist families without increasing their cash incomes. Since non-cash benefits are not counted in the official measurement of poverty, the effects of these programs do not show up in the poverty statistics. This, therefore, provides no evidence that such programs are ineffective. For example, programs like food stamps help families purchase food but do not reduce officially measured poverty. Similarly, Medicaid does not increase a recipient's cash income, but it does provide an important service and should not be considered a "failure" because it does not affect the official poverty statistics.

Moreover, many programs that assist low-income people were not designed to foster self-sufficiency or help families work their way out of poverty. For example, Medicaid does not provide skills training for recipients; rather, it provides health care coverage for many people who could not otherwise afford it. Medicaid should not be expected to reduce poverty rates directly.

The WIC program provides another example of a highly successful means-tested program that does not directly reduce the official poverty rate. The WIC program provides coupons for specific foods to low-income pregnant and postpartum women, infants and children under age five. To be eligible for WIC, low-income women, infants and children must be found to be at nutritional risk for medical or dietary reasons. WIC is widely regarded as one of the most successful of all federal programs. A multi-year, national evaluation conducted by the U.S. Department of Agriculture during the Reagan Administration found that WIC markedly reduces infant deaths, low birthweight, and premature births. WIC also is associated with higher immunization rates and increased use of prenatal and pediatric care.[10]

Also of note, some programs that do provide cash assistance provide benefit levels so low that they reduce the *severity* of poverty but do not lift households *out* of poverty. The average AFDC family of three receives maximum benefits equal to 42 percent of the poverty line. Even if

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[9] (...continued)
support enforcement program, emergency assistance, child care expenditures for AFDC recipients, and the "at-risk" child care program which provides child care subsidies to low-income working families.

[10] While Medicaid and WIC do not reduce poverty directly, these programs may reduce poverty in the long-run. For example, by improving the health status of children, these programs may enable children to learn more effectively and to grow up to be more productive workers. It is impossible to predict what the poverty rate would be today if such programs had not been implemented.

one uses an unofficial measure of poverty that considers the value of noncash assistance such as food stamps, free school lunches, and housing aid in addition to cash assistance such as AFDC or SSI, these combined benefits often are not enough to lift the poor above the poverty line. For example, only about 18 percent of the poor were lifted above the poverty line by cash assistance, food stamps, and housing aid in 1992.[11] These programs, however, reduced the depth of poverty for many more poor people. In fact, these benefits reduced the "poverty gap" — the total amount by which the incomes of poor families fall below the poverty line — by some 42 percent in 1992.[12]

In addition, it is not accurate to portray the poverty rate as remaining "virtually unchanged" since the War on Poverty began. When strong economic growth, leading to real wage growth across the income distribution, was coupled with more generous antipoverty programs, poverty did respond. Between 1964 and 1973, the poverty rate fell from 19 percent to 11 percent, and the number of poor people dropped by more than 13 million.

Since 1977, however, the poverty rate has drifted upward. In 1977, some 11.6 percent of the population was poor. In 1993, the poverty rate stood at 15.1 percent. The years 1977 and 1993 are appropriate years to compare because they came at similar points in the economic cycle.

The major factor behind the upward drift in poverty appears to be fundamental shifts in the economy and not excessively generous anti-poverty programs. Since the late 1970s, falling wages and declining job opportunities for lower-skilled workers contributed to rising poverty rates.[13]

- In 1979, some 12.1 percent of full-time year-round workers earned too little to lift a family of four out of poverty (1977 data are not available). By 1993, some 16.2 percent of these workers had earnings this low. The average hourly wages for non-supervisory jobs also fell by 14 percent from 1977 to 1993, after adjusting for inflation.

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[11] In this analysis, the value of food stamps and housing assistance are considered income. This is not the way the official poverty statistics are calculated by the Census Bureau. The data presented on the antipoverty effectiveness of means-tested programs are based on information in the *1994 Green Book*, U.S. House of Representatives, Committee on Ways and Means, pp. 1171-2.

[12] The poverty gap is calculated by adding together the amount by which every poor person's income falls below the poverty line.

[13] For discussions of the importance of declining wages and increased income inequality on poverty rates, see "Why Were Poverty Rates So High In The 1980s," Rebecca Blank in *Poverty and Prosperity in the USA in the Late 20th Century*, Demitri Papadimitriou and Edward Wolff, eds., and "Do Today's High Poverty Rates Reflect Economic or Demographic Changes," Sheldon Danziger and Peter Gottschalk, presented at the Association for Public Policy Analysis and Management, Annual Research Conference, October 1994.

- Similarly, in 1993, the proportion of families with children in which the head of the household worked but the family was still poor stood at 11.4 percent: by contrast, in 1977, some 7.7 percent of such families were poor.

In addition to declining labor market prospects for those at the bottom of the income spectrum, changes in family structure have contributed to the increase in poverty. Female-headed families were both a larger proportion of all families and of poor families in 1993 than in the late 1970s. At the same time, however, the effect of the growing number of female-headed families on poverty trends in the past 20 years is sometimes exaggerated. During this period, the average size of female-headed families became smaller and poverty also increased among two-parent families. As a result of these and other trends, the proportion of poor people living in female-headed families has remained fairly steady since the late 1970s. Census data show that 37.2 percent of all poor people lived in female-headed families in 1977. In 1993, this figure had increased only modestly to 39.4 percent.

A weaker safety net also has contributed to the rise in poverty for some groups. In 1993, fewer than one in every seven children who were poor before receipt of government benefits was lifted from poverty by cash benefits.[14] In 1979, nearly one in five children who was poor before receipt of cash benefits were lifted from poverty by them. (These data are not available for 1977.)

What is the Value of Benefits Provided to AFDC Families?

There is often confusion surrounding the issue of the value of benefits families on AFDC receive, with some claiming that these families receive typically receive benefits totaling $15,000. The income most recipients have to meet their basic needs is, in fact, modest, leaving families well below the poverty line.

- In 1994, the average AFDC family of three was eligible for a maximum of $415 per month, or $4,980 per year, in cash assistance.[15] Nearly three-quarters of all AFDC families included three or fewer members.

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[14] This decline in the proportion of children raised from poverty by government benefits is likely to reflect the combined effect of benefit reductions and wage erosion. Declining wages left many working families with children further below the poverty line, thus reducing the chances that the combination of wages and government benefits would lift them to the poverty line.

[15] This was calculated by taking the weighted average of the maximum AFDC benefit levels for a family of three in each state in 1994. The number of AFDC families with three members in each state in 1992 (the last year for which the data are available) was used as the weight. The weighted median maximum AFDC benefit for a family of three was a very similar $420 per month. The weighted average of the maximum AFDC benefit for a family of three is higher than the maximum benefit in the *median state*. In the median state, the maximum AFDC benefit for a family of three equals $366. The weighted average figure is higher because a number of larger states such as California have higher-than-average benefit levels. Furthermore, the higher a state sets the AFDC maximum benefit level, the more families will meet the eligibility criteria.

- Most AFDC families also receive food stamps. A family of three that received $415 in AFDC benefits would receive about $249 in food stamps.[16]

- Together, an average AFDC family of three receives a maximum of $664 per month, or $7,968 per year, in food stamp and AFDC benefits. This represents two-thirds of the poverty line.

- Average AFDC and food stamp benefits combined have fallen by more than one-quarter over the past two decades and have now receded to the level of AFDC benefits alone in 1960, before the food stamp program was created.

AFDC recipients, however, do receive other benefits and services in addition to food stamps. Most notably, AFDC recipients are "categorically eligible" for Medicaid.

Medicaid provides an important service to AFDC families. However, it is inappropriate to count Medicaid costs as "income" for families on AFDC. Medicaid payments go to doctors and hospitals, not AFDC recipients, and cannot be used to meet basic expenses such as food, shelter and clothing. Furthermore, a family that has numerous medical problems and, consequently, produces higher Medicaid costs for the government does not have more "income" with which to pay rent than a similar family receiving AFDC that does not have such high medical expenses. Including Medicaid in the calculations of the income available to AFDC recipients would be inconsistent with how other health assistance is described; most employed individuals do not consider the value of their employer-provided health care coverage when stating their income level. And few favor including the value of such coverage in their taxable income.

In addition to Medicaid, some AFDC families receive nutrition assistance through the WIC program, the School Lunch Program, the Low-Income Home Energy Assistance Program (LIHEAP), and subsidized housing. Unlike Medicaid (which provides medical insurance), these programs are more like cash assistance — they help families meet monthly budgets. But benefits in WIC, the school lunch program, and LIHEAP are modest. And while housing benefits are larger, most AFDC families do not receive them. Only one-quarter of AFDC recipients receive housing assistance. AFDC recipients may participate in other programs, such as education or training programs, but these do not typically provide cash or cash-like assistance.

The three-quarters of families receiving AFDC who do not receive housing assistance must pay for food, clothing, shelter, and transportation with a family income that averages between $8,000 and $9,000 per year for a family of three, depending on whether the family receives WIC, free school meals, and LIHEAP. When one factors in the average amount that

[16] This figure was calculated using the average shelter deduction for food stamp households that also receive AFDC.

AFDC families receiving housing assistance appear to save on housing costs, even these families remain below the poverty line.[17]

Conclusion

While many point to government spending on low-income programs as the cause of rising entitlement costs and budget deficits, non-medical means-tested programs are not exploding in cost nor do they provide excessive benefits to poor families. Nearly all agree that the welfare system needs fundamental reform, but misperceptions about "welfare" spending should not drive the policy debate.

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[17] An average AFDC family of three that received housing assistance would pay an estimated $100 per month for housing related costs. The average U.S. household with income between $5,000 and $10,000 spends $345 per month on housing. Thus, at first glance the housing assistance appears to effectively increase the family's income by $245. However, because food stamp benefits are partially determined by a family's housing costs, the food stamp benefits of a typical AFDC family of three that receives housing assistance would be reduced so that the housing assistance effectively raises an AFDC family's income by an estimated $206 per month.

Progressive POLICY INSTITUTE

POLICY BRIEFING

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WORK FIRST:
A Proposal to Replace Welfare With an Employment System

By Will Marshall, Ed Kilgore, and Lyn A. Hogan

With each passing day, it becomes clearer that welfare reform cannot be achieved by the old Democratic prescriptions or the new Republican nostrums. Thus far, neither side has produced a plan that meets the goal overwhelmingly supported by the American public: helping welfare recipients achieve self-sufficiency through work. This concept proposal is intended to fill that crucial gap.

President Clinton's 1994 welfare reform proposal set the right goal but did not chart a clear path to reach it. By imposing a two-year limit on unconditional cash assistance, the plan ended welfare's status as a permanent entitlement and created a powerful incentive for its recipients to work. But the White House blueprint did not include a practical means for moving welfare recipients into jobs: Instead, it maintained and even expanded the existing welfare bureaucracy, pumping more money into education and training programs that have largely failed to connect welfare recipients to the world of work and responsibility. While the Clinton plan offered states significant new latitude to pursue previously tested reforms without going through the cumbersome waiver process, it did not go far enough in empowering the states, the private sector, and welfare recipients themselves to find imaginative new solutions to welfare dependence.

Though GOP leaders dismiss the President's proposal as insufficiently bold, they cannot even achieve agreement on the objective of welfare reform. Republican efforts to craft legislation will either succumb to internal divisions—or achieve unity at the expense of genuine reform. In either event, Congress needs a clearly focused alternative that builds on public support for work-based welfare reform and supplies the resources and incentives to make it happen.

A Republican Retreat From Work-Based Reform

Some Republicans support work-based welfare reform in principle; others accept the more controversial premise that discouraging illegitimate births by cutting off benefits to unwed teen mothers will break the cycle of welfare dependence. Still other GOP leaders, especially among governors, oppose any national reform of the welfare system, contending that states should take the lead with a minimum of federal guidance. Meanwhile, all three Republican perspectives on welfare reform are cramped by short-range federal budgetary concerns, including the need to generate savings to pay for promised tax cuts and defense spending increases.

The welfare block grant proposal announced in early January by House and Senate GOP leaders appeared to endorse the Republican governors' strategy for reform, explicitly abandoning any national goal for welfare reform other than reduced federal spending and total latitude for states. Moreover, the proposal repudiated national work-based reform by freezing federal funding for welfare-related services such as food and nutrition, child care, and employment and training—all key building blocks for any strategy to "make work pay" for welfare recipients.

But the various House committees charged with implementing the overall block grant plan are steadily subverting the promised state flexibility by inserting a mixed bag of negative prescriptions, including the Contract With America's ban on aid to legal immigrants and unwed teen mothers, and weak and ill-defined work requirements. Still missing in the GOP proposal is any clear and positive national blueprint for reform.

Thus, even in the supposedly focused and disciplined House, Republicans cannot produce a logically compelling or internally consistent welfare reform package. The amorphous legislative product will likely be "block grants" without flexibility, and an assault on benefits for immigrants and illegitimate children that may not survive the Senate—with only a rhetorical nod toward work without any of the resources or mechanisms needed to make work available.

The one element of the Republican package that will undoubtedly emerge unscathed is the block grant funding principle: converting welfare-related programs from entitlements to discretionary programs with funding levels arbitrarily frozen. In the absence of any national commitment to fundamental change in the welfare system, this step represents little more than a shift of power from federal bureaucrats to state bureaucrats, done on the cheap. The dismal result is likely to be phony welfare reform, achieved through phony devolution.

Refocusing Welfare Reform on Work

Welfare reform is too critical a task to be sacrificed to Republican disunity on goals, or Republican expediency on cost. But the President's 1994 proposal, welcome as it was as a step toward work-based reform, is an inadequate alternative that supplies too few bridges between welfare recipients and private labor markets, and too many detours into income maintenance or ineffective education and training programs.

The Progressive Policy Institute (PPI) Work First plan aims to convert welfare into an employment system through three main steps:

(1) Abolish both Job Opportunities and Basic Skills (JOBS)—the primary federal education and training program for welfare recipients, created by the 1988 Family Support Act—and Aid to Families with Dependent Children (AFDC), and substitute a Work First employment system that would establish as national policy that: (a) unsubsidized private sector work is the goal for public assistance recipients; (b) immediate work experience, not participation in education and training programs, is the best preparation for permanent employment for the vast majority of welfare recipients; and (c) all recipients of public assistance should perform some work, with community service as a fallback. In effect, the time limit for income maintenance would be zero.

(2) Pool AFDC and JOBS funding, calculated by the current formula but with a single match rate, to create a performance-based grant that offers financial rewards to states that succeed in placing and keeping welfare recipients in full-time, unsubsidized private sector jobs.

(3) Give states financial incentives to convert a portion of their employment system dollars into job placement vouchers that welfare recipients—as well as fathers of children on welfare who might contribute to family support through work—may use to purchase welfare-to-work services. Such services would comprise job placement and support, rather than education and training. By putting purchasing power directly in the hands of welfare recipients, vouchers would help stimulate a competitive market for job placement and draw private as well as public investment.

The PPI proposal promotes real devolution of decision-making on welfare [illegible] transforms income maintenance and education and training programs into a single flexible, performance-based grant that allows states to design individual benefit packages targeted to what each recipient needs to quickly enter the workforce. It also strongly encourages the use of job placement vouchers to bypass federal and state bureaucracies and place resources directly in the hands of welfare recipients. This approach supplies unprecedented flexibility to respond to local economic conditions and program characteristics; moreover, it also gives the federal government a potent lever for reinventing social policy in ways consistent with the broad public consensus for programs based on work and reciprocal responsibility.

By abolishing the existing AFDC and JOBS programs, this proposal also simplifies the task of work-based welfare reform. Able-bodied recipients would no longer be entitled to cash assistance or specific education and training services *for any length of time*. By requiring recipients to pursue private sector job opportunities—and where necessary, community service work—as soon as possible, the new system renders such action-forcing devices as time limits less significant, and perhaps even redundant. The presumption would be that the proper time limit for income maintenance or education and training prior to job placement is not two years or five years but *zero*. In addition, the proposal would allow states to begin addressing the "missing link" in welfare reform—absent fathers—by offering job placement services to noncustodial parents as part of an overall effort to create non-welfare streams of family income.

The "Work First" Architecture

The first step in work-based welfare reform is to ***put work first***, changing the current system's incentives to make permanent employment in private sector jobs the paramount and immediate goal for every able-bodied recipient of public assistance, with serious community service work as a fallback option when necessary.

Many existing reform plans would expand education and training by increasing funding for JOBS. Yet careful, intensive studies conducted by the Manpower Demonstration Research Corp. and other reputable research groups have concluded that education and training programs produce only marginal results, at best modestly increasing earnings and decreasing welfare costs. A recent General Accounting Office report on JOBS also concluded that it is not well focused on employment instead concentrating more on participation requirements than on getting recipients jobs. The research also shows that programs that stress work and maintain strong ties with the private sector produce better results. For example, Riverside, California's work-focused Greater Avenues For Independence (GAIN) program accounts for 19 percent of all job placements while serving only 4 percent of the state's caseload.

Private organizations are reinforcing the case for emphasizing job placement over education and training. Examples include nonprofit organizations such as Project Match in Chicago, as well as America Works, a for-profit company that has placed more than 5,000 welfare recipients in private jobs at various sites around the country. The Work First system envisions a healthy competition in welfare-to-work services among public as well as private entities. Other options might include temporarily subsidizing private and public sector jobs with cash and food stamp benefits paid out as a wage as Oregon has done in its JOBS Plus program, and converting job training funds to loans for microbusinesses.

The Work First Employment System is based on the premise that the vast majority of those receiving welfare are capable of working if given the opportunity. Too many welfare recipients are shunted through ineffective education and training programs, or, worse, given nothing but a check and the option to sit at home. The system must change. The Work First system requires that everyone who can work, will work.

The Work First philosophy assumes that labor markets can absorb welfare recipients if the right supports and links to employers are in place. According to Gary Burtless, a prominent labor market economist with the Brookings Institution:

> With roughly 7 million jobless workers, even at full employment, is it plausible to expect employers could offer an additional 2-3 million jobs for AFDC recipients forced to leave the welfare rolls? Surprisingly, most labor economists probably believe the answer to this question is "Yes."

Employers can accommodate a new supply of low-skill, low-cost labor. But we need an employment system that builds a bridge between this potential demand and the welfare recipients that can supply it.

The following elements make up a Work First Employment System:

- The new employment system would replace the AFDC and JOBS programs, converting funding for those programs—with additional federal money allocated by Congress—into a single flexible, performance-based grant that allows states to design individual benefit packages targeted to what each recipient needs to quickly enter the workforce.

- The new system would give states flexibility to design systems that put maximum pressure on welfare recipients to seek employment, but it would bar them from preemptively disqualifying any category of recipients currently eligible for aid, including teen mothers and immigrants. However, states would have the latitude to make receipt of assistance conditioned on compliance with its rules (e.g. sanctions for nonwork, time limits, etc.).

- The federal match rate for implementing job placement voucher programs would be set at a higher level to encourage states to pursue vouchers over other strategies, thus increasing the match rate *for dollars put into vouchers*. States would receive a cash bonus equivalent to six months of federal funding (i.e., savings) for each welfare recipient placed in an *unsubsidized* full-time, private sector job for six months. They could reinvest this pool of savings in job placement vouchers or other incentives such as cash bonuses to recipients who find and stay in private jobs and to caseworkers who excel in job placement.

- Applicants for aid would apply at a government office and be evaluated by a caseworker or case team to determine individual needs. A screening process would divert those deemed immediately employable from the Work First system. No unconditional aid would be granted. At any point, a recipient who turns down a private sector or community service job would be denied access to further employment services. Severely disabled applicants deemed unemployable would be moved to the Supplemental Security Income program.

(1) Those with short-term, one-time emergencies *and* immediate employment prospects would receive Temporary Emergency Aid (also called "grant diversion"). Applicants would receive a one-time cash grant to cope with an emergency such as car trouble or overdue rent. If these recipients are determined to be in need of further assistance, they will enter the Work First Employment System at a reduced or zero benefit rate for a number of months determined by the state as adequate to repay the emergency grant. Modeled after Utah's grant diversion program, this approach aims to prevent people from unnecessarily entering the new employment system.

(2) Those not diverted would enter the employment system. States could require those entering the Work First system to engage in intensive job search before taking advantage of placement and support services. Recipients would sign an "employability contract" charting their individual paths to self-sufficiency through private sector work. A relatively small percentage of recipients will not be job-ready: people who can't read, those with serious drug or alcohol problems or a temporary disability, and mothers with children aged 16 weeks or younger. All but the last category may be referred to programs that offer counseling, training, or other services. But everyone, even if they are not ready for private job placement, should perform some community service work.

(3) The Work First employment system would offer job placement services, but not cash assistance, to the fathers of AFDC children (on the condition that, once employed, the fathers meet their child support obligations). In addition, mothers could agree to give their place in the system to fathers, in a step that may encourage families to stay together or reunite.

- A state could choose to refer recipients to either private intermediaries offering job placement and support services or to state employment offices offering similar services.

- Private nonprofit and for-profit intermediaries and state offices would offer subsidized private sector work experience, job placement, and support services as needed, always with the goal of moving a recipient into full-time private sector work. Placement and support organizations would receive payment in full *for performance only*; for example, once a recipient has been *placed and retained* in a full-time, unsubsidized job for six months, one-third might be paid to the intermediary upon three months of job retention, with the remaining two-thirds paid upon six months of job retention. State *employment* agencies could provide job placement and support services in competition with private intermediaries. Job placement organizations, whether private or public, would have a strong job development component as well as follow-up support services to help people stay in their jobs.

Job Placement Vouchers

By giving job placement vouchers directly to recipients, states could tap into and build a growing market for public and private agencies providing placement and support services.

Job placement vouchers can reduce costs, improve service delivery, shrink bureaucracy, and most importantly, empower low-income and unemployed Americans by giving them the resources to choose their own providers where and when they need a particular service. The job placement voucher proposal is aimed at significantly cutting long-term public costs by moving those on public assistance into productive private sector jobs. A strong federal commitment to a feasible job placement strategy is much more cost-effective than any short-term block-and-cut approach that abandons federal responsibility for welfare reform without supplying incentives to work.

States would individually set their voucher rates and develop a list of service providers eligible to redeem the vouchers—including placement agencies and private employers. The list would be made available to welfare recipients who enter the employment system and have completed intensive job search. Recipients would use the lists to make their service choices. A voucher would offer recipients quick access to placement and support agencies such as: America Works in New York; the Good Will Job Connection in Sarasota, Florida; high performance, state-run job placement programs such as the GAIN initiative in Riverside, California; temporary private sector work experience supplied by employers and subsidized with income assistance and a cashed-out food stamp benefit; microenterprise training programs; and other employment-based services.

In a full-fledged application of the voucher approach, state welfare bureaucracies could be transformed into agents for job placement in two ways: by performance incentives accompanying federal funds, and by direct competition with private providers for voucher benefits.

Additional Elements of a Work First Strategy for Welfare Reform

Aside from changing the incentives of the system from income maintenance and education and training to job placement, several other steps are necessary to an overall Work First strategy. First, we must ***make work pay*** more than welfare, and recognize that any work-based reform of welfare is inconsistent with "on the cheap" approaches that make public assistance more attractive than private sector jobs.

The current system offers most recipients a package of welfare benefits worth thousands of dollars more than a full-time minimum wage job. Asset limits and welfare reductions for earned income penalize work and savings. To ensure that work, not welfare, is the rational choice for men and women alike, even entry level jobs must always pay more than the package of available welfare benefits. Raising the minimum wage, however, is the wrong answer, since most minimum wage earners do not live in poor families. The Clinton Administration in 1993 adopted the right approach: a $21 billion expansion of the earned income tax credit, a direct subsidy to low-wage workers. Other changes necessary to make work pay include toughening child support enforcement, expanding child care support for the working poor, and providing health care subsidies to low-wage workers.

Second, we must develop an ***empowerment strategy*** to encourage the poor to build personal capacities and assets, replacing the paternalistic welfare bureaucracy as the primary source of income in impoverished communities. To encourage asset-based policies, we must promote saving and remove barriers to asset building, such as welfare's limits on how much people can earn or save, and housing rules that raise rents as incomes rise. Individual Development Accounts (IDAs) for low-income families are a particularly promising device. Like Individual Retirement Accounts for the middle class, IDAs would be tax-favored, annual contributions used only for college, home ownership, retirement, and small business start-up. Individual contributions could be matched by government, churches, community groups, businesses, and unions.

With adequate asset levels in place, we can pursue policies such as microenterprise that promote self-employment by making loans for small business. Based on successful lending projects in developing countries, U.S. microenterprise ventures tap the latent entrepreneurial talents of poor people, especially women, who face limited options in formal labor markets.

Third, we must improve ***child support enforcement,*** both to supply non-welfare streams of income to children on public assistance and to reinforce the responsibilities and benefits of parenthood, especially among fathers of children on welfare.

America's poor children deserve the support of both parents. Yet government estimates show that families actually collect less than one-third of the court-ordered payments to which they are entitled. Toughening child support enforcement and allowing mothers to keep a larger share of child support payments should dramatically increase collections. This will reduce public welfare costs and give mothers another source of income, so that even part-time work may be enough to lift them out of poverty. PPI's Work First strategy would require mothers to establish paternity at birth as a condition for receiving public assistance, improve collection and enforcement of child support orders, and offer access to the employment system (but not cash benefits) for those non-working fathers who are delinquent in their child support payments.

Fourth, we must adopt a ***comprehensive strategy to prevent teen pregnancy***—combining unambiguous condemnation of irresponsible child-bearing with community-based solutions that strengthen and support families and reinforce community values.

PPI urges leaders in public and civic life, as well as in the media, to launch a national campaign to spread the message that it is morally wrong for teenagers to have children they cannot support financially or emotionally. We would reinforce that message with policy changes that end unconditional public assistance for unmarried teen mothers, hold fathers accountable to their children, and ensure more swift and certain punishment for sexual predators. At the same time, we should replace welfare's perverse rewards with a new set of positive incentives for young men and women to avoid premature parenting and finish high school.

Most importantly, PPI envisions a shift in the primary responsibility for reducing teen pregnancy from government to community institutions. For example, we propose creating a network of community-based *second chance homes* that would allow teen welfare mothers and their children to live in safe and supportive environments and provide the structure and discipline they need to finish school and raise their children. This would provide an alternative to teen mothers' setting up separate households or remaining in their parents' homes if those homes are unsafe or unstable. But it would stop short of punishing teen mothers by denying them public supports altogether, as House Republicans have proposed.

Conclusion

Genuine welfare reform can occur in this Congress, but only if the debate is refocused on work-based reform and practical ways to link welfare recipients with real-life work options. The Work First Employment System is designed to turn the incentives of the current system inside out. It would make private sector work the primary objective for both recipients and states, giving states accountable performance standards but great flexibility in achieving them. If implemented in the context of an overall Work First strategy, the new system could help deconstruct welfare and build a new empowerment strategy for poor communities and their citizens.

Changes in Federal Law Needed for a Work First Employment System

- Existing AFDC and JOBS programs would be abolished and replaced by a single performance-based grant offering financial rewards to states that succeed in placing and keeping recipients in private sector jobs.

- All who would be eligible for the AFDC system under current rules would remain eligible, including teen mothers and legal immigrants; states could offer noncustodial fathers job placement and support services but *not* cash benefits.

- States would receive funds previously available through AFDC and JOBS under a new match rate of 60 percent or the state Medicaid match rate, whichever is higher, as long as a Work First system is designed.

- Those deemed eligible for help would enter and remain in the employment system until they are placed in a private sector job; states would be given an option to adopt a "grant diversion" program of a one-time emergency payment to those with immediate employment opportunities needing only temporary assistance to see them through their emergency. States could require a job search before offering placement opportunities to recipients who are not "diverted" from the system.

- Any funds used by states to endow job placement vouchers would be matched at a higher rate, plus states would receive six months worth of foregone federal payments (i.e., savings) for each full-time unsubsidized job placement, as long as each recipient is placed and retained in the job for six months.

- States could at any point require community service work from recipients enrolled in the Work First Employment System.

DRAFT FOR DISCUSSION

January 31,1995

Introduction

Many recent proposals have been made to "block grant" welfare benefits. These proposals present important analytic, policy and administrative issues. To identify these issues, a hypothetical construct has been developed. This construct is not for the purpose of developing Administration Policy, but rather for the purpose of analyzing proposals prepared by others.

For convenience, the construct used is similar to that developed for Performance Partnerships included in the FY 96 Budget. These will consolidate funding streams, eliminate overlapping authorities, create funding incentives to reward desirable results, and reduce administrative burdens. They will focus on outcomes and outputs as the basic measure of success.

Basic Concept

Most of the proposals follow a construct that contains the following elements. First, the Federal Government should clearly articulate a goal for assisting families and children. This goal should be a clear expression of the National Interest. Objectives should be laid out in legislation, not by bureaucratic regulation. Within these objectives, states and localities should be given broad flexibility to choose specific courses of action. Existing programs should be consolidated and accountability for performance should be monitored and made public.

The Administration's Performance Partnership concept adds to the above the idea that there should be incentives in the form of additional flexibility or financial incentives built into the program's design. Good performance should be rewarded.

Applying the Concept to Welfare Programs

The first step would be to articulate a hypothetical goal. For example:

"To move families toward self sufficiency while providing temporary assistance during periods of unemployment, illness or family crisis and to assure that children are not harmed in the process."

This goal would be discussed and debated with the Congress and would become the basis for legislation. For purposes of discussion this legislation would consolidate AFDC, JOBS and Emergency Assistance. The major objectives for such a program might include:

* Moving Families Out of Poverty Through Work
* Promoting Parental Responsibility for Support
* Preventing Poverty through Education and Responsible Parenting
* Provision of a Safety Net for Children

Each of these broad National Interest Objectives would be further circumscribed, again legislatively, by Performance Measurement Categories (eg. Persons leaving for work, Recidivism, Child Support Enforcement etc.) which demonstrate how a given objective could be measured. Attached is an example of what these Categories might look like and some performance indicators that might be used. The specific indicators would not be included in the legislation but would be subject to negotiation between departments and representatives of grantees.

Uses of Performance Information

The primary use of performance information would be for public accountability. Letting citizens and taxpayers know how their money is being spent should provide a strong incentive for good performance. Additionally, states and localities will be able to be compared in specific performance categories. Again,this can be done in the spirit of public accountability or might be combined with the incentives for good performance described above.

General Issues

A. How are net effects of policy measured? (e.g. a decrease in child poverty may be due to government intervention or a general improvement in the economy)

B. Are there data limitations or lags in reporting? (e.g. poverty statistics are published two years after the fact

C. Can States reduce their financial input while retaining federal funding? Is there a maintenance of effort provision? Will there be State matching of federal funds?

D. What provisions are needed to prevent states from shifting costs to local governments or to other federal programs? (e.g. if States withdraw cash assistance to families, then Food Stamp costs automatically go up.)

E. How should funds be allocated between States?

F. What happens in a recession? Would States be able to draw down additional funds?

G. Where are there possibilities for perverse incentives? (e.g. would the performance indicator for education lead states to take money away from cash assistance and give it to local school districts?

H. Should there be a widely disseminated or published State plan that, although not subject to federal approval, requires States to describe in detail how they will meet the objectives of the performance partnership? Would this device be sufficient for ensuring accountability?

I. Who should choose performance measures or performance indicators -- the federal government, the States are some combination (e.g. core measurements)?

J. How do programs that are block granted interact with other government programs? (e.g. AFDC recipients are categorically eligible for Medicaid.) If States can determine eligibility under the performance partnership, how would Medicaid eligibility be determined?

K. Are safety net measures sufficient to ensure adequate income support for children? Should there be an explicit requirement for providing assistance below a certain fraction of the poverty threshold?

L. Would any provision be needed to address the issue of recipients leaving one State for another in search of better benefits and services?

January 31, 1995

Welfare Reform Performance Partnerships

National Interest Objectives, Performance Measurement Categories, and Performance Indicators

A. Work (moving families out of poverty through work)

- Persons leaving for work
  -- percent of caseload receiving better than $X.00/hr job
  -- percent of caseload working
  -- percent of income coming from government transfers

- Recidivism
  -- length of time off rolls
  -- did adult receive and keep job for 90 days/1 year/ etc.

B. Parental Responsibility (moving families out of poverty through child support)

- Paternity and Award Establishment
  -- paternity establishment rate
  -- number of awards with medical support
  -- number of child support orders established

- Child Support Enforcement
  -- percent of families receiving full payment
  -- number of child support orders reflecting correct award level
  -- percent of caseload with collections
  -- total collections on behalf AFDC population

C. Prevention (preventing poverty through education and responsible parenting)

- Education
  -- number of people completing high school
  -- number of people enrolled in school

- Responsible Parenting
  -- teenage pregnancy rates
  -- marriage rates
  -- out-of-wedlock birth rates

January 31, 1995

D. Provide a Safety-Net (ensure temporary assistance and basic needs of children for food, shelter and other essentials are met)

- Homelessness and Destitution
  -- measures of homeless and soup kitchens
  -- use of shelters
  -- indigent use of emergency rooms
  -- reports of need by charitable organizations
- Child Poverty
  -- children living below the poverty line, or below 60/75% of the poverty line
- Child Neglect and Abuse
  -- number of children removed from home
  -- referrals to child welfare services
- Foster Care
  -- adoption rate for foster care children
  -- number of children in foster care
- Health Status of Children
  -- infant mortality
  -- children receiving RDA nutrition

The Nutrition, Health, and Economic Consequences of Block Grants for Federal Food Assistance Programs

January 11, 1995

THE PERSONAL RESPONSIBILITY ACT

- o Combines all USDA food and nutrition assistance into a single discretionary block grant.

- o Authorizes an appropriation of $35.6 billion in fiscal year 1996.

- o Eliminates all uniform national standards.

- o Gives States broad discretion, provided:

  - -- No more than 5 percent for administration

  - -- At least 12 percent for food assistance and nutrition education for women, infants, and young children

  - -- At least 20 percent for school-based and child-care meal programs

- o Eliminates USDA's authority to donate commodities.

CONSEQUENCES FOR FOOD ASSISTANCE

I. The Personal Responsibility Act would significantly reduce federal support for food and nutrition assistance.

- o Federal funding for food and nutrition assistance would fall by more than $5 billion in fiscal year 1996 and nearly $31 billion over 5 years.

- o All food and nutrition assistance would be forced to compete for limited discretionary funds. States' ability to deliver nutrition benefits would be subject to changing annual appropriation priorities.

- o Programs would be unable to respond to changing economic circumstances. The demand for assistance to help the poor would be greatest at precisely the time when State economies are weakest.

- o States would be forced to reduce the number of people served, the benefits provided, or some combination of both. The bill could force the termination of benefits for 6 million food stamp recipients in fiscal year 1996.

CONSEQUENCES FOR NUTRITION AND HEALTH

II. The reduced investment in food and nutrition assistance programs and elimination of the authority to establish nutrition standards will adversely affect the nutrition and health of low-income families and individuals.

- The scientific link between diet and health is clear. About 300,000 deaths each year are linked to diet and activity patterns.

- Low-income households are at greater risk of nutrition-related disorders and chronic disease than the general U.S. population. Since the nationwide expansion of the Food Stamp Program and the introduction of WIC, the gap between the diets of low-income and other families has narrowed.

- The incidence of stunting among pre-school children has decreased by nearly 65 percent; the incidence of low birthweight has fallen from 8.3 percent to 7.0 percent.

- The prevalence of anemia among low-income pre-school children has dropped by 5 percent or more for most age and racial/ethnic groups.

- The Personal Responsibility Act would eliminate all nutrition standards, including those in place to ensure that America's children have access to healthy meals at school.

- The Act would also threaten the key components of WIC.

CONSEQUENCES FOR FOOD, AGRICULTURE, AND THE ECONOMY

III. By reducing federal support for food assistance and converting all remaining food assistance to a block grant, the Personal Responsibility Act could lower retail food sales, reduce farm income, and increase unemployment.

- In the short-run, the bill could reduce retail food sales by as much as $10 billion, reduce farm income by as much as $4 billion, and cost the economy as many as 138,000 jobs.

- In the long run, the bill could reduce employment in farm production by more than 15,000 and output by more than $1 billion. The food processing and distribution sectors would lose as many as 83,000 jobs and $9 billion in output.

- The economic effects would be felt most heavily in rural America. In both the short- and long-run, rural areas would suffer disproportionate job losses.

CONSEQUENCES FOR STATES

IV. **The proposed basis for distributing grant funds would result in substantial losses for most States.**

- If Congress appropriates the full amount authorized, all but 8 States would lose federal funding in fiscal year 1996. California could gain about $650 million; Texas could lose more than $1 billion.

- All States would eventually fare worse than under current law.

Table 1 -- Historical Illustration of Food Assistance Block Grant
(Dollars in millions)

Year	Actual Food Assistance	With Initial Reduction *			Without Initial Reduction		
		Adjusted Block Grant	Difference		Adjusted Block Grant	Difference	
			Total	Percent		Total	Percent
1989	$21,697	$18,941	-$2,756	-12.7	$21,697	N/A	N/A
1990	24,778	20,666	-4,112	-16.6	23,672	-$1,106	-4.5
1991	28,849	21,971	-6,878	-23.8	25,167	-3,682	-12.8
1992	33,519	23,232	-10,287	-30.7	26,612	-6,907	-20.6
1993	35,397	23,369	-12,028	-34.0	26,769	-8,628	-24.4
1994	36,928	24,374	-12,554	-34.0	27,920	-9,008	-24.4

Notes: Actual food assistance includes total federal cost of all USDA food assistance programs, excluding Food Program Administration. The cost of food programs operated by the Administration on Aging in the Department of Health and Human Services are not included.

These figures presume that Congress would have appropriated the full amount authorized in each year. The block grant authorization is adjusted by the change in total U.S. population and the Consumer Price Index for Food at Home in the preceding year (ending on July 1 for population and in May for the CPI).

* The initial 12.7 percent reduction in the first year is equivalent to the estimated percentage reduction in food assistance funding in the first year of the Personal Responsibility Act.

Table 2 -- Effect of the Personal Responsibility Act on USDA Food Assistance Programs by State in Fiscal Year 1996
(Dollars in millions)

State	Level of Food Assistance		Difference	
	Current	Proposed	Total	Percent
Alabama	818	713	-105	-13
Alaska	97	84	-13	-13
Arizona	663	554	-109	-16
Arkansas	422	403	-19	-4
California	4,170	4,820	650	16
Colorado	412	417	5	1
Connecticut	$297	$248	-$49	-17
Delaware	92	58	-34	-37
District of Columbia	137	85	-52	-38
Florida	2,194	1,804	-389	-18
Georgia	1,209	934	-275	-23
Hawaii	215	198	-17	-8
Idaho	127	176	49	38
Illinois	1,741	1,483	-258	-15
Indiana	713	691	-22	-3
Iowa	297	266	-31	-11
Kansas	307	270	-37	-12
Kentucky	740	582	-157	-21
Louisiana	1,141	765	-375	-33
Maine	188	167	-21	-11
Maryland	576	404	-172	-30
Massachusetts	608	577	-32	-5
Michigan	1,390	1,109	-281	-20
Minnesota	508	490	-18	-4
Mississippi	730	603	-127	-17
Missouri	810	754	-56	-7
Montana	111	140	29	26
Nebraska	187	175	-12	-6
New Hampshire	89	94	5	5
New Jersey	836	704	-132	-16
New Mexico	361	321	-40	-11
Nevada	145	150	5	3
New York	3,101	2,661	-440	-14
North Carolina	930	849	-81	-9
North Dakota	86	76	-9	-11
Ohio	1,768	1,287	-481	-27
Oklahoma	528	475	-53	-10
Oregon	410	346	-64	-16
Pennsylvania	1,617	1,465	-152	-9
Rhode Island	128	101	-27	-21
South Carolina	602	546	-56	-9

State	Level of Food Assistance		Difference	
	Current	Proposed	Total	Percent
South Dakota	99	95	- 4	- 4
Tennessee	983	743	- 241	- 24
Texas	3,819	2,665	- 1,154	- 30
Utah	234	277	43	18
Vermont	76	66	- 10	- 13
Virginia	783	597	- 185	- 24
Washington	660	444	- 216	- 33
West Virginia	405	309	- 96	- 24
Wisconsin	467	442	- 25	- 5
Wyoming	57	57	*	1
Total	40,764	35,600	- 5,164	- 13

Notes: Individual cells may not sum to totals because of rounding. Subtotals will not equal grand total because some States fall into more than one region.

Total includes the Commonwealth of Puerto Rico, other territories and outlying areas, and Indian Tribal organizations.

This table assumes that Congress appropriates the full amount authorized for fiscal year 1996.

NUTRITION SECURITY: REFORMING THE FOOD STAMP PROGRAM

Mission: The mission of the Nutrition Security Program is to assure access to a nutritious, healthful diet for low income Americans through food assistance and nutrition education thereby strengthening the food and agricultural economy.

Principles of Reform:

- Nutrition Security--The foundation for any food assistance program.
- Modernizing Benefit Delivery--To improve customer service and reduce program abuse.
- State flexibility--To allow States to set the administrative procedures they need.
- Economic Responsiveness--To assure adequate levels of assistance regardless of economic conditions.
- Personal Responsibility--To promote personal independence and responsibility.
- Program Integrity--To warrant public trust.

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

JAN 19 1995

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Block Granting Income Security Programs

As many of us expected, the Republican welfare strategy has shifted yet again. Their initial bill from last year included training, time limits, and work requirements, and was similar in important respects to our own. The bill included in the Contract with America is mostly a plan that penalizes poor families and children by highly restrictive (some would say vindictive) eligibility rules and arbitrary cut-offs with no additional supports to help people get off and stay off welfare. Now they are moving toward a third strategy, converting many domestic programs, many of them entitlements, into discretionary block grants and leaving welfare reform to the states in a grand bargain with the governors.

We believe this may be a defining issue for your Presidency. The proposal you submitted last year has as its goal a nationwide transformation of the welfare system into one that emphasizes work and responsibility while protecting needy children and supporting parents who play by the rules. By contrast block grants largely abandon the hope of bold national change toward a welfare system more in keeping with the nation's values. Moreover, block grants would represent a profound and largely irreversible change in the policies designed to support low income families. In the end, we fear real welfare reform would not be achieved, and that both states and low income families could be far more vulnerable as a result of such a plan.

The Emerging Republican Proposal

Although their proposal is continually evolving, it appears that Republicans in Congress and selected Republican governors are currently discussing an alternative that creates three block grants, for cash assistance, food assistance and child care, and leaves open the possibility of six more block grants. The two block grant proposals that involve the most dramatic change from current policy involve cash assistance and food stamps. The proposal appears to have the following elements:

- fixed federal funding with annual spending caps for the programs included in the block grants (not a "swap" of both fiscal and programmatic responsibility);

- a shift from entitlement to discretionary status within the federal budget, with the implication that the annual spending caps come under the overall discretionary spending caps imposed by the budget, and thus compete with all other discretionary spending;

- an allocation of these fixed federal funds to the states by formula, probably a formula based on state spending on the programs in a base year, perhaps with some adjustments over time;

- dramatically increased flexibility for the states in administering these programs, including the freedom to eliminate any state matching funding for the programs and to define the groups eligible for help.

It is hard to overestimate how radical a change this would be. Since the establishment of the AFDC program in 1935 and the food stamps program in 1965, every needy family or individual who meets the requirements for the programs has been entitled to get help. The federal government has automatically adjusred its funding of these programs as the economy moved up and down and has matched state contributions to ensure that this commitment to support for the needy is a genuinely shared responsibility. And while the 1988 Family Support Act placed new requirements and responsibilities on individual recipients, it retained the central idea of an entitlement for individuals and states. A block grant proposal gives each state a fixed pool of money and leaves the states with virtually complete autonomy to decide who gets support and when, along with the complete fiscal burden for any spending above the grant.

The Appeal of Block Grants

There are obvious advantages to changing the nature of the programs in this fundamental way, which make the block grant proposal attractive both to Republican members of Congress and to at least some governors. Block grants give enormous flexibility to the states and largely get the Federal government out of the business of determining welfare policy. States are eager for dramatically more flexibility to respond to their individual needs, circumstances and budget constraints. There are powerful and legitimate arguments that the Federal government has been too prescriptive and that the wide array of programs and rules has created needless bureaucracy and sometimes counterproductive impacts.

A second clear appeal of converting welfare into discretionary block grants is that it shrinks the federal government and controls federal costs. The proposal eliminates several entitlements and subjects the programs to the increasingly tight appropriations process; it can generate clear and immediate savings through direct budget cuts without the need to design practical programs that can be shown to actually get people off of welfare. In many ways, this proposal gets its proponents off the hook on welfare reform -- they neither have to embrace a plan similar to ours (giving you considerable credit), nor do they have to adopt the divisive and draconian plans that the most conservative members of their party are proposing.

Block grants could hold some appeal for our administration as well. In some respects they appear superior to the draconian cuts the Republicans have on the table now. And they seem consistent with your strong commitment to state flexibility. But such a plan holds considerable dangers.

The Dangers of Block Grants

Block grants imply that we have no real national goals or vision for our social welfare system. But a national system has a critical role to play in reinforcing, protecting and supporting families struggling to achieve independence and in supporting and protecting states. As discussed below, block grants fail to protect vulnerable children, will not result in real welfare reform, and will not protect the states from economic changes. And eliminating the entitlement status of SSI, Medicaid, and food stamps along with AFDC will put millions of elderly, disabled, and working poor Americans at risk.

Ending Welfare As We Know It

The current welfare system reinforces many of the wrong values and desperately needs to be transformed to emphasize work and responsibility. The federal government is certainly culpable in the current mess. But the states are equally responsible. Simply passing the buck to the states is not welfare reform.

- o *States could do considerable reform now, but efforts in most have been modest.* The states have had the flexibility through state options and waivers to fundamentally change their systems for years. Few have done much to really transform welfare. Every state could require work and training of nearly every recipient without any waiver at all. Yet only 17% of the caseload participates in the JOBS program each month.

- o *In the past, reform has been led by a few states which demonstrated a new and better vision, but large scale reform only came when the federal government insisted on real performance.* Your own leadership on the Family Support Act, for example, can be credited with starting state-level welfare reform. In areas from paternity establishment, to reduced error rates, to welfare to work programs, the history of reform is that the bulk of the states got serious only after the federal government insisted on improvements.

- o *Because many states face very tight budgets, there may be little room to invest in moving people off welfare.* If a block grant combines JOBS, AFDC and other resources, there is real danger that many states will opt for continuing benefit payments rather than spending new state money to pay for training and support services. It is often cheaper in the very short run just to write checks than to invest in training and job placement. The experience with the Family Support Act is quite revealing. Even with a very large federal match, many states did not draw down their entire allocation of JOBS money. They almost universally gave the reason that their budget situation did not allow it. With a block grant, every new dollar for welfare to work programs will have to come entirely from state funds.

The reasons states have been slow to change are many, but part of the problem involves resources and resolve. Fundamentally transforming welfare is difficult, unpredictable, initially costly, highly controversial, and potentially risky for the families involved (and the politicians). No wonder many in Congress would prefer to wash their hands of the whole problem. However, there are many valid reasons for a national framework for reform.

- *Issues with a large interstate component require some federal role.* Some 35% of child support enforcement cases involve interstate claims. Only a national clearinghouse and tracking system can really do anything about such claims. Similarly a system of welfare where one state imposes time limits and another offers training while a third pays cash aid indefinitely plainly invites the needy to move between jurisdictions as benefits expire or requirements become serious.

- *Without a federal vision and framework, it is hard to achieve any accountability.* Waste and fraud are nearly impossible to track in a few-strings-attached block grant where each state has its own wildly different program.

- *Loss of a federal stake could lead to reduced commitment to training, child support and other activities.* Currently when the federal government spends money for child support enforcement or job training, it shares in any reductions in AFDC payments that are achieved because the program is a state and federal partnership. Unless the block grant will be reduced when child support collections rise or caseloads are reduced by training, there will be little direct fiscal benefit to the federal government from investing in child support or training. Thus the impetus for federal support for these activities could shrink.

Protecting States from Recession, Inflation, and Demographic Change

One of the least understood and most important benefits of the current federal role is the considerable protection it offers states during times of recession, inflation, and demographic change.

- *Federal entitlement payments for Food Stamps and AFDC are automatic stabilizers.* When the economy dips in a state, federal dollars automatically move in early in ways that help maintain the economy and protect citizens. It is not uncommon for caseloads to rise 20 or even 40 percent in a year or two as a recession hits. The federal government pays an average of 80% of the benefits of AFDC plus food stamps. A block grant has no such stabilizing effect. The state will be faced with an even deeper recession since new federal dollars will not be flowing in. This will occur at the same time the state faces losses in tax revenues, and the need to pay the full cost of support for all the newly needy recipients. States may be forced to cut back on support at a time when private resources, both those of families and those of private charities, are significantly diminished. Inflation also cuts the real value of benefits over time, a process which would be exacerbated with a set block grant.

- *Entitlement payments automatically adjust for demographic shifts.* Demographic changes caused by migration and immigration can radically change the population base of a state over time. States like Florida and California have seen massive changes in population.

Obviously what states do with policy can and does have effects on caseloads. But many of the forces that drive need are beyond the control of the states. A block grant could leave them quite vulnerable. Just how quick and serious the effects of recessions, demographics, and inflation can be are shown in the accompanying table which illustrates what would have happened if a block grant had been set in 1987. Texas and Florida would have lost 46 percent and 61 percent of their federal dollars in FY93. Indeed, every state would have been worse off except for two: Wisconsin and Michigan. And those two states would have suffered if the block grant had instead been in place in the previous five years when the Midwest suffered from recession.

Protecting the Vulnerable

Franklin Delano Roosevelt, a harsh critic of "the dole," once said, "Human kindness has never weakened the stamina or softened the fiber of a free people. A nation does not have to be cruel in order to be tough." The Catholic Bishops start with ensuring the basic dignity of the individual. Ronald Reagan talked of a safety net. For more than 60 years there has been a clear national commitment to a core foundation of protection. The elderly and disabled are assured some minimum level of economic support through SSI and Medicaid. Food stamps ensure that no Americans, regardless of their state of residence, need go hungry. AFDC calls for every state to provide some financial protection for needy children. Our health plan was based on the notion that everyone should have the security of basic health coverage.

Moving toward block grants seems likely to have the following consequences:

- *Increased variability across states.* There is currently a huge variation in AFDC benefit levels across states, ranging from $120 per month for a family of three in Mississippi to nearly $700 per month in Connecticut. But food stamps helps to equalize the disparity in the amount families get, and federal rules ensure that every family who meets the requirements actually gets help, in the form of a food stamp benefit set nationally and a cash benefit set by the state. Complete flexibility to the states would almost certainly mean that some states would lower their already meager state contributions to benefit levels, and some states would completely eliminate eligibility for some groups of people. For example, many states have eliminated their cash General Assistance programs; under the proposal they could presumably eliminate food aid for single individuals, childless couples or other groups as well. Some states might well keep benefits low and restrict eligibility, in part to encourage poor families to move out. This is particularly a danger with block grants where states absorb 100% of the additional cost of additional beneficiaries.

- *Declines over time.* State funded programs rarely keep pace with inflation and often get cut in recessions. A federal block grant subject to annual appropriations will be an easy target for further cuts at the federal level. By contrast programs like SSI and food stamps not only adjust for inflation, they automatically grow to meet increased needs in recessions. A related problem is that the lack of a federal match may induce states to reduce their contributions over time. In the relatively poorer states, each state dollar leverages four federal dollars. Without that match, one would expect state contributions to fall, perhaps quite significantly.

- *Waiting lists or reduced benefits when funds run out.* One of the biggest dangers of capped block grants is that funds will run out at some point toward the end of the year, forcing states to reduce benefits across the board, to place arbitrary time limits on benefit receipt, or to refuse to accept new applications. These actions would not only place hardships on the needy families affected, but could lead to families being treated very differently depending on the time of year they applied.

o *Special hardships for the working and transitional poor.* The working poor and near poor are the last hired and first fired, and the most likely to need to apply for benefits in economic hard times. These are precisely the times when spending caps are likely to prove constraining. If states followed a policy of refusing to accept new applications once their allocation was spent, these newly poor would be the hardest hit.

Losing the national uniformity of the food stamp nutrition protections would be particularly devastating. Food stamps really are the ultimate safety net. They ensure that serious hunger is not a feature of the American landscape. Allowing that to erode could have serious long term consequences for children and their futures.

Alternative Approaches

The obvious next question is whether the problems noted above could be solved within some sort of block grant and/or capped entitlement program, or whether the advantages of state flexibility and controlled spending could be achieved within the structure of an uncapped entitlement to individuals. There is considerable confusion over the moving parts in any move toward block grants. We think it helpful to distinguish between three types of programs:

Discretionary block grants to states--The most extreme alternative, and the one being urged by House Republicans, is to convert the various individual entitlements to discretionary block grants to states. Block grants would be determined annually as part of the appropriation process.

This sort of approach would be the most dangerous and the hardest to improve. It would make block grants subject to separate authorizing and an annual appropriations process under increasingly tight caps. And it would be difficult to adjust the grants to economic and demographic changes over time. Although language can be inserted in the authorizing legislation that grants would be adjusted in some fashion, money must be appropriated anew each year. The cap is set well before the funds are actually paid since the budget cycle precedes the fiscal year. It seems extremely difficult to imagine any sort of state funding formula which rapidly adjusts payments based on economic conditions under a discretionary block grant. Since an overall level must be set in appropriations, then any adjustable formula implies that each state's allocation will depend on what is happening in every other state. Without some sort of very complicated reserve/loan fund, we simply do not see how an adjustable discretionary block grant would work.

Capped block grant entitlement to states with economic and other adjustments--A number of capped entitlements to states exist. And they can take many forms. Most recently the Family Support and Preservation programs created capped state entitlements. Our welfare reform bill included a capped entitlement for JOBS funds, and capped the emergency assistance program. With a capped state entitlement, funds are allocated according to some formula, and states may be required to match funds to receive federal dollars. The overall cap typically limits the maximum federal expenditure, with limits for each state often set by formula within that cap. In principle, entitlement spending caps could adjust semi-automatically for economic and demographic changes. (We proposed such a cap for the JOBS and WORK programs in the Work and Responsibility Act.) Other programs have triggers such as extended UI coverage.

Putting block grant funding on the entitlement side helps solve two problems. It eliminates the need for an annual appropriation and one can more easily adjust for changing economic and demographic conditions. Congress would set out some sort of formula for future funding, perhaps with adjustable caps, and unless Congress acts affirmatively to change the caps or formula, the money will automatically flow to states. Still, it is worth noting that capped entitlements have not fared particularly well in the budget process; for example, the level of funding for the Social Service Block Grant is at the same level today as it was when it was first established in 1977--nearly a 60% cut when adjusted for inflation. Moreover, the new concern about entitlements is likely to lead to as much scrutiny for those programs as for discretionary programs. This change, therefore, would do rather little to solve the underlying problems.

A more important advantage is that it would be much easier to create some sort of formula that adjusts for changing economic and demographic conditions. A state's grant would change over time as conditions and the formula dictated. Still there are three significant problems with operationalizing this notion. First, a formula would be very hard to devise, and would inevitably create winners and losers. An illustration of the problems can be seen in the nutrition block grant formula in the Contract with America: Texas loses over $1 billion per year; California gains over $600 million. Over time, the formula will inevitably help some states and disadvantage others.

The second problem involves the speed of grant adjustment. A practical adjustment mechanism would almost certainly adjust caps after the fact rather than simultaneously with economic and demographic changes. This could put almost as much of a strain on states as fixed caps, since states must balance their budgets on an annual basis.

The final concern is unpredictability. When we examine state by state variations in cash and food assistance spending over the last five years, it seems that some of the variation can be explained by unemployment rates and population growth, but much cannot. Clearly other economic, demographic or social changes were going on, in addition to policy changes. The obvious way to respond to changes in demand that cannot be predicted and subjected to formula ahead of time is to cap the per person benefit, but allow total funding to vary with the number of eligible people. This kind of flexible cap would be almost indistinguishable from the present system.

Most importantly an adjustable capped entitlement to states still offers limited protection for the vulnerable. States would still be free to provide as much or as little help as they choose under whatever conditions they determine. And it suffers from the accountability issues described earlier.

> *Uncapped entitlement to individuals with greater state flexibility*--As under the current system, anyone who meets the eligibility requirements established by the state or federal governments would continue to automatically get benefits. However, an uncapped entitlement does not mean that restrictions cannot or should not be placed on eligibility. Individuals can be required to work, for example, under an entitlement. But there are many opportunities for increased state flexibility within the current funding mechanisms. The fact that it is uncapped and an individual entitlement is what provides the automatic stabilizer protection to states since more individuals become eligible as economic conditions worsen or populations grow.

States could certainly have more flexibility then they now have in setting AFDC eligibility rules, providing incentives for work and family responsibility, counting income and assets and designing work and training programs. Indeed, we proposed increased flexibility in a number of areas in the Work and Responsibility Act which could dramatically reduce the need for waivers. One could increase flexibility in other areas to provide the states with the administrative and programmatic flexibility they are asking for. This strategy offers the most protection for vulnerable populations and the states, but states may not get all they flexibility they desire. Since the programs are uncapped, either benefit rules would have to be set at the federal level (as is the case of food stamps which is 100% federal), or a state match would have to be maintained. Moreover, the need for accountability and some basic standards to ensure the money is going where it is intended is much greater in an uncapped than in a capped program.

Ultimately the arguments over entitlement versus discretionary funding, capped versus uncapped spending, individual versus state grants, boil down to difficult tradeoffs between fiscal prudence, state flexibility, and protections for the vulnerable. The further one goes toward block grants the more difficult it will be to protect recipients and states and to generate real welfare reform. Still, in some areas, such as the JOBS and WORK programs, we already embrace adjustable capped programs. In others, such as food stamps, moving to block grants would represent a profound change in national protections to both individuals and states. For the benefits portion of AFDC, the arguments for continuing the individual entitlement status are nearly as strong--we must have real protections for children and the states they live in, but we should create more flexibility.

States are only beginning to realize just how vulnerable a block grant system could leave them. One important goal over the next few weeks is to educate them about the consequences of moving toward block grants.

Articulating Our Vision

The debate over welfare reform is becoming naive at best and quite ugly at its worst. Stereotypes and simplistic solutions abound in the sound bites. In no time in recent memory has there been a greater need for Presidential leadership on this issue. We believe it is critical that you articulate a clear vision based on our shared values as a nation. In the State of the Union address, we hope that you sharply criticize the failed welfare system and articulate a positive vision for the future, as you have done so eloquently on other occasions.

We urge you to caution the nation against two natural but ultimately unacceptable reactions to the failures of welfare. The first mistaken direction is to become harsh or vindictive--the attitude that we need to simply cut people off without offering any alternatives, whether or not they have had a chance to get education or training they may need to get a job, whether or not they are physically able to work, whether or not there are jobs available. This sort of strategy divides rather than strengthens us as a nation.

The second is to simply wash our hands of welfare nationally and leave everything in the hands of the states. No one can speak with more credibility than you about the need to sweep away unnecessary federal regulation and the importance of greater flexibility for states, so that they can meet the unique challenges facing their citizens. But there is a larger national purpose which must not be lost. We as a nation must find a way to move people from dependence to independence, to guarantee aid to the disabled, to ensure that children do not go hungry, and to help states and localities in time of economic distress. We must change the basic values of welfare everywhere, in part because we are a large and mobile nation. We must accept the challenge posed by the struggles of those at the bottom, not simply walk away. There must be some national framework, with plenty of state flexibility within it.

Then you must be clear what we are for. We have proposed reform based on the most basic of American values: work and responsibility. You articulated that vision with power and clarity in Kansas City in a way that reaches across the political spectrum and continues to resonate with all sides of the political spectrum. Yet surprisingly few Americans know anything about our plan. All the polls show strong support for education and training with time limits and a requirement to work, coupled with strict child support enforcement, and a strategy to reduce teen pregnancy. Even very specific probing shows far more support for our approach than any other. The Republicans are vulnerable on the apparent vindictiveness of their plans, on their failure to include serious child support enforcement, and on the ultimate dangers to states and working families that come from abandoning any national framework. But until you make clear what we believe in and stand for, Republicans will control the debate, and we may get a bad plan that the public does not understand. The public needs to understand that ours is a plan which really is a hand-up not a hand-out, a plan which is tough *and* fair.

It might even be helpful to articulate a few questions that ought to be asked in evaluating any reform plan:

- Is it really going to help turn welfare recipients in to taxpayers?

- Does it first and foremost hold parents responsible--both parents--for the support and nurturing of their children?

o Does it really tackle the problems of teen pregnancy and out-of-wedlock childbearing -- and help young parents become good role models for their children?

And centrally,

o Does it reinforce the values of work, responsibility, family, and opportunity?

The debate is just beginning. We think this issue can and should be a "win" for all Americans. Bold change may really be possible for the first time in decades. Still, working in welfare makes anyone more modest--we don't have all the answers. Fortunately many choices we make in welfare reform are reversible. If time limits, work or training programs fail to meet the nation's goals, they can be changed. But fundamentally altering the state-federal partnership--by eliminating entitlement status, by block granting programs, by putting rigid caps on--these are changes which are unlikely to be reversed for a generation. If these ideas are adopted and they fail, it will be states, working poor families and children who suffer.

Donna E. Shalala

Hypothetical Impact in FY 1993 If an AFDC Block Grant Provision Similar to the Block Grant Option in the Personal Responsibility Act Had Been Adopted in FY 1988 Using FY 1987 Funding Levels

(amounts in millions)

State	FY 1993: Actual Federal Payments	Block Grant: 103% of FY 87 Level	Difference	Percentage Change
Nebraska	$46	$41	($5)	-11%
Nevada	$28	$10	($17)	-63%
New Hampshire	$31	$12	($19)	-61%
New Jersey	$341	$298	($43)	-13%
New Mexico	$94	$45	($49)	-52%
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Washington	$365	$239	($126)	-35%
West Virginia	$97	$87	($10)	-10%
Wisconsin	$289	$348	$58	20%
Wyoming	$19	$11	($8)	-43%
U.S. TOTAL	$13,834	$10,243	($3,591)	-26%

NOTES:

The table estimates, for FY 1993, the hypothetical impact of a mandatory AFDC block grant provision similar to the block grant option in the Personal Responsibility Act, assuming implementation of the provision in FY 1988. The level of the block grant for each State is set at 103 percent of Y 1987 Federal payments for AFDC benefits and administration, unadjusted for inflation.

The Family Support Act was not in effect during FY 1987. To avoid overstating the impact of a block grant, Federal payments for AFDC work activities (WIN/JOBS) and AFDC-related child care are not included in either column.

Hypothetical Impact in FY 1993 if an AFDC Block Grant Provision Similar to the Block Grant Option in the Personal Responsibility Act Had Been Adopted in FY 1988 Using FY 1987 Funding Levels

(amounts in millions)

State	FY 1993: Actual Federal Payments	Block Grant: 103% of FY 87 Level	Difference	Percentage Change
Alabama	$79	$57	($22)	-28%
Alaska	$60	$29	($31)	-51%
Arizona	$200	$65	($135)	-67%
Arkansas	$50	$42	($8)	-16%
California	$3,205	$2,157	($1,048)	-33%
Colorado	$102	$70	($32)	-31%
Connecticut	$207	$124	($83)	-40%
Delaware	$23	$15	($8)	-35%
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Florida	$517	$202	($315)	-61%
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Hawaii	$76	$38	($38)	-50%
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SUMMARY OF PROVISIONS AND POSITIONS ON BLOCK GRANT PROPOSALS BY REPUBLICAN GOVERNORS AND REPUBLICAN HOUSE MEMBERS

1. AFDC/CASH ASSISTANCE BLOCK GRANT

Four Programs Included: Aid to Families with Dependent Children, Emergency Assistance, AFDC Administration, and Job Opportunities and Basic Skills (JOBS) program. Total FY 1996 spending in these programs: $16.3 billion.

Areas where there is tentative agreement: Purpose: to assist needy families and end dependence on government benefits; require assistance be made available in all political subdivisions allowing regional differences in administration; provide fair hearings to applicants who are turned down for benefits; restrict use of information about individuals and families; require states to respond to applicants with reasonable promptness; require notice to Child Support Enforcement agency; require states to operate a JOBS program; require states to operate a child welfare program; no requirement to treat families with similar characteristics similarly; recipient cooperation in establishing paternity and pursuing third party medical payments; state automated information system [interstate comparability not assured]; states may transfer up to 20 percent between block grants; annual report containing such information as necessary to provide an accurate description of activities, purposes and manner in which funds were spent, and whether it was consistent with the law, independent agency audit every 2 years; Secretary may not impose additional reporting requirements.

Major issues still open: Purpose: to discourage out of wedlock births; amount of block grant: equal to or 10-15% less than states received before; is it an entitlement to states; indexing or adjustment methodology; Medicaid eligibility and linkage to AFDC; work program participation rates rising to 20% in 2002; time limits; prohibition on use of funds to aid out of wedlock births to minor mothers; pregnancy prevention and parenting services to unwed mothers; SSI and child protection program recipients excluded from Block Grant benefits; prohibiting benefits to noncitizens [Governors prefer a set period of exclusion similar to 5-year exclusion for aliens granted amnesty under the Immigration Reform and Control Act of 1986]; authority to pay interstate migrants at benefit levels of state they came from; mandatory participation in Income Eligibility and Verification System, data elements for annual report; state obligations under current waiver agreements.

2. CHILD CARE AND DEVELOPMENT BLOCK GRANT

Eleven Programs Included: Title 1 (Education for the Disadvantaged), Migrant Education, Native Hawaiian Family Education Centers, Child and Adult Food Program, Child Care and Development Block Grant, Child Development Associate Credential Scholarship; State Dependent Care Planning and Development Grants, Temporary Child Care for Children with Disabilities, At-Risk Child Care, Transitional Child Care, Child Care from Social Services Block Grant. Approximate FY 1994 appropriation in these programs: $3.6 billion.

Areas where there is tentative agreement: Purpose: to consolidate several child care programs to provide state flexibility; to improve quality and availability of care; no state maintenance of effort required; no individual entitlement to child care; delete references to improving quality of child care; delete references to early childhood development; no use of federal funds for construction or purchase of buildings or land; no use of funds for construction in sectarian facilities except renovations and repair in compliance with health and safety requirements; Secretary authorized to make grants to states, provide technical assistance, and coordinate federal child care activities; Secretary cannot impose additional reporting requirements; timing of annual report;

Major Issues still open: Final list of programs, especially whether or not to include Head Start and Even Start; whether payments are entitlements to states or subject to appropriations process; guarantee of parental choice in selecting providers; allowing states to provide consumer education on child care; content and frequency of state plans; use of funds only in settings that meet state standards; process for parent complaints about health and safety; data to be provided in annual report; timing of audit.

3. FOOD ASSISTANCE BLOCK GRANT

Twelve Programs Included: Food Stamps; Nutrition Assistance for Puerto Rico; Special Milk; Child Nutrition; Child Nutrition Commodities; Food Donations; Women, Infants, Children Program (WIC); Commodity Supplemental Food Program; Emergency Food Assistance Program; Congregate Meals; Meals on Wheels; Food Program Administration. Total FY 1995 Spending: $38.0 billion.

Issues: [*We do not have a summary of tentative agreements in the Food Assistance Block Grant*] Purpose: to consolidate food assistance to provide greater flexibility to states to meet food needs; Secretary of Agriculture has authority to make grants to states; funding level, whether payments are entitlements to states; annual adjustment method; in what year states may obligate the funds; content and frequency of state plan; Secretary may not impose additional reporting requirements on states; contents of annual reports; audit requirements.

4. OTHER POINTS

The Republican Governors express interest in exploring Block Grants in 5 additional areas: Child Welfare, Social Services, Employment and Training, Health, and Housing.

The Nutrition, Health, and Economic Consequences of Block Grants for Federal Food Assistance Programs

January 11, 1995

THE PERSONAL RESPONSIBILITY ACT

- o Combines all USDA food and nutrition assistance into a single discretionary block grant.
- o Authorizes an appropriation of $35.6 billion in fiscal year 1996.
- o Eliminates all uniform national standards.
- o Gives States broad discretion, provided:
  - -- No more than 5 percent for administration
  - -- At least 12 percent for food assistance and nutrition education for women, infants, and young children
  - -- At least 20 percent for school-based and child-care meal programs
- o Eliminates USDA's authority to donate commodities.

CONSEQUENCES FOR FOOD ASSISTANCE

I. The Personal Responsibility Act would significantly reduce federal support for food and nutrition assistance.

- o Federal funding for food and nutrition assistance would fall by more than $5 billion in fiscal year 1996 and nearly $31 billion over 5 years.

- o All food and nutrition assistance would be forced to compete for limited discretionary funds. States' ability to deliver nutrition benefits would be subject to changing annual appropriation priorities.

- o Programs would be unable to respond to changing economic circumstances. The demand for assistance to help the poor would be greatest at precisely the time when State economies are weakest.

- o States would be forced to reduce the number of people served, the benefits provided, or some combination of both. The bill could force the termination of benefits for 6 million food stamp recipients in fiscal year 1996.

CONSEQUENCES FOR NUTRITION AND HEALTH

II. **The reduced investment in food and nutrition assistance programs and elimination of the authority to establish nutrition standards will adversely affect the nutrition and health of low-income families and individuals.**

- o The scientific link between diet and health is clear. About 300,000 deaths each year are linked to diet and activity patterns.

- o Low-income households are at greater risk of nutrition-related disorders and chronic disease than the general U.S. population. Since the nationwide expansion of the Food Stamp Program and the introduction of WIC, the gap between the diets of low-income and other families has narrowed.

- o The incidence of stunting among pre-school children has decreased by nearly 65 percent; the incidence of low birthweight has fallen from 8.3 percent to 7.0 percent.

- o The prevalence of anemia among low-income pre-school children has dropped by 5 percent or more for most age and racial/ethnic groups.

- o The Personal Responsibility Act would eliminate all nutrition standards, including those in place to ensure that America's children have access to healthy meals at school.

- o The Act would also threaten the key components of WIC.

CONSEQUENCES FOR FOOD, AGRICULTURE, AND THE ECONOMY

III. **By reducing federal support for food assistance and converting all remaining food assistance to a block grant, the Personal Responsibility Act could lower retail food sales, reduce farm income, and increase unemployment.**

- o In the short-run, the bill could reduce retail food sales by as much as $10 billion, reduce farm income by as much as $4 billion, and cost the economy as many as 138,000 jobs.

- o In the long run, the bill could reduce employment in farm production by more than 15,000 and output by more than $1 billion. The food processing and distribution sectors would lose as many as 83,000 jobs and $9 billion in output.

- o The economic effects would be felt most heavily in rural America. In both the short- and long-run, rural areas would suffer disproportionate job losses.

CONSEQUENCES FOR STATES

IV. **The proposed basis for distributing grant funds would result in substantial losses for most States.**

- o If Congress appropriates the full amount authorized, all but 8 States would lose federal funding in fiscal year 1996. California could gain about $650 million; Texas could lose more than $1 billion.

- o All States would eventually fare worse than under current law.

Table 1 -- Historical Illustration of Food Assistance Block Grant
(Dollars in millions)

Year	Actual Food Assistance	With Initial Reduction *			Without Initial Reduction		
		Adjusted Block Grant	Difference		Adjusted Block Grant	Difference	
			Total	Percent		Total	Percent
1989	$21,697	$18,941	-$2,756	-12.7	$21,697	N/A	N/A
1990	24,778	20,666	-4,112	-16.6	23,672	-$1,106	-4.5
1991	28,849	21,971	-6,878	-23.8	25,167	-3,682	-12.8
1992	33,519	23,232	-10,287	-30.7	26,612	-6,907	-20.6
1993	35,397	23,369	-12,028	-34.0	26,769	-8,628	-24.4
1994	36,928	24,374	-12,554	-34.0	27,920	-9,008	-24.4

Notes: Actual food assistance includes total federal cost of all USDA food assistance programs, excluding Food Program Administration. The cost of food programs operated by the Administration on Aging in the Department of Health and Human Services are not included.

These figures presume that Congress would have appropriated the full amount authorized in each year. The block grant authorization is adjusted by the change in total U.S. population and the Consumer Price Index for Food at Home in the preceding year (ending on July 1 for population and in May for the CPI).

* The initial 12.7 percent reduction in the first year is equivalent to the estimated percentage reduction in food assistance funding in the first year of the Personal Responsibility Act.

Table 2 -- Effect of the Personal Responsibility Act on USDA Food Assistance Programs by State in Fiscal Year 1996
(Dollars in millions)

State	Level of Food Assistance		Difference	
	Current	Proposed	Total	Percent
Alabama	818	713	- 105	- 13
Alaska	97	84	- 13	- 13
Arizona	663	554	- 109	- 16
Arkansas	422	403	- 19	- 4
California	4,170	4,820	650	16
Colorado	412	417	5	1
Connecticut	$297	$248	- $49	- 17
Delaware	92	58	- 34	- 37
District of Columbia	137	85	- 52	- 38
Florida	2,194	1,804	- 389	- 18
Georgia	1,209	934	- 275	- 23
Hawaii	215	198	- 17	- 8
Idaho	127	176	49	38
Illinois	1,741	1,483	- 258	- 15
Indiana	713	691	- 22	- 3
Iowa	297	266	- 31	- 11
Kansas	307	270	- 37	- 12
Kentucky	740	582	- 157	- 21
Louisiana	1,141	765	- 375	- 33
Maine	188	167	- 21	- 11
Maryland	576	404	- 172	- 30
Massachusetts	608	577	- 32	- 5
Michigan	1,390	1,109	- 281	- 20
Minnesota	508	490	- 18	- 4
Mississippi	730	603	- 127	- 17
Missouri	810	754	- 56	- 7
Montana	111	140	29	26
Nebraska	187	175	- 12	- 6
New Hampshire	89	94	5	5
New Jersey	836	704	- 132	- 16
New Mexico	361	321	- 40	- 11
Nevada	145	150	5	3
New York	3,101	2,661	- 440	- 14
North Carolina	930	849	- 81	- 9
North Dakota	86	76	- 9	- 11
Ohio	1,768	1,287	- 481	- 27
Oklahoma	528	475	- 53	- 10
Oregon	410	346	- 64	- 16
Pennsylvania	1,617	1,465	- 152	- 9
Rhode Island	128	101	- 27	- 21
South Carolina	602	546	- 56	- 9

State	Level of Food Assistance		Difference	
	Current	Proposed	Total	Percent
South Dakota	99	95	- 4	- 4
Tennessee	983	743	- 241	- 24
Texas	3,819	2,665	- 1,154	- 30
Utah	234	277	43	18
Vermont	76	66	- 10	- 13
Virginia	783	597	- 185	- 24
Washington	660	444	- 216	- 33
West Virginia	405	309	- 96	- 24
Wisconsin	467	442	- 25	- 5
Wyoming	57	57	*	1
Total	40,764	35,600	- 5,164	- 13

Notes: Individual cells may not sum to totals because of rounding. Subtotals will not equal grand total because some States fall into more than one region.

Total includes the Commonwealth of Puerto Rico, other territories and outlying areas, and Indian Tribal organizations.

This table assumes that Congress appropriates the full amount authorized for fiscal year 1996.

NUTRITION SECURITY: REFORMING THE FOOD STAMP PROGRAM

Mission: The mission of the Nutrition Security Program is to assure access to a nutritious, healthful diet for low income Americans through food assistance and nutrition education thereby strengthening the food and agricultural economy.

Principles of Reform:

- Nutrition Security--The foundation for any food assistance program.
- Modernizing Benefit Delivery--To improve customer service and reduce program abuse.
- State flexibility--To allow States to set the administrative procedures they need.
- Economic Responsiveness--To assure adequate levels of assistance regardless of economic conditions.
- Personal Responsibility--To promote personal independence and responsibility.
- Program Integrity--To warrant public trust.

FAX TRANSMISSION

U.S. Department of Health and Human Services
Office of the Secretary

To: Bruce Reed

Organization:

From: Margaret Pugh ph 401-5631
Intergovernmental Affairs

Date:

Intergovernmental Affairs
200 Independence Ave., SW
Room 630 F
Washington, DC 20201
phone: (202)
fax: (202)690-5672

Recipient's Fax Number: 456-5557

Number of pages including this sheet: 2

Remarks: Bruce - this is the latest draft of the talking points for states - I know that John M wants to talk to you about the food stamps piece - let us know what you think & we can get something to them tomorrow. Thx. M.

THE IMPACT OF BLOCK GRANTING AFDC AND NUTRITION ASSISTANCE PROGRAMS ON THE STATE OF MASSACHUSETTS

DRAFT #4

I. AFDC Block Grants

- Massachusetts residents now receive Aid to Families with Dependent Children (AFDC) as a state-federal entitlement to individuals. The House Republicans' welfare reform bill proposes giving states the option of block granting AFDC at 103% of FY 1994 federal AFDC payments, adjusted for inflation.

- Block granting AFDC would put states at risk during economic downturns and population growth spurts -- as well as other factors beyond states' control -- that could result in unexpected increases in the numbers of people on welfare.

- For example, if AFDC had been a block grant startng in 1988, with the level set at 103% of the state's FY 1987 federal funding, Massachusetts would have received **$303,000,000 LESS** in FY 1993 federal funding, a decrease of **26%** below the actual amount the state received during that year.

    - In FY 1993, the State of Massachusetts received **$408,000,000** in federal AFDC benefits and administrative payments.

    - If these funds had been block granted based on 103% of FY 1987 federal AFDC payments, Massachusetts would have received only **$303,000,000** in FY 1993.

- Converting the AFDC program into a block grant would require AFDC to compete with other priority programs for states that are subject to strict discretionary spending caps under federal budget rules. Other programs under these caps include transportation subsidies, federal law enforcement funding, and infrastructure programs.

II. Nutrition Assistance Block Grants

- Massachusetts residents now receive Food Stamps as an entitlement and other nutrition assistance under national eligibility criteria. The House Republicans' welfare reform bill proposes to block grant all these nutrition programs, reduce total federal spending on these programs by 12%, and distribute the funds based on the number of "needy persons" in the state.

- Under the proposal, Massachusetts would receive **$32,000,000 LESS** in FY 1996 federal funding for nutrition programs, a decrease of **5%** below current estimates.

    - Massachusetts would receive **$608,000,000** in FY 1996 in federal Food Stamp and other nutrition program payments.

    - If these federal funds were block granted using a distribution formula based on the number of "needy persons" in Massachusetts, the state would receive only **$577,000,000** per year.

- This new block grant would compete with other programs that are subject to discretionary spending caps under federal budget rules. Federal transportation, law enforcement, and infrastructure funds also fall under these caps.

- The proposed formula results in 42 states receiving less federal food assistance money than they do now; eight states receive increased federal funds.

DRAFT

JAN 10 1995

TENTATIVE BLOCK GRANT ISSUES UNDER NEGOTIATION AMONG REPUBLICANS

A group of House Republicans and selcted Republican governors (Thompson, Engler, and others) have been negotiating on creating block grants in three major areas of welfare and social spending: AFDC/Cash Assistance, Nutrition/Food, and Child Care. It is unclear whether the particular governors involved can speak for all the Republican governors since a number of big states including New York, Texas, and California don't seem to be involved. It appears that the governors involved in the negotiation are willing to accept the idea of shifting individual entitlement funding to some form of block grants in exchange for almost complete flexibility in program design. And the House Republicans are willing to reduce significantly the rather draconian provisions of the Personal Responsibility Act, and instead, give states considerable latitude in defining their program within a block grant design. Beyond this broad agreement in principle, there are major issues which remain unresolved. It also appears that the negotiators continue to struggle with their rather different goals. Major issues of contention appear to arise around three areas:

The Level of the Block Grant--The governors want block grants initially set at the same levels as the programs would otherwise have been funded, and their proposal is largely silent on the question of how the grant is adjusted over time. The House members want to set the grants at 10-15% below the initial funding level and would adjust some of the block grants for inflation over time.

The Strings--The governors want virtually no strings attached. They suggest minor rules such as requirements that programs be statewide and that states should continue to expect cooperation of mothers in paternity establishment. The governors also propose being able to move 20-50% of the funds from one block grant to another. The House members propose rules on the minimum percentage of the caseload that is working (2% rising to 20%), limits on benefits to minor mothers, and a few other provisions. They would allow 20% of each grant to be redirected. The House members also require state maintenance of effort for some grants.

Entitlement Status--Both parties in the negotiation agree that the programs would become a capped block grant. But the governors want the plan to be a capped entitlement to the states. House members want it to be a discretionary block grant.

These issues are likely to prove quite difficult to resolve. Each has profound implications for states and the federal government. On the other hand, one should not underestimate the significance of the agreement on the principle of great flexibility in exchange for block grants. This appears to give each side something they want, especially if the governors are willing to accept less money or remove the entitlement status. Still, whether an agreement will actually develop, and even more importantly whether it can be sustained, depends critically on the specifics, and on the political and economic calculations that each side makes as they begin to really understand the detailed specifics of what is being proposed. In particular, governors and House members may discover that major issues arise regarding:

Protection for States from Recessions, Inflation, Demographic Change--The governors are just beginning to understand the implications that a fixed block grant could have for the states in time of recession. The attached chart shows the hypothetical impact if an AFDC block grant had passed in 1988. It demonstrates that most states would have been dramatically worse off if a block grant had been imposed in 1988 with no inflation adjustment. Texas and Florida would have lost 46 percent and 61 percent of their federal dollars in FY93. Indeed, every state would have been worse off except for two: Wisconsin and Michigan (the states with the lead governors in the negotiations). The wide variation occurs because the block grant fails to protect states from economic cycles, inflation, and demographic change. One can try to create adjustments for these, but then one faces major formula fights (This table will be used by Mary Jo Bane and David Ellwood in testimony on Friday).

Real Welfare Reform Strings--If no strings are attached, it may be difficult for Republicans to argue that they enacted meaningful welfare reform. While the public favors less federal involvement, they are quite convinced that work and responsibility are essential elements of real reform. If the plan has no real federal work requirements, no time limits, and no training expectations, members may not feel they can take political credit for having achieved real welfare reform.

Entitlement Status--If the block grant is subject to annual appropriations, the states will rightly fear that any promises made about future levels will be subject to annual debate and likely be cut in subsequent years. Moreover, federal funds for welfare purposes would be in sharp competition with funds for other state priorities such as education, transportation, and public infrastructure programs. The state proposal calling for an entitlement to states offers somewhat more protection, but not nearly as much as maintaining the individual entitlement.

These are major issues and will need time to settle. There is real concern at the NGA regarding both the manner and substance of the proposals. Even other Republican governors may be uncomfortable with the position of the lead Republicans. But there remains a good chance that these parties will at least reach an initial agreement before the working session on January 28.

Summary of programs included in proposed block grants:

AFDC/cash assistance block grant --(Four programs included) Aid to Families with Dependent Children, Emergency Assistance, AFDC Administration, and Job Opportunities and Basic Skills (JOBS) program. Total FY 1996 spending in these programs: $16.3 billion.

Child Care and Development block grant--(Child care portion of eleven programs included) Title I (Education for the Disadvantaged), Migrant Education, Native Hawaiian Family Education Centers, Child and Adult Care Food Program, Child Care and Development Block Grant, Child Development Associate Credential Scholarship; State Dependent Care Planning and Development Grants, Temporary Child Care for Children with Disabilities, At-Risk Child

Care, Transitional Child Care, Child Care from Social Services Block Grant. Approximate FY 1994 appropriation in these programs: $3.6 billion.

Food Assistance block grant--(Twelve programs included): Food Stamps; Nutrition Assistance for Puerto Rico; Special Milk; Child Nutrition; Child Nutrition Commodities; Food Donations; Women, Infants, Children Program (WIC); Commodity Supplemental Food Program; Emergency Food Assistance Program; Congregate Meals; Meals on Wheels; Food Program Administration. Total FY 1995 Spending: $38.0 billion.

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U.S. TOTAL	$13,834	$10,243	($3,591)	-26%

NOTES:
The table estimates, for FY 1993, the hypothetical impact of a mandatory AFDC block grant provision similar to the block grant option in the Personal Responsibility Act, assuming implementation of the provision in FY 1988. The level of the block grant for each State is set at 103 percent of FY 1987 Federal payments for AFDC benefits and administration, unadjusted for inflation.

The Family Support Act was not in effect during FY 1987. To avoid overstating the impact of a block grant, Federal payments for AFDC work activities (WIN/JOBS) and AFDC-related child care are not included in either column.

OFFICE OF MANAGEMENT AND BUDGET

Legislative Reference Division
Labor - Welfare - Personnel Branch

Facsimile Transmittal Sheet

FROM: Chris Mustain **DATE:** 1/10 **PHONE:** 395-3923
FAX: 395-6148

TO: Bruce Reed **TIME:** 1:40

PAGES SENT (including transmittal sheet): 5

COMMENTS: FYI - The attached tables were distributed at this morning's Ways & Means hearing.

PLEASE CALL THE PERSON(S) NAMED ABOVE FOR IMMEDIATE PICK-UP.

EXAMPLE OF A DISTRIBUTION FORMULA BASED ON NEED

Preliminary Effects of a Nutrition Block Grant in the Personal Responsibility Act (allocated by the number of "needy persons" in the state) on USDA Food Assistance Programs by State in Fiscal Year 1996
(Dollars in millions)

State	Level of Food Assistance		State Gains and Losses	
	Current	Proposed	Total	Percent
Alabama	$818	$713	-$105	-13%
Alaska	$97	$84	-$13	-13%
Arizona	$663	$554	-$109	-16%
Arkansas	$422	$403	-$19	-4%
California	$4,170	$4,820	$650	+16%
Colorado	$412	$417	$5	+1%
Connecticut	$297	$248	-$49	-17%
Delaware	$92	$58	-$34	-37%
Dist. of Col.	$137	$85	-$52	-38%
Florida	$2,194	$1,804	-$389	-18%
Georgia	$1,209	$934	-$275	-23%
Hawaii	$215	$198	-$17	-8%
Idaho	$127	$176	$49	+38%
Illinois	$1,741	$1,483	-$258	-15%
Indiana	$713	$691	-$22	-3%
Iowa	$297	$266	-$31	-11%
Kansas	$307	$270	-$37	-12%
Kentucky	$740	$582	-$157	-21%
Louisiana	$1,141	$765	-$375	-33%
Maine	$188	$167	-$21	-11%
Maryland	$576	$404	-$172	-30%
Massachusetts	$608	$577	-$32	-5%
Michigan	$1,390	$1,109	-$281	-20%
Minnesota	$508	$490	-$18	-4%
Mississippi	$730	$603	-$127	-17%
Missouri	$810	$754	-$56	-7%
Montana	$111	$140	$29	+26%

State	Level of Food Assistance		State Gains and Losses	
	Current	Proposed	Total	Percent
Nebraska	$187	$175	-$12	-6%
Nevada	$145	$150	$5	+3%
New Hampshire	$89	$94	$5	+5%
New Jersey	$836	$704	-$132	-16%
New Mexico	$361	$321	-$40	-11%
New York	$3,101	$2,661	-$440	-14%
North Carolina	$930	$849	-$81	-9%
North Dakota	$86	$76	-$9	-11%
Ohio	$1,768	$1,287	-$481	-27%
Oklahoma	$528	$475	-$53	-10%
Oregon	$410	$346	-$64	-16%
Pennsylvania	$1,617	$1,465	-$152	-9%
Rhode Island	$128	$101	-$27	-21%
South Carolina	$602	$546	-$56	-9%
South Dakota	$99	$95	-$4	-4%
Tennessee	$983	$743	-$241	-24%
Texas	$3,819	$2,665	-$1,154	-30%
Utah	$234	$277	$43	+18%
Vermont	$76	$66	-$10	-13%
Virginia	$783	$597	-$185	-24%
Washington	$660	$444	-$216	-33%
West Virginia	$405	$309	-$96	-24%
Wisconsin	$467	$442	-$28	-5%
Wyoming	$57	$57	0	+1%
US TOTAL	$40,764	$35,600	-$5,164	-13%

Source: Preliminary data from U.S. Department of Agriculture.

Note: US Total includes Territories, Indian Tribal Organizations, and Department of Defense

PRELIMINARY

Illustration of Impact of a Mandatory AFDC Block Grant Provision
on Federal AFDC Benefit and Administrative Payments to States, FY 1993
Block Grant Implemented in FY 1988 and Set at 103% of FY 1987 Federal AFDC Payments
(AFDC block grant provision in the Personal Responsibility Act is a State option)

(amounts in millions)

State	FY 1993: Actual Federal Payments	Block Grant: 103% of FY 87 Level	Difference	[illegible]
Alabama	$79	$57	($22)	*-28%*
Alaska	$60	$29	($31)	*-51%*
Arizona	$200	$65	($135)	*-67%*
Arkansas	$50	$42	($8)	*-16%*
California	$3,205	$2,157	($1,048)	*-35%*
Colorado	$102	$70	($32)	*-31%*
Connecticut	$207	$124	($83)	*-40%*
Delaware	$23	$15	($8)	*-35%*
Dist. of Columbia	$67	$52	($15)	*-22%*
Florida	$517	$202	($315)	*-61%*
Georgia	$297	$189	($109)	*-37%*
Guam	$8	$3	($5)	*-63%*
Hawaii	$76	$38	($38)	*-50%*
Idaho	$24	$18	($7)	*-28%*
Illinois	$487	$487	$0	*0.04%*
Indiana	$158	$111	($47)	*-30%*
Iowa	$111	$110	($1)	*-1%*
Kansas	$84	$56	($28)	*-33%*
Kentucky	$166	$110	($56)	*-34%*
Lousiana	$141	$129	($12)	*-8%*
Maine	$75	$62	($14)	*-18%*
Maryland	$190	$147	($44)	*-23%*
Massachusetts	$408	$303	($106)	*-26%*
Michigan	$751	$777	$26	*3%*
Minnesota	$239	$198	($41)	*-17%*
Mississippi	$75	$69	($6)	*-8%*
Missouri	$189	$146	($43)	*-23%*
Montana	$37	$30	($7)	*-19%*

NOTES:
The level of the block grant for each State is set at 103 percent of FY 1987 Federal payments for AFDC benefits and administration, unadjusted for inflation. The Family Support Act was not in effect during FY 1987. To avoid overstating the impact of a block grant, Federal payments for AFDC work activities and AFDC-related child care are not included in either column.

Illustration of Impact of a Mandatory AFDC Block Grant Provision
on Federal AFDC Benefit and Administrative Payments to States, FY 1993
Block Grant Implemented In FY 1988 and Set at 103% of FY 1987 Federal AFDC Payments
(AFDC block grant provision in the Personal Responsibility Act is a State option)

(amounts in millions)

State	FY 1993: Actual Federal Payments	Block Grant: 103% of FY 87 Level	Difference	[redacted]
Nebraska	$46	$41	($5)	-11%
Nevada	$28	$10	($17)	-63%
New Hampshire	$31	$12	($19)	-61%
New Jersey	$341	$298	($43)	-13%
New Mexico	$94	$45	($49)	-52%
New York	$1,684	$1,268	($416)	-25%
North Carolina	$263	$154	($109)	-41%
North Dakota	$22	$14	($8)	-38%
Ohio	$626	$522	($105)	-17%
Oklahoma	$140	$84	($55)	-40%
Oregon	$146	$92	($53)	-37%
Pennsylvania	$561	$506	($56)	-10%
Puerto Rico	$65	$59	($6)	-10%
Rhode Island	$75	$50	($25)	-33%
South Carolina	$92	$86	($6)	-6%
South Dakota	$19	$17	($3)	-14%
Tennessee	$166	$95	($71)	-43%
Texas	$385	$207	($178)	-46%
Utah	$67	$51	($15)	-23%
Vermont	$42	$31	($11)	-26%
Virgin Islands	$3	$2	($1)	-26%
Virginia	$138	$117	($20)	-15%
Washington	$365	$239	($126)	-35%
West Virginia	$97	$87	($10)	-10%
Wisconsin	$289	$348	$58	20%
Wyoming	$19	$11	($8)	-43%
U.S. TOTAL	$13,834	$10,243	($3,591)	-26%

NOTES:
The level of the block grant for each State is set at 103 percent of FY 1987 Federal payments for AFDC benefits and administration, unadjusted for inflation. The Family Support Act was not in effect during FY 1987. To avoid overstating the impact of a block grant, Federal payments for AFDC work activities and AFDC-related child care are not included in either column.

TALKING POINTS
Food and Nutrition Block Grant
February 22, 1995

WE OPPOSE BLOCK GRANTING CHILD NUTRITION AND WIC PROGRAMS

The current programs are effective

Block granting puts children at nutritional and health risk

THE RISK TO CHILDREN'S HEALTH WOULD INCREASE DURING RECESSIONS UNDER BLOCK GRANTS

During recession, our food programs expand to meet rising need. But block grants don't.

If the School-Based Nutrition Block Grant had been enacted in 1989, 20 percent fewer resources would have been available to feed school children in 1994.

NATIONAL STANDARDS PROTECT CHILDREN - NO MATTER WHERE THEY LIVE

Federal standards have protected kids' health for fifty years - growth stunting has decreased by 65%, low birthweight has been reduced, and anemia among low-income pre-schoolers has decreased.

The Republican plan abandons these standards - leaving wide variation in standards possible and no accountability to guarantee health outcomes.

STATES THAT SERVE A LARGER PERCENTAGE OF LOW INCOME CHILDREN THAN THE NATIONAL AVERAGE WOULD BE PENALIZED

The Republican plan rewards states that serve the most meals. States will therefore have incentives to:

Serve meals to more affluent students who can pay for part of the cost

Cut the quality of meals to cut costs and increase the number of meals

THE PROPOSED BLOCK GRANT COULD RESULT IN LESS OVERALL FUNDS FOR FOOD AND NUTRITION FOR CHILDREN.

States would have the ability to transfer up to 20 percent of the funding out of these programs to other uses.

The Republican proposal also includes a reduction of about 4 percent in total funding - in the first year.

WE ARE READY TO WORK WITH CONGRESS TO MAKE OUR FOOD AND NUTRITION PROGRAMS BETTER AND FLEXIBLE -- BUT WE HAVE A NATIONAL INTEREST IN THE HEALTH AND NUTRITION OF OUR CHILDREN.

TALKING POINTS
FOOD STAMP BLOCK GRANT PROPOSAL
MARCH 6, 1995

The Food Stamp Block Grant proposal unveiled on March 2 by the House Committee on Agriculture will unravel the national nutrition framework that has resulted in improvements in nutritional status for the Nation's children and families. The bill would cut $16 billion out of nutrition benefits for people who need them, render the Food Stamp Program unrecognizable, and make program administration unmanageable. Based on our initial analysis, this proposal will:

Eliminate the national nutritional safety net

o The bill is a double-hit on children; last week, the House Economic and Educational Opportunities Committee reduced nutrition benefits to children at school; this week the House Agriculture Committee takes aim on children at home.

o The bill will dramatically reduce nutrition benefits to people who need them immediately, and then cap expenditures in future years, eliminating the automatic adjustor in hard times. It will erode the nutrition support for needy families by failing to keep pace with inflation.

Eliminate national eligibility and benefit standards

o The proposal allows individual states to design their own eligibility and benefit standards. This inefficient idea would result in needy families being treated in fifty different ways, under fifty different state programs, using fifty different eligibility standards, and receiving fifty different levels of benefits, depending on where they live. Basic nutrition needs are the same no matter where a family lives; benefits should reflect that uniformity.

Eliminate economic responsiveness

o By placing a hard cap of program expenditures in future years and creating an optional block grant, this bill eliminates the ability of nutrition programs to respond to changing economic circumstances.

o In the next recession, the Food Stamp Program will not be there to cushion hard times in affected communities and States. And benefits won't keep pace with inflation.

Undermines a national, uniform EBT system

o This proposal allows every State to pursue their own independent path to EBT. It even requires the Secretary to waive any provision of the act that a State claims hinders their ability to implement EBT, jeopardizing implementation of a national EBT system.

Proposes unworkable work requirements

o The bill proposes a work requirement program that holds nutrition benefits for needy people hostage to jobs that may not exist.

Is weak on fraud

o This proposal is not as tough on criminals who defraud the Food Stamp Program as the Administration's proposal. The Administration strategy focuses on on preventing fraud by ensuring that only legitimate stores participate and by strengtheneing penalities against

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

cc: Bruce
Jeremy

ORIGINAL TO CHR

Carol Rasco
Assistant to the President for Domestic Policy
The White House
West Wing - 2nd Floor
Washington, D.C. 20500

Dear Carol:

U.S.D.A. today released the enclosed report: The Nutrition, Health and Economic Consequences of Block Grants for Federal Food Assistance Programs. The report takes a hard look at the consequences of proposed block-grants of Federal food assistance programs for states and those who rely on these programs. I think you will find that the report makes an important contribution to discussions about the future of these programs.

I hope you will find the report useful. If you have any questions, please don't hesitate to give me a call.

Sincerely,

Ellen

Ellen Haas
Under Secretary for Food, Nutrition
and Consumer Services

Enclosure

NOTE: On page 36, the percent change in farm income for peanuts without loss of Section 32, under Section V, should read -0.6 (instead of 0.6).