WR- Block Grant

STATE FLEXIBILITY AND WELFARE REFORM

Broad Range of Strategies

- Uniform national system - e.g. Food Stamps
- National framework with state flexibility - e.g. Work and Responsibility Act
- Block grants to states - e.g. likely Republican proposal
- Medicaid for welfare swap - e.g. Kassebaum proposal

Key Issues

- National reform objectives
  - Promote work and parental responsibility, reduce teenage pregnancy, support families
- Protections and uniformity
  - Preserve a safety net, prevent hunger among children and adults, prevent discrimination
- Fiscal and economic stability
  - Ensure stability in funding over time, cushion states against economic cycles
- Accountability
  - Minimize fraud and waste, ensure efficient use of resources

INDICATORS OF STATE COMMITMENT TO NATIONAL OBJECTIVES
EVIDENCE FROM WAIVERS

	California	Connecticut	Indiana	Michigan	Mississippi	Texas
Waiver Demonstrations Operating or Requested	Y	Y	Y	Y	Y	N
Demonstrations Requiring Work	N	N	N	Y	Small Subset	N
Demonstrations Promoting System-Wide Culture Change	N	Y	Sub-State	Y	Sub-State	N
Demonstrations Providing Financial Incentives to Work	Y	Y	N	Y	Y	N
Demonstrations Speaking to Child Support, Teen Pregnancy, or Family Cap	Y	Y	Y	N	Y	N
Demonstrations Incorporating Time Limits	Y	N	Y	N	N	N

- Very few state demonstrations require work.
- Even with waivers, many states are not pursuing national objectives.

INDICATORS OF STATE PERFORMANCE

	California	Connecticut	Indiana	Michigan	Mississippi	Texas
Percent of Adult AFDC Recipients Participating Monthly in JOBS (1993)	8	10	6	20	8	10
% of Adult AFDC Recipients Participating in OJT, Work Supp. & CWEP (1993)	.3	.2	.5	.6	.7	.05
Paternity Establishment Rate (1991)	28	39	26	68	65	35
Percent of IV-D Cases with Collections (1992)	14	20	14	18	9	13
QC Error Rate (1991)	3.5	2.7	5.8	4.1	7.5	8.0

- States vary greatly on basic indicators of performance.
- Some States perform poorly, even with Federal requirements.

FISCAL CAPACITY AND NEED OF SELECTED STATES IN 1992

State	Per Capita Income	Poverty Rate
Mississippi	$14,050	24.5%
Indiana	$18,384	11.7%
Texas	$18,449	17.8%
Michigan	$19,681	13.5%
California	$21,599	15.8%
Connecticut	$27,154	9.4%
U.S. Total	**$20,131**	**14.5%**

- Both fiscal capacity and need vary dramatically across states.

BENEFIT VARIATION ACROSS PROGRAMS

AFDC and Food Stamp Monthly Benefits
For a one-parent family of three persons, July 1994

State	AFDC Benefit	Food Stamp Benefit	AFDC & Food Stamps Combined (State Contribution)	Percent of Total Benefit Provided By State
Mississippi	$120	$295	$415 ($25)	6%
Texas	$188	$295	$483 ($67)	14%
Indiana	$288	$278	$566 ($105)	19%
Michigan	$459	$227	$686 ($200)	29%
California	$607	$183	$790 ($304)	38%
Connecticut	$680	$161	$841 ($340)	40%

- There are sizable variations in AFDC benefits by State, even though Federal match rates are much higher in States like Mississippi and Texas.
- Because Food Stamps is a uniform national nutrition program designed to ensure that adults and children do not go hungry in any state, it helps fill in the gap in lower benefit states.
- In low benefit states, virtually all of the money spent on AFDC and Food Stamps comes from the Federal government.

TRENDS IN MAXIMUM BENEFIT LEVELS OVER THE PAST 25 YEARS

(Percentage changes reflect changes in real dollars)

100% Federally Funded Programs	
Food Stamps	3%
Basic SSI	6%
Shared State and Federal Programs	
AFDC	-47%
100% State Funded Programs	
SSI Supplement (elderly individuals)	-63%
SSI Supplement (elderly couples)	-75%
General Assistance	NA
Federal Block Grants	
Title XX (1975 - 1994)	-58%
Puerto Rico Nutrition (1982 - 1994)	-6%

- Benefit levels in 100% Federal entitlement programs have generally kept pace with inflation. Food Stamps has been a critical nutrition safety net.
- Benefit levels in programs with a heavy state contribution have fallen dramatically over time when adjusted for inflation.
- Block grants may be more vulnerable to budget cuts.

EXAMPLE OF A DISTRIBUTION FORMULA BASED ON NEED

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	Percent
California	$4,170	$4,820	+16%
Connecticut	$297	$248	-17%
Indiana	$713	$691	-3%
Michigan	$1,390	$1,109	-20%
Mississippi	$730	$603	-17%
Texas	$3,819	$2,665	-30%
US TOTAL	**$40,764**	**$35,600**	**-13%**

- Block grants allocated according to need create large state winners and losers relative to the current system.

EXAMPLE OF DISTRIBUTION FORMULA BASED ON PAST EXPENDITURES

Hypothetical Effects of AFDC Benefit and Administration Expenditure Block Grant if Personal Responsibility Act had been adopted in 1988 (Block Grant set at 103% of FY 1987 expenditures)
(Dollars in millions)

	FY 1993		
State	**Current Law**	**Block Grant**	**Percent Change**
California	$3,197	$2,157	-33%
Connecticut	$207	$124	-40%
Indiana	$158	$111	-30%
Michigan	$751	$777	4%
Mississippi	$75	$69	-8%
Texas	$384	$207	-46%
US TOTAL	**$13,843**	**$10,243**	**-26%**

- Block grants set according to current spending can create unpredictable and highly variable impacts due to inflation and changing economic and demographic conditions.

POSSIBLE APPROACHES TO KEY ISSUES

National Objectives

- State plan requirements - e.g., work and cooperation with child support
- Program performance standards geared to national objectives

Protections and Uniformity

- National safety net against hunger
- Individual protections within a more flexible welfare program

Fiscal and Economic Stability

- Individual entitlement structure with more state flexibility
- Adjustable spending caps for states

Accountability

- Audit and reporting requirements
- Fiscal performance standards

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FOR IMMEDIATE RELEASE:
Thursday, January 12, 1995

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FOOD BLOCK GRANT PROPOSAL CIRCULATED BY REPUBLICAN GOVERNORS WOULD HAVE SEVERE, UNINTENDED RESULTS, ANALYSIS FINDS

A block grant proposal presented to Congressional Republican leaders last week by a group of Republican governors would cause substantial reductions in food assistance for poor families and elderly people, according to an analysis of the proposal by the Center on Budget and Policy Priorities. Also affected would be the school lunch program which includes benefits to middle-income children.

If the proposal had been in effect since 1989, the large majority of states would have received at least 20 percent less in federal food assistance in 1994, the report found. If the proposal is put into place today, states would have nearly $8 billion less in food assistance over the next four years, even if no recession occurs.

Under the proposal, all federal food assistance programs would end in their current form and be converted to a block grant. Funding for the block grant would be set at the amount expended for these programs in fiscal year 1994, adjusted only for inflation. Each state's share of the block grant would be permanently set at its percentage share of federal food assistance funds in 1994.

Proposal Unresponsive to Recessions

The Center's analysis shows that block grant funding levels would fail to respond to such factors as increases in poverty during recessions and rising school enrollments. As a result, it would cause major reductions in food assistance. Had an identical proposal been passed five years ago and been based on federal funding levels in fiscal 1989, a year before the recession of the early 1990s began, every state in the nation but one would have received less to meet the needs of its residents than was actually provided last year. Some 35 states would have lost more than 20 percent of the federal food assistance funds they received last year.

California would have lost nearly half — 48 percent — of the federal food assistance funds it received last year, nearly $2 billion. Florida would have lost 49 percent of the funds it received. Other states that would have lost 30 percent or more of the funds they received to provide food aid to the poor include Alaska, Arizona, Connecticut, Delaware, the District of Columbia, Georgia, Hawaii, Indiana, Maine, Maryland, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, Rhode Island, Texas, Vermont, and Virginia. (State-by-state data are included in the full report.)

— more —

Nearly $8 Billion Cut Over Next Four Years, Even if no Recession

Even if no recession were to occur for years into the future — an unlikely scenario — federal funding for food assistance would be reduced in coming years below the amounts that would be provided under current law, according to the Center's analysis. If no recession were to occur between now and 1999 and the economy were to perform in accordance with the Congressional Budget Office's assumptions, states would lose $7.8 billion over the first few years of the block grant. The reductions in funding, as compared to funding levels under current law, would grow larger each year, the Center said.

The Center's analysis found that while the overall level of federal block grant funding would be adjusted for inflation, it would fail to reflect several other key factors such as increases or decreases in poverty and unemployment and school enrollment. The Department of Education, for example, estimates that the number of elementary and secondary school children will rise eight percent over the next five years; this will result in more children eating school lunches. Under current law, federal school lunch funding would rise to met this additional increase and later decline if school enrollment subsequently decreased. Because the school lunch and other food aid programs would be merged into a block grant that did not respond to such changes in need, however, the governors' proposal would force states to choose between such actions as raising the amounts middle-class parents must pay for their children's lunches and cutting food assistance to poor children and elderly and disabled people (the vast majority of food aid recipients) even more than would otherwise be the case under the proposal.

"I doubt the governors who designed the proposal fully understood its ramifications," the Center's director Robert Greenstein noted. "It would harm state treasuries along with poor families, children and elderly people."

"The next time a recession hits and millions of Americans lose their jobs, many of the newly unemployed will seek food assistance to get them through a rough period," Greenstein noted. "States would be forced to choose between meeting the increased need entirely with state funds — and probably raising state taxes in the middle of a recession to do it — or leaving the need unmet and witnessing steep rises in hunger, hardship, and destitution."

The Center on Budget and Policy Priorities conducts research and analysis on a range of government policies and programs, with an emphasis on those affecting low- and moderate-income people. It is supported primarily by foundation grants.

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CENTER ON BUDGET AND POLICY PRIORITIES

January 12, 1995

HOW WOULD A FOOD ASSISTANCE BLOCK GRANT ADJUSTED FOR INFLATION AFFECT STATES?

By Robert Greenstein and David Super

A group of Republican governors have proposed replacing the current federal nutrition assistance programs with a block grant to states. Under their proposal, the overall size of the block grant each year would equal the amount expended in these programs in FY 1994, adjusted for inflation. In addition, each state's share of the total federal appropriation would equal its share of federal food assistance spending in fiscal year 1994.

Some governors may believe that annually adjusting the block grant funding level for inflation would protect states from cuts in nutrition funding that would have resulted under earlier food block grant proposals. In fact, the Republican governors' new proposal itself would result in substantial and rapidly rising cuts in federal funding to states for food assistance.

- If no recession occurs between now and 1999, states would lose $7.8 billion over the first four years of the proposed block grant, compared with the amounts states would be provided under current law. These cuts would grow larger over the years; by fiscal year 1999, the cut would equal $3.3 billion per year.

- If a recession occurs, the cut would be far more severe. During recessions, existing food assistance programs such as food stamps and free school meals expand automatically to meet rising need as poverty and unemployment increase. Federal funding under the proposed block grant would not expand during economic downturns and would fall far behind need — and far behind what the existing programs would have provided. This is particularly true because the base year that would be used to calculate the amount provided for block grants — presumably 1994 — was a recovery year, when economic conditions were far more favorable than during recession years.

  During past recessions, federal spending on food assistance programs has risen sharply. When ensuing economic recoveries subsequently reduced unemployment and poverty rates, federal spending has receded. At present, the entitlement funding of the food stamp and child nutrition

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programs ensures that the federal government bears the added burden during economic downturns. Under the proposed block grant, states would have to meet the increased need during recessions entirely with state funds.

An analysis of how states would have fared last year if an identical block grant proposal had been enacted five years earlier illustrates this point. Had a block grant been passed that set the block grant at the overall level of federal expenditures in fiscal year 1989, adjusted for inflation — and fixed each state's share of the block grant at its share of the FY 1989 expenditures — more than $10 billion in fiscal year 1994 food assistance support — 29 percent of the total food assistance nationally — would have been lost. (See Table 1.) The onset of recession in the intervening years accounts for a substantial share of this loss in funds; under the block grant proposal, no additional funds would be provided when unemployment and poverty rose during economic downturns.

If such a block grant had been passed in 1989, every state in the nation but one would have received less in food assistance funding in 1994 than was actually provided. All but four states would have lost more than 10 percent of the funding provided in the state in FY 1994. Some 35 states would have lost more than 20 percent of the funds received under the current programs. California and Florida each would have lost about half of their food assistance funds, with California losing 48 percent of the food assistance funding it received in fiscal year 1994 and Florida losing 49 percent.

Even if no recession were to take place for years to come, states would still lose funding throughout the rest of the 1990s under this proposal. A block grant that adjusts only for inflation is likely to leave states with inadequate resources to meet food assistance needs for several reasons:

- The block grant would not take into account increased need for school lunches and breakfasts as school enrollments rise. The U.S. Department of Education projects that the number of children in grades K through 12 will rise more than eight percent over the next five years. This is one of a number of reasons that, even without a recession, the proposed block grant would represent a cut in projected federal grant levels to states.

- Similarly, the proposed formula does not account for projected increases in the number of low-income children who will be enrolled in child care institutions and qualify for meals under the child care food program. As states move more poor mothers from welfare to work, the number of low-income children in child care will rise. Federal funding under the child care food program expands automatically to meet increases in need; a block grant would not do so and would leave states further short of funds.

- Rolling the WIC program into a block grant that expands only at the rate of inflation also would effectively end prospects for achieving the national, bipartisan goal of achieving full funding for WIC so all eligible mothers and children can be served. The WIC program has been found to reduce infant mortality, low birthweight, and child anemia — and state and federal Medicaid costs.

- Finally, as described in another recent Center analysis, Congress could reduce the amount appropriated for the block grant below the amounts specified in the legislation that establishes the block grant. With deep cuts in total federal spending required if the federal budget is to be balanced by fiscal year 2002, the block grant could still undergo substantial additional cuts.

Problems with Distributing Funds Among States

One other problem looms. Freezing each state's percentage share of block grant funds at its share of total nutrition spending in fiscal year 1994 would expose some states to particularly sharp funding shortages. Under the existing programs, states whose economies are performing poorly automatically receive additional federal food stamp and school lunch dollars to meet the needs of the newly unemployed. In the same way, any state with increased school or child care enrollment automatically receives increased federal child nutrition funding. This means that states whose economies fare more poorly than the average state economy, whose population growth is above average, or whose school and child care enrollment is rising at an above average rate, could receive too small a share of the funds available nationally. Suppose, as the Republican governors' proposal suggests, each state's share of the block grant is set at its share of total federal food assistance expenditures in fiscal year 1994. As the years pass and 1994 recedes farther in the past, the inequities among states will grow larger. These inequities will become particularly acute during recessions when some states suffer sharp increases in unemployment while others do not.

The problems that this distribution formula would cause can be seen by looking at the distribution of federal food assistance funds to states in fiscal year 1989 and fiscal year 1994. Suppose the percentage share of funds each state received in fiscal year 1994 were held to the same level as in fiscal year 1989. What would have happened? Even if the block grant proposal were redesigned *so the total amount of funds distributed nationally in 1994 equaled the amount actually distributed last year,* most states would have lost or gained more than five percent. Delaware, for example, would have gotten 15 percent less in federal funds than it actually received; Florida would have lost 28 percent of its funds; California would have lost 27 percent. Meanwhile, Wisconsin would have obtained 19 percent more than it received under current law, while Michigan received 18 percent more. (See Table 2.) As noted above, these problems deepen when one takes into account that under the proposal, the amount of food assistance foods distributed nationally — and thus to each state — would be less than would be the case under current law.

Finally, states vary in the degree to which their eligible populations can be served with the federal WIC funds they receive. As a result, a portion of each year's WIC appropriation now is allocated to help expand WIC participation in states that historically have received lower-than-average WIC funding. A block grant that froze each state's share of total nutrition funding at 1994 levels would lock in current inequities in the distribution of WIC funds.

TABLE 1: The Effect the Republican Governors' Food Block Grant Proposal Would Have Had in 1994 if it Had Been Adopted in 1989

(in millions of dollars)

	Federal Nutrition Funds in FY 1989	Federal Nutrition Funds in FY 1994	Share of Nutrition Funds in FY 1989	Federal Nutrition Funds in FY 1994 if GOP Gov. Prop. Adopted in 1989	Gain (Loss) if FY 1994 Funds Set at FY 1989 Levels Plus Inflation and State % Shares Set at 1989 Shares ($ millions)	(percent)
Alabama	$471.1	$708.3	2.30%	$575.9	(132.4)	-18.7%
Alaska	48.7	92.5	0.24%	59.5	(32.9)	-35.6%
Arizona	328.4	653.9	1.61%	401.5	(252.4)	-38.6%
Arkansas	241.0	366.7	1.18%	294.6	(72.1)	-19.7%
California	1,713.2	4,035.4	8.38%	2,094.2	(1,941.2)	-48.1%
Colorado	234.4	362.5	1.15%	286.5	(76.0)	-21.0%
Connecticut	138.2	272.6	0.68%	168.9	(103.7)	-38.0%
Delaware	40.8	82.6	0.20%	49.8	(32.8)	-39.7%
Dist. of Col.	67.2	130.6	0.33%	82.1	(48.5)	-37.1%
Florida	817.2	1,962.6	4.00%	999.0	(963.6)	-49.1%
Georgia	586.9	1,106.3	2.87%	717.4	(388.9)	-35.2%
Hawaii	114.9	213.9	0.56%	140.5	(73.4)	-34.3%
Idaho	74.9	113.0	0.37%	91.6	(21.5)	-19.0%
Illinois	1,086.6	1,545.4	5.31%	1,328.3	(217.2)	-14.1%
Indiana	339.1	627.4	1.66%	414.5	(212.9)	-33.9%
Iowa	189.6	257.8	0.93%	231.8	(26.1)	-10.1%
Kansas	167.3	276.9	0.82%	204.5	(72.4)	-26.2%
Kentucky	470.9	639.3	2.30%	575.6	(63.7)	-10.0%
Louisiana	750.7	994.8	3.67%	917.7	(77.1)	-7.7%
Maine	86.6	163.4	0.42%	105.9	(57.5)	-35.2%
Maryland	298.0	525.5	1.46%	364.2	(161.3)	-30.7%
Massachusetts	319.2	545.1	1.56%	390.2	(154.8)	-28.4%
Michigan	835.1	1,224.4	4.08%	1,020.9	(203.5)	-16.6%
Minnesota	278.3	458.0	1.36%	340.3	(117.7)	-25.7%
Mississippi	504.1	611.8	2.46%	616.2	4.4	0.7%
Missouri	421.0	716.8	2.06%	514.6	(202.1)	-28.2%
Montana	71.3	103.4	0.35%	87.1	(16.3)	-15.7%
Nebraska	108.7	168.3	0.53%	132.9	(35.4)	-21.0%
Nevada	56.1	135.1	0.27%	68.6	(66.5)	-49.2%
New Hampshire	34.9	65.5	0.17%	42.7	(22.9)	-34.9%
New Jersey	422.3	755.9	2.06%	516.2	(239.6)	-31.7%
New Mexico	188.0	333.5	0.92%	229.8	(103.7)	-31.1%
New York	1,658.8	2,896.0	8.11%	2,027.7	(868.3)	-30.0%
North Carolina	471.3	824.3	2.30%	576.1	(248.1)	-30.1%
North Dakota	54.2	77.2	0.26%	66.2	(11.0)	-14.3%
Ohio	1,074.2	1,497.3	5.25%	1,313.2	(184.1)	-12.3%
Oklahoma	308.6	507.1	1.51%	377.2	(129.9)	-25.6%
Oregon	235.1	374.4	1.15%	287.4	(87.0)	-23.2%
Pennsylvania	895.4	1,468.2	4.38%	1,094.6	(373.6)	-25.4%
Rhode Island	60.7	113.1	0.30%	74.1	(39.0)	-34.5%
South Carolina	323.4	514.3	1.58%	395.4	(119.0)	-23.1%
South Dakota	72.9	92.1	0.36%	89.1	(3.1)	-3.3%
Tennessee	508.1	857.7	2.48%	621.1	(236.6)	-27.6%
Texas	1,840.2	3,458.5	9.00%	2,249.5	(1,209.1)	-35.0%
Utah	131.6	203.2	0.64%	160.8	(42.3)	-20.8%
Vermont	38.2	72.7	0.19%	46.7	(26.1)	-35.9%
Virginia	378.9	696.9	1.85%	463.1	(233.8)	-33.5%
Washington	329.0	615.2	1.61%	402.2	(213.0)	-34.6%
West Virginia	243.7	354.7	1.19%	297.9	(56.8)	-16.0%
Wisconsin	289.7	419.0	1.42%	354.1	(65.0)	-15.5%
Wyoming	36.8	53.9	0.18%	45.0	(9.0)	-16.6%
TOTAL	20,455.1	35,345.3	100.00%	25,004.7	(10,340.6)	-29.3%

TABLE 2: How the Distribution of Federal Food Assistance Funding Would Have Been Affected in 1994 if Each State's Funding Had Been Set Equal to its Percentage Share in 1989*

(in millions of dollars)

	Federal Nutrition Funds in FY 1989	Federal Nutrition Funds in FY 1994	Share of Nutrition Funds in FY 1989	Federal Nutrition Funds in FY 1994 if Share Frozen at FY 1989 Level	Gain (Loss) if FY 1994 Funds Distributed According to States' FY 1989 Shares	
					($ millions)	(percent)
Alabama	$471.1	$708.3	2.30%	$814.1	105.7	14.9%
Alaska	48.7	92.5	0.24%	84.2	(8.3)	-9.0%
Arizona	328.4	653.9	1.61%	567.5	(86.3)	-13.2%
Arkansas	241.0	366.7	1.18%	416.4	49.7	13.5%
California	1,713.2	4,035.4	8.38%	2,960.3	(1,075.1)	-26.6%
Colorado	234.4	362.5	1.15%	405.0	42.5	11.7%
Connecticut	138.2	272.6	0.68%	238.8	(33.9)	-12.4%
Delaware	40.8	82.6	0.20%	70.4	(12.2)	-14.7%
Dist. of Col.	67.2	130.6	0.33%	116.0	(14.5)	-11.1%
Florida	817.2	1,962.6	4.00%	1,412.1	(550.5)	-28.0%
Georgia	586.9	1,106.3	2.87%	1,014.1	(92.2)	-8.3%
Hawaii	114.9	213.9	0.56%	198.5	(15.3)	-7.2%
Idaho	74.9	113.0	0.37%	129.5	16.4	14.5%
Illinois	1,086.6	1,545.4	5.31%	1,877.6	332.1	21.5%
Indiana	339.1	627.4	1.66%	585.9	(41.5)	-6.6%
Iowa	189.6	257.8	0.93%	327.6	69.8	27.1%
Kansas	167.3	276.9	0.82%	289.0	12.1	4.4%
Kentucky	470.9	639.3	2.30%	813.6	174.3	27.3%
Louisiana	750.7	994.8	3.67%	1,297.2	302.4	30.4%
Maine	86.6	163.4	0.42%	149.7	(13.7)	-8.4%
Maryland	298.0	525.5	1.46%	514.8	(10.7)	-2.0%
Massachusetts	319.2	545.1	1.56%	551.6	6.6	1.2%
Michigan	835.1	1,224.4	4.08%	1,443.1	218.7	17.9%
Minnesota	278.3	458.0	1.36%	481.0	23.0	5.0%
Mississippi	504.1	611.8	2.46%	871.1	259.3	42.4%
Missouri	421.0	716.8	2.06%	727.5	10.7	1.5%
Montana	71.3	103.4	0.35%	123.1	19.7	19.1%
Nebraska	108.7	168.3	0.53%	187.9	19.6	11.6%
Nevada	56.1	135.1	0.27%	96.9	(38.1)	-28.2%
New Hampshire	34.9	65.5	0.17%	60.3	(5.2)	-8.0%
New Jersey	422.3	755.9	2.06%	729.7	(26.1)	-3.5%
New Mexico	188.0	333.5	0.92%	324.8	(8.7)	-2.6%
New York	1,658.8	2,896.0	8.11%	2,866.3	(29.8)	-1.0%
North Carolina	471.3	824.3	2.30%	814.4	(9.9)	-1.2%
North Dakota	54.2	77.2	0.26%	93.6	16.4	21.2%
Ohio	1,074.2	1,497.3	5.25%	1,856.2	358.9	24.0%
Oklahoma	308.6	507.1	1.51%	533.2	26.1	5.1%
Oregon	235.1	374.4	1.15%	406.2	31.8	8.5%
Pennsylvania	895.4	1,468.2	4.38%	1,547.3	79.1	5.4%
Rhode Island	60.7	113.1	0.30%	104.8	(8.3)	-7.4%
South Carolina	323.4	514.3	1.58%	558.8	44.5	8.7%
South Dakota	72.9	92.1	0.36%	125.9	33.8	36.6%
Tennessee	508.1	857.7	2.48%	877.9	20.2	2.4%
Texas	1,840.2	3,458.5	9.00%	3,179.7	(278.8)	-8.1%
Utah	131.6	203.2	0.64%	227.3	24.2	11.9%
Vermont	38.2	72.7	0.19%	65.9	(6.8)	-9.3%
Virginia	378.9	696.9	1.85%	654.7	(42.2)	-6.1%
Washington	329.0	615.2	1.61%	568.5	(46.7)	-7.6%
West Virginia	243.7	354.7	1.19%	421.0	66.3	18.7%
Wisconsin	289.7	419.0	1.42%	500.5	81.5	19.4%
Wyoming	36.8	53.9	0.18%	63.6	9.6	17.9%
TOTAL	20,455.1	35,345.3	100%	35,345.3	0.0	0.0%

*Assumes no cut in total funding from the amount actually expended in fiscal year 1994.

Note from Center on Budget and Policy Priorities: This is a copy of the plan proposed by some Republican Governors.

Republican Governors' Association
Welfare Reform Session

I. Objective

To have a thorough discussion on the broad outline of welfare reform among the GOP Governors and House and Senate Republican leaders.

II. Issues for Discussion

A. Block Grants -- GOP Governors support Block Grants in 3 major areas of welfare and social spending: AFDC/Cash Assistance, Food, and Child Care. GOP Governors are interested in exploring Block Grants in 5 additional areas: Child Welfare, Social Services, Employment and Training, Health, and Housing.

- The programs for inclusion in the above 3 Block Grants are:

  Food -- Food Stamps, Nutrition Assistance for Puerto Rico, Special Milk Program, Child Nutrition, Child Nutrition Commodities, Food Donations, Women, Infants, Children Program (WIC), Emergency Food Assistance Program, Congregate Meals, and Meals on Wheels.

  -- Each State will receive that portion of the Block Grant that equals the portion of the total Federal spending received by each State in FY 1994. This amount would be adjusted each year for inflation.

  AFDC/Cash -- Aid to Families with Dependent Children (single parent and two parent families), Emergency Assistance, AFDC Administration, and Job Opportunities and Basic Skills (JOBS) program.

  -- Each State would receive the amount equal to the average of spending in FY 1990 - 1994.

  Child Care -- Title I (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, Head Start, and Even Start.

  -- Each State will receive that portion of the Block Grant that equals the portion of the total Federal spending received by each State in FY 1994.

B. Funding -- Funding is a State entitlement. See above for distribution.

C. Administration -- Maximum flexibility for States to design and administer programs would be given in the Block Grants. Reporting requirements and Federal regulations would be minimized. Programs would be audited and States would repay any misspent funds.

More specifically:

* States will develop plans, detailing how they will use the funds to meet the broad goals of each Block Grant. A copy of the plan will be sent to the Secretary, and each State will also submit an annual report, with information on the number of people served, services provided, and funds expended.

* Audits will determine whether funds have been misspent, and States will repay such amounts.

* The Secretary's ability to require additional reporting from States and impose restrictions on States will be limited.

* States may transfer up to 50 percent from one Block Grant to another.

* States may carryover funds from one fiscal year to the next.

III. Outstanding Issues

A. Medicaid -- Current eligibility tied to AFDC receipt; AFDC maintenance of effort, in Medicaid statute, needs to be eliminated. Other Medicaid/AFDC linkages need exploration.

B. Legal Aliens -- Allow States the option to provide assistance to this population. Adjust base amount for each State to reflect the legal alien population they would no longer have to serve.

C. Waivers -- States would be released from current waiver and cost-neutrality agreements.

D. Automation -- Funding for information systems needs discussion.

TITLE V - CONSOLIDATING FOOD ASSISTANCE PROGRAMS

SECTION I. FOOD ASSISTANCE BLOCK GRANT PROGRAM.

(a) PURPOSE.

(1) The purpose of this act is to consolidate Federal food assistance into a single block grant to provide greater flexibility to States to meet the food needs of the State, as far as practicable under the conditions in that State.

(b) AUTHORITY TO MAKE BLOCK GRANTS.

(1) The Secretary of Agriculture shall make grants in accordance with this section to States to provide food and nutrition assistance to individuals and families.

(c) DISTRIBUTION OF FUNDS.

(1) The funds appropriated to carry out this section shall be allotted among the States as follows: A State shall receive that portion of the block grant that equals the portion of the total amount that State received for FY 1994 under the following programs: (see attached)

(2) The amount received for FYs 97 - 2000 shall not be less than the amount received for FY 1996. This amount shall be an entitlement for States.

(3) The amount allotted under paragraph (1) shall be adjusted each fiscal year by the Secretary to reflect the percentage change in the food at home component of the Consumer Price Index For All Urban Consumers for the 1 year period ending May 31 of such preceding fiscal year.

(c) METHOD OF PAYMENT.

(1) The Secretary may make payments to a State in installments, in advance or by way of reimbursement, with necessary adjustments on account of overpayments or underpayments, as the Secretary may determine.

(d) SPENDING OF FUNDS BY STATE.

(1) Payments to a State from the allotment under section I for any

fiscal year may be obligated by the State in that fiscal year or in the succeeding fiscal year. Twenty percent of the payments to a State from the allotment under Section I for any fiscal year may be transferred to other block grant programs.

(e) ELIGIBILITY TO RECEIVE GRANTS.

(1) To be eligible to receive a grant in the amount allotted to a State for a fiscal year, such State shall submit to the Secretary a State plan containing assurances that -

(A) such grant will be expended by the State to provide food and nutrition assistance to resident individuals in the State, and
(B) such grant will be used for administrative costs incurred to provide assistance under this section.

(2) Prior to expenditure by a State of payments made to it under this section for any fiscal year, the State shall report on the intended use of the payments the State is to receive including information on the types of activities to be supported and the categories or characteristics of persons to be served. The report shall be transmitted to the Secretary and made public within the State in such manner as to facilitate comment by any person (including any Federal or other public agency) during development of the report and after its completion. The report shall be revised throughout the year as may be necessary to reflect substantial changes in the activities assisted under this section, and any revision shall be subject to the requirements of the previous sentence. The Secretary shall not impose additional reporting requirements on States.

(f) ANNUAL REPORTS AND AUDITS.

(1) Annual Report: Not later than December 31, 1996, and annually thereafter, a State that receives a grant under section I shall prepare and submit to the Secretary a report

(A) Specifying the uses for which the State expended funds specified under Section I and the amount of funds expended for such uses; and

(B) Containing available data on the manner in which the food and nutrition needs of families in the State are being fulfilled, including information concerning the number of individuals and families being assisted with funds provided under Section I during the period for which such report is required to be submitted.

(2) Audits:

(A) Requirement. A State shall, after the close of each program period covered by a report submitted under section I audit its expenditures during such program period from amounts received under this section.

(B) Independent Auditor. Audits under this section shall be conducted by an entity that is independent of any agency administering activities that receive assistance under this section and be in accordance with generally accepted auditing principles.

(C) Submission. Not later than 30 days after the completion of an audit under this section, the State shall submit a copy of the audit to the legislature of the State and to the Secretary.

(D) Repayment. Each State shall repay to the United States any amounts determined through an audit under this section not to have been expended in accordance with this section, or the Secretary may offset such amounts against any other amounts to which the State is or may be entitled under this section.

SECTION II. DEFINITIONS.

(a) Secretary.

(1) Secretary refers to the Secretary of Agriculture.

DRAFT

Overview of Federal Food and Nutrition Programs
for Low-Income Persons
November, 1994

Program	FY 1995 Spending (millions)
Food Stamps	$24,750
Nutrition Assistance for Puerto Rico	1,143
Special Milk	15
Child Nutrition	7,271
Child Nutrition Commodities	400
Food Donations	268
Women, Infants and Children Program	3,287
CSFP	107
Emergency Food Assistance Program	123
HHS: Congregate Meals	386
HHS: Meals on Wheels	96
Food Program Administration	111
Total	$37,967

Source. Congressional Budget Office.

mal\hlfood

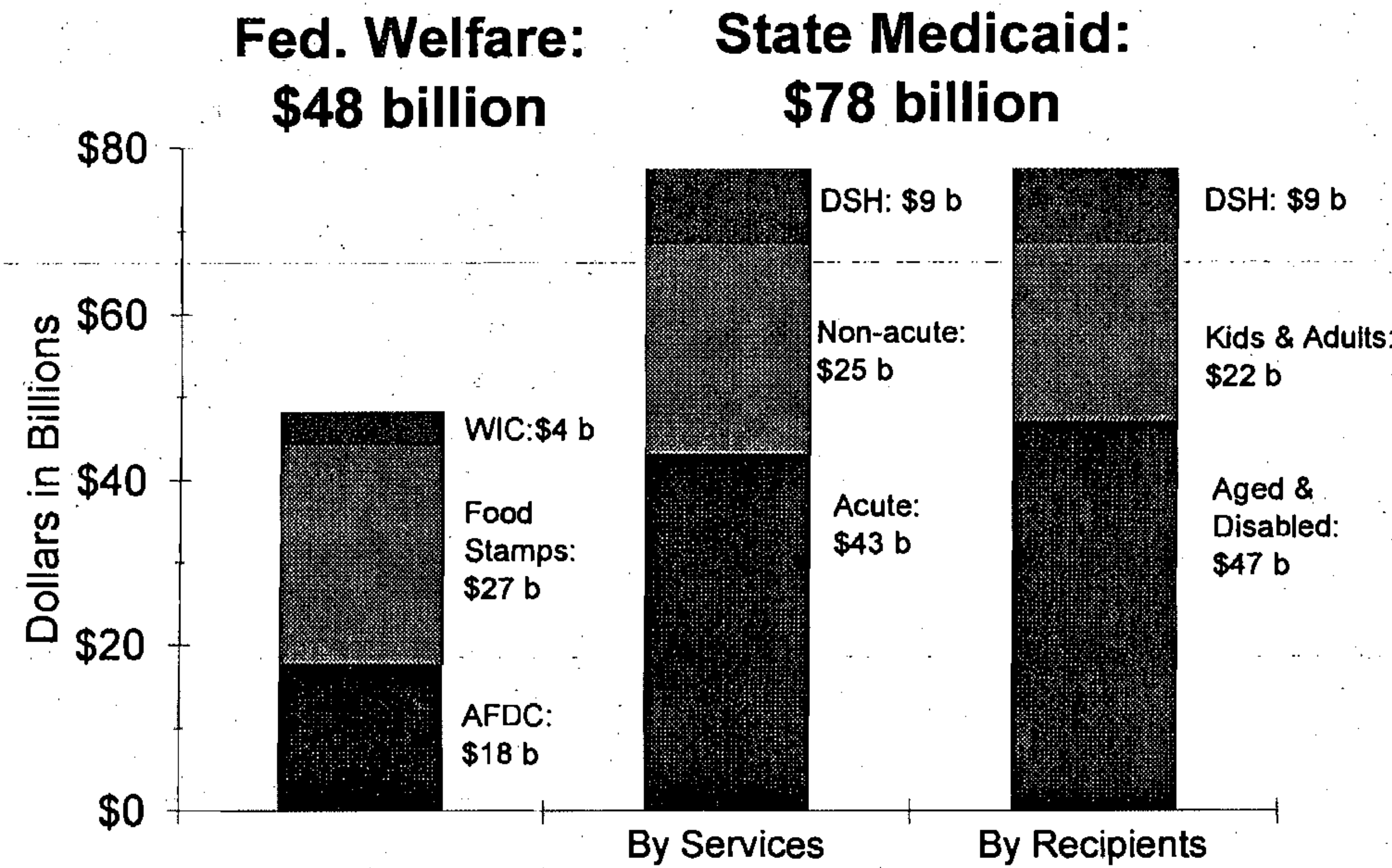
Attachment

MEDICAID FOR WELFARE SWAP

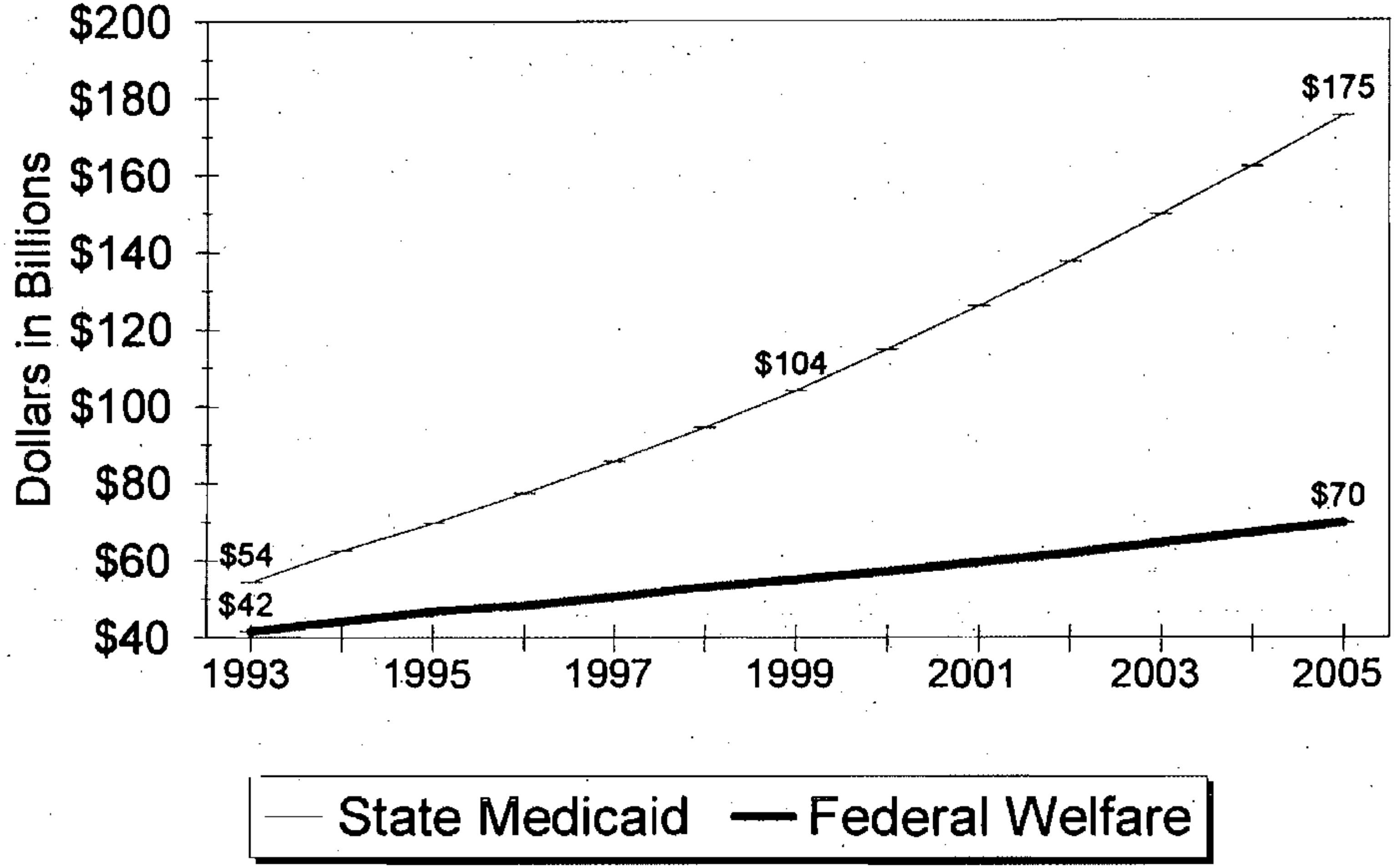
- Impact on Federal and State Budgets
- Trends in Welfare and Medicaid Costs
- Coverage and Cost Issues for Medicaid Program
- Impact / Issues for Welfare

WR - Block Grant

Expenditures For the Swap: 1996



Federal Welfare & State Medicaid
Comparision of Expenditure Trends



Estimated State Fiscal Effects of Medicaid for AFDC/Food Stamps/WIC Swap

(state fiscal effects in millions)

State	Fiscal Year 1996			Fiscal Year 2002		
	Projected State Costs on Acute Care Medicaid	Projected Federal Costs AFDC + FNS	State Gain (Loss)	Projected State Costs on Acute Care Medicaid	Projected Federal Costs AFDC + FNS	State Gain (Loss)
California	$6,941	$6,882	$59	$12,979	$8,838	$4,141
Connecticut	$446	$478	($32)	$835	$614	$221
Indiana	$742	$778	($36)	$1,388	$999	$389
Michigan	$1,584	$2,086	($502)	$2,962	$2,679	$283
Mississippi	$219	$647	($428)	$410	$831	($421)
Texas	$2,048	$3,540	($1,492)	$3,830	$4,546	($716)
U.S. Total	**$43,150**	**$48,297**	**($5,147)**	**$80,700**	**$62,022**	**$18,678**

* Medicaid estimates for 1996 were calculated by HCFA; estimates for 2002 assume the national growth rate for acute care services.

** Food & Nutrition Services program estimates past 2000 were calculated by ASPE staff.

Too much 'off the record'

Reporters didn't belong in cozy luncheon with Hillary Clinton.

Just between us, the journalists who attended the "strictly off the record" luncheon with Hillary Rodham Clinton ought to be sent back to the obits desk for a while. That's where many a seasoned veteran started out, learning just how critical it is to do the job right. There are few worse sins in the trade than getting the facts wrong in someone's death notice.

Except, perhaps, betraying a source. Clinton invited selected reporters to a luncheon, apparently with the understanding that what was said would not be for publication. The New York Post was there, as were USA Today, The Washington Post, the Chicago Sun-Times.

During the gathering, Clinton occasionally told the group, "This you can say on the record," said a reporter there, Linda Stasi, a gossip columnist for the Daily News in New York. But only a New York Times reporter quoted the first lady as saying she was politically "naive and dumb" in her promotion of health-care proposals.

The Times says the quotes used were on the record. Other reporters present said the Times published off-the-record remarks.

The public, barely done shaking its head over Connie Chung's trickery with Newt Gingrich's mother, was reminded again to be wary of the press.

Which ought to be wary of itself. Reporters have gotten too comfortable about going along with people who want to go "off the record." It's almost never worth it.

There can be several reasons a high public official wants to go "off the record." Sometimes it's to leak information. Sometimes the purpose is to curry favor with the press by flattering selected reporters by treating them as insiders. An unspoken implication is that the privileged access will be lost if unflattering things are written. Another purpose can be to solicit information from the press. Clinton apparently was seeking advice on how to improve her public image.

But it is inappropriate for reporters to offer personal advice to public figures, and it can compromise them to get too friendly. Moreover, taking information off the record can be a sign of a reporter who would rather cozy up than dig.

No one would feel betrayed if it were established at the beginning of a meeting that nothing, nothing at all, was off the record. There couldn't be any misunderstanding, as there may have been between Chung and Kathleen Gingrich, or Clinton and The Times reporter.

More important, reserving "off the record" for the most extraordinary circumstances would keep the press from betraying itself by destroying the public's trust.

Iowa to hear Jackson talk

The Rev. Jesse Jackson plans to step up his organization work for his Rainbow Coalition in Iowa on Saturday as the featured speaker at a daylong meeting of the group.

Jackson
Here Saturday

Organizers said Jackson is scheduled to deliver a noon speech to the coalition at the Best Western Starlight Village hotel in Des Moines. The meeting begins at 9:30 a.m. and is open to the public, they said.

They also are making tentative plans for Jackson to join striking Bridgestone/Firestone workers on the picket lines.

Jackson has stepped up his organizing work in Iowa because he fears a rightward drift of President Clinton's administration in the wake of the Democrats' defeat in the November election. Jackson has hinted at challenging Clinton in the 1996 Iowa caucuses, or possibly forming a third party if Clinton becomes too conservative.

Passing the welfare buck

Poverty is a nationwide problem; in need of a nationwide approach.

Congressional Republicans have backed away from the get-tough-with-welfare stance outlined in their Contract With America. House Speaker Newt Gingrich now says Republicans shouldn't be asked to live up to the details.

Gingrich says Republicans won't demand that legal immigrants be cast adrift from welfare programs. Further, instead of federal legislation to deny benefits to unwed teens, Republicans plan to leave that and other reform options to the states.

Some reform features may stay on the GOP agenda, but states would become the heavies.

One danger is that, if states are given further latitude in managing the programs, the gaps between various state welfare benefits would widen further.

The gap is already ridiculously broad. Mississippi's Aid to Families with Dependent Children pays the mother of two just $120 per month. Iowa pays $426; Wisconsin, $518; California, $624; Vermont, $659. A single mother with two children living in Vermont receives more than five times as much in Aid to Families with Dependent Children as the same family would receive in Mississippi.

That disparity exists despite the fact that Mississippi, as a relatively poor state, draws more than $3 in federal money for every $1 the state puts up to pay for AFDC, whereas Vermont gets only $1 of federal help per $1 of state funds. As a result, in state dollars, Mississippi contributes less than $26 per month to that family's welfare, while Vermont contributes more than $326.

Giving states even more authority over the care of their poor can only exacerbate an already flagrantly uneven system, and

If states are given further latitude in managing the programs, the gaps between various state welfare benefits would widen further.

encourage some states to dump their welfare caseloads on others.

Poverty is a nationwide problem, in need of a nationwide approach that recognizes the welfare family's responsibility to become self-supporting as well as society's responsibility to help that happen. All other major welfare-grant programs are federally administered and financed. States should be allowed to experiment with innovative reform plans, but not within so loose a framework that a young mother abandoned in Mississippi with two children must try to live with an AFDC grant less than one-fifth as generous as that provided elsewhere.

The Des Moines Register
1-13-95

Welfare Cutting as Welfare 'Reform'

By Herbert Stein

The Republican promise to cut taxes and balance the budget while not reducing expenditures for defense or Social Security raises many interesting issues. But most of the issues are not very important. For example, I find the idea of cutting capital gains taxation or of enacting a constitutional amendment requiring a balanced budget interesting, mainly because of the high content of hypocrisy and ignorance in the arguments for these proposals. But I don't think that if adopted they would do much harm.

What I do think is important is the possible implications of the proposed budget policy, which may be better called a budget attitude, for welfare programs.

When proponents of the new program are asked where they would cut expenditures they usually start with cutting congressional staffers. That is OK with me. I have often testified before congressional committees where the hearing room was filled with staffers, few of whom had any good reason to be there. But the entire cost of Congress, including the pay of the members, amounts to only about 1% of the federal deficit.

What's Excluded

Next in the list of proposals is "welfare." What is meant by welfare in this context is money paid by the federal government to people because they are poor. It does not include money paid to people because they are over 65 years of age, or because they are farmers or because they are veterans, or the special benefits provided because they have health coverage provided by their employers or because they are in the business of producing textiles.

These welfare expenditures, the payments addressed specifically to poor people, amounted in fiscal 1994 to about $185 billion, 13% of total expenditures or about 90% of the deficit. I suppose that what people generally think of as welfare is Aid to Families With Dependent Children, but that costs the federal government only about $16 billion a year, about 1% of total expenditures or about 8% of the deficit. The costs of Medicaid and food stamps are much larger.

Hardly anyone starts by saying that his object is a cut of welfare. The usual formula is that what is wanted is a "reform" of welfare. The existence of certain highly undesirable conditions is recognized—unmarried teenage mothers, infants not properly cared for, children poorly educated, adults with no regular attachment to the labor force. The "reform" is supposed to cure those conditions. But it is also supposed to entail a reduction in the costs of welfare—a reduction of significant size and occurring within the time horizon for which we usually budget, say five years.

In fact, in the starkest and most general perception the cut of expenditures is supposed itself to be the reform, the measure that will cure the unwanted conditions. Here we are in danger of repeating the error of the extreme supply-sidism, which I called the "punk" supply-sidism, of the early 1980s.

The argument then was that cutting the tax on income would cause people to work and invest more to earn more income, which would increase the tax base, and therefore would yield more revenue. But the "therefore" proposition was not a logical consequence and was not, in fact, valid. If a tax cut of 30% caused an increase of the tax base but the increase was only, say, 5%, the revenue would decrease, not increase. Everything depended on the relation between the size of the tax cut and the size of the increase in the tax base.

Now people say that if we cut the welfare benefits given to young unmarried mothers, young unmarried women will have fewer children. QED, cutting the benefits will cure, or at least ameliorate, the problem. But if cutting the benefits by, say, 50% reduces the number of children newly born to young unmarried women by, say, 5%, the problem is not reduced but is aggravated. There will be more misery among children—that is, somewhat fewer children but each in a much more miserable condition.

Probably the enlargement of welfare programs that began in the 1960s contributed to the conditions we now deplore. The size of that contribution is, however, quite unclear. A lot of other things have happened in America, culturally and economically, in the past 30 years that may have contributed to the problem. The decline in real per-capita benefits in the 1980s did not seem to cause a reversal of the trend.

But this history does not matter much. We cannot erase the slate and write policy for the conditions as they existed 30 years ago. We have to deal with the conditions that now exist. We have millions of young children being raised in unfit surroundings, millions of too-young single mothers, millions of people with low or negative productivity. If all the welfare programs were eliminated tomorrow, these people would be here the next day, and most of them would be here the next year and 10 years from now.

Our challenge now is to try to get people out of the welfare pool as quickly as possible, by improving their productivity; to reduce the flow of new entrants into the welfare pool, by therapeutic measures begun at infancy or before; and at the same time to maintain at least minimum conditions for the people who, for all our efforts, will remain in the pool. This is a hard task, and it will not be cheap. For example, one common proposal these days is to put the most disadvantaged children in orphanages. That will certainly cost more than leaving them where they are. A positive program for welfare reform will also involve more expenditures for training, for day care, for public-service employment, for close supervision of expectant mothers and for other things.

In the long run a successful welfare program may reduce budget costs. But that run is likely to be very long. Our best hope is with the next generation, and it may be a generation before we see any reduction of costs. I could be wrong about this. Perhaps someone knows ways to reduce the welfare population quickly and cheaply without cruelty to those who are now part of it. I hope so. The main point is to try to solve the problem, as economically as possible, and with the hope of reducing costs in the end, but not with reduction of costs in the short run as the main objective and requirement.

The Main Reason

Why should the American middle-class taxpayer be asked to bear the present costs, or even larger ones, of dealing with the welfare problem? Something could be said about increasing the personal security of the middle class, or about the gains from increasing the productivity of the labor force. But those are not the main reason. The main reason is a moral one. It is not right for a country as rich as the U.S. to allow so many of its residents to live in misery and squalor without making a strenuous effort to prevent it. Or it is an aesthetic reason. America the beautiful is not beautiful with so much ugliness in its cities.

Not everyone will share this view. A taxpayer may say, "This money I am paying does not go for me or for my family or even for anyone like me, and I don't want to pay it." That would be more candid than saying that I am going to show my compassion for the poor by spending less money on them. It would be an honest position. If welfare "reformers" who feel that way would say so, the issue would be clearer and the American people could make a better choice. Instead, they now seem to be offered a choice between curing the problem by spending less money and not curing the problem by spending more money. The answer to that is simpler than reality ever is.

Board of Contributors

In the long run a successful welfare program may reduce budget costs. But that run is likely to be very long.

A former chairman of the president's Council of Economic Advisers, Mr. Stein is an American Enterprise Institute fellow.

The Yeltsin Problem

When the Russian Foreign Minister defends Moscow's military assault against the breakaway republic of Chechnya by comparing Boris Yeltsin to Abraham Lincoln, it is clear Moscow is anxious about the small but savage confrontation in the Caucasus. Andrei Kozyrev's desire to make the war more comprehensible to Americans is understandable. Mr. Yeltsin's mishandling of the Chechen rebellion is sure to strengthen those who want to end American assistance and return to a strategy of containing rather than befriending Russia. That would be a mistake, but some recalibration of long-term American policy is warranted.

Recognizing that the brutality of the attack has undermined Mr. Yeltsin, President Clinton has urged him to end the killing of civilians and accept an offer from the Organization for Security and Cooperation in Europe to help mediate a political settlement. Moscow should not refuse. Belatedly, Mr. Yeltsin says he is trying to put the military on a tighter leash and end the indiscriminate bombing of Grozny, the Chechen capital. Unfortunately, the army's sledgehammer approach has already dishonored the important principle that Moscow has a right to maintain the cohesion of the Russian federation, and in extreme cases like Chechnya, may use limited military force.

But the White House must look beyond the Chechen crisis, for it has altered the political picture in Moscow and Washington. Like Mikhail Gorbachev, who lost political traction at home before he lost his job, and who remained the pivot of American policy toward the Soviet Union long after his leadership had become illusory, Mr. Yeltsin is in trouble before his country or the world is prepared to deal with the consequences. Secretary of State Warren Christopher cannot wish away the problem with expressions of faith in Mr. Yeltsin.

Mr. Yeltsin has lost the support of moderate political leaders, narrowed his circle of advisers and shed much of the moral authority he gained in his fight for reform. It is unclear how much control he retains over an army embarrassed by its performance in Chechnya and embittered by a loss of resources and stature. Mr. Yeltsin will find it hard now to rise above the fractious political forces in Moscow. His prospects for re-election in 1996 are declining.

All this makes it essential that Washington have a Russia policy, not a Yeltsin policy. While not writing off Mr. Yeltsin, President Clinton must avoid the sort of bear hug that left President George Bush locked in Mr. Gorbachev's embrace. American policy should be anchored in support of economic, political and military reform in Russia and the institutions and people making it happen. That means reaching out to other democratic leaders like Yegor Gaidar, the former Prime Minister, cementing ties already formed between American and Russian Government agencies, and expanding exchanges between senior military officials.

Cutting off assistance is not in Russian or American interests. Subsidizing the dismantling of nuclear weapons in the former Soviet Union, one example, is an indispensable investment in post-cold-war security. Congress has appropriated $1.27 billion for that purpose since 1992.

After long delay, the International Monetary Fund is negotiating intensively with Russia about providing $13 billion desperately needed to help stabilize the economy and slow the inflation rate. Delaying or conditioning the aid because of the Chechen conflict may have short-term political appeal; the one sure way to prevent the assistance from indirectly financing the war is to put it on hold. But further delay in helping to shore up the Russian economy would punish the Russian people for Mr. Yeltsin's error. If Mr. Yeltsin is truly committed to making Russia democratic, he must move quickly to end the war in Chechnya.

THE NEW YORK TIMES, MONDAY, JANUARY 9, 1995

President Clinton's Welfare Waffle

Everyone agrees that welfare needs reform; too many programs do far too little to boost recipients toward self-sufficiency. But House Republicans do not just want to reform the system's operation. They seek to demolish the core principle that any American who becomes truly needy is entitled to support.

It is dismaying, but unsurprising, that Speaker Newt Gingrich and his compulsive band of budget cutters would tear up the country's social safety net. The shocker came last week when a timid White House seemed ready to acquiesce.

Robert Pear of The Times asked Avis LaVelle, an Assistant Secretary of Health and Human Services, whether she would defend the entitlement status of welfare and Medicaid (health insurance for the poor). She answered — reflecting White House thinking, officials there say — "No, I can't. ... It's just not smart for us to take an advocacy position one way or another. The ground is shifting under our feet."

The ground may be shifting. But when important principles are at stake, Presidents are supposed to lead, even if leadership requires digging heels into shifting terrain. The weak-kneed response contrasts sharply with the President's record: he worked to push the laudable 1988 welfare reform bill through Congress and focused his Presidential campaign around a promise of tough but compassionate reform. It would provide up to two years of training, education and child care, but then require able-bodied recipients to find work or take a government job.

What House Republicans propose is an annual national cap on welfare assistance and food stamps: the total amount of welfare money from the Federal Government would be fixed no matter how many applicants would qualify for assistance. Under Republican rules, mothers and children would wait in welfare lines and hope that the money would not run out before their names were called.

Putting annual caps on welfare programs is misguided. For starters, welfare is not draining the Treasury. Cash assistance, food stamps and Medicaid cost less than $150 billion a year; by comparison, two other entitlements — Social Security and Medicare — cost nearly $500 billion.

If welfare is lumped in with other discretionary programs, it will shrivel disastrously over time. Even without a balanced budget amendment, total discretionary spending will be held frozen over the next few years; the G.O.P. intends to drive it sharply lower. Congress would almost certainly chop welfare, which has no politically powerful constituency.

Besides cruelty, the proposal would make the economy increasingly vulnerable to recession. Now, as the economy slows and unemployed workers qualify for assistance, government automatically spends more money on welfare. This not only helps the needy but keeps spending levels high. States could pick up where Congress leaves off. But not many states will raise taxes during economic hard times to take care of the poor.

The G.O.P. is right is to insist that Congress rethink who should and who should not qualify for welfare. Congress might want to change rules that currently allow upper-income families to play accounting games to trick Medicaid into paying for nursing home care. Congress might want to require able-bodied recipients to work. Washington might want to give states more flexibility to design lower-cost ways to deliver welfare assistance.

Mr. Clinton knows all this. Indeed, he has said as much — in the past. But now he wants to duck the issue. When Secretary Donna Shalala of Health and Human Services goes to the House this week to testify, she should not be allowed to do the same. Capitol Hill is a perfect place for the Administration to find its political guts.

WR - Block Grant

Cons
Abolishes FSA/JOBS
Ends entitlement
GOP K plus CPI
Medicaid projections?
What theoretical justification?
Congress will cut Medicaid next (opposite of TennCare)

Pros
Fewer rules (FS)

?
Accountability
Cost-shifting vs cost-sharing
What will states do? Cut benefits?

Welfare and Medicaid Responsibility Exchange Act of 1994
by Senator Nancy Landon Kassebaum
March 7, 1994

Mr. President, later this year the Senate will take up the issue of welfare reform. I know this is a high priority to the chairman of the Finance Committee, Senator Moynihan, and many other members on both sides of the aisle.

While welfare reform has gotten much less attention than the current debate over health care, I believe the need to act on this issue is at least as important and as urgent. Today, I am introducing legislation to help address this concern.

Without question the current welfare system has helped feed, clothe, house, and educate millions of children. It also is without question that we have done so at an enormous price, not only in terms of money but in terms of creating a dependency that has lead us in the wrong direction.

With the best of intentions, we have tried to protect children from material poverty. In the process, we have helped trap too many children in a different kind of poverty--where personal responsibility, individual initiative, and a sense of belonging to community have no real meaning.

The real tragedy of our present welfare system is not the questions it constantly raises about the misuse of taxpayers' money--important as that concern is--but that the present system is failing children and families. Welfare was never intended to become a way of life, but in too many cases that is the reality we now face.

After 60 years and hundreds of billions of dollars, federal welfare efforts still have not won the war on poverty. Today, one out of five children live in poverty. Five million families with ten million children receive welfare assistance. Each year, a half million children are born to unwed teenage mothers, the vast majority of whom will end up on welfare.

The trends are clear, and they are not good. They suggest we already have lost a large part of the present generation, and we will lose even more of the next. That is why I believe the stakes in welfare reform are extremely high. Our failure or success will determine, to a large extent, whether millions of children get a fighting chance to lead healthy, responsible, productive lives.

Unfortunately, the history of our repeated attempts to reform welfare demonstrate that good intentions never guarantee success. If we want to succeed this time, and I believe we must, then we must go beyond patchwork, piecemeal change and fundamentally rethink our approach to helping families with children.

For me, the first basic question to be addressed is not <u>how</u> to reform welfare, but <u>who</u> should do the reforming. I believe a critical flaw in the present system is not only a lack of personal responsibility--it is a lack of responsibility at every level of government.

Our largest welfare programs today are hybrids of state and federal funding and management. The states do most of the administration, within a basic framework of federal regulation, while the federal government provides most of the money. The result is a hodgepodge of state and federal rules and regulations, conflicting eligibility and benefit standards, and constant push-and-pull between state and federal bureaucracies.

This may suit the needs of government bureaucracy. It clearly is not meeting the needs of children in poverty.

The first step toward real welfare reform, I believe, is to make a clearcut decision about who will run the plan, who will have the power to make key decisions, and who will be held responsible for the outcome.

The legislation we are introducing answers that question: It would give the states complete control and responsibility for Aid to Families with Dependent Children, the food stamp program, and the women, infants and children nutrition program. In order to free state funding to operate these programs, I would have the federal government assume a greater share--in some cases the states' full share--of the Medicaid program.

In budget terms, I am proposing a straight swap. The states assume all funding for welfare and the nutrition programs and pay for it with money they now send to Washington for the Medicaid program. The federal government keeps funding it now provides to the states for welfare and food programs and uses it to further reduce the state share for Medicaid. No state would lose money and neither would the federal government.

For example, in my state of Kansas, the state share of Medicaid this year will total almost $390 million. Federal spending for AFDC, food stamps and WIC will total about $267 million. Under this legislation, the state share of Medicaid would be reduced to about $123 million. That would free up the $267 million in state funds to take over the entire federal share of AFDC, food stamps and WIC.

Nationwide, state payments for Medicaid that now total about $62.3 billion would be reduced to about $21 billion. The balance would be kept by the states to take over the roughly $41 billion that the federal government spends for welfare and the nutrition programs.

In terms of government responsibility, this approach would for the first time draw a clear line between the states and Washington. It would fix responsibility for welfare at the state level--with no federal strings attached.

It also would begin the process of making the federal government responsible for Medicaid--an issue we already must address in health care reform. The explosive growth in Medicaid costs is a major cause of budget problems at both the federal and state level. Clearly, we must overhaul this program, and I plan to introduce legislation soon to lay out my own views on Medicaid reform.

I believe the exchange of responsibilities proposed in this bill makes sense for two reasons.

First, giving states both the power and the responsibility for welfare--with their own money at stake--would create powerful incentives for finding more effective ways to assist families in need. Nearly half the states already are experimenting with welfare reforms. This would give them broad freedom to test new ideas.

Second, I do not think Washington can reform welfare in any meaningful, lasting way. The reality is that we cannot write a single welfare plan that makes sense for five million families in 50 different and very diverse states.

Washington does not have a magic answer to the welfare problem. The governors and state legislatures have no magic solutions either, but they have the potentially critical advantage of being closer to the people involved, closer to the problems, and closer to the day-to-day realities of making welfare work.

In this case, I believe proximity does matter, perhaps powerfully so. One of the most important factors in whether families succeed or fail is their connection to a community, to a network of support.

For some families, this is found in relatives or friends. For others it might be a caring caseworker, a teacher or principal, a local church, a city or county official. These human connections are not something we can legislate, and they are not something that money can buy.

True welfare reform will require a renewal of local and state responsibilities for children and families in need. I believe that can only happen if the federal government steps aside and allows the states to get on with this work.

Mr. President, I ask unanimous consent that a summary of the bill and the text of the bill appear in the Record following my remarks.

BASIC INFORMATION ABOUT
THE KASSEBAUM SWAP PROPOSAL

WHAT IS BEING "SWAPPED:"

The basic purpose of the "swap" proposal is to transfer responsibility for welfare assistance programs to the states, while beginning the process of shifting responsibility for Medicaid to the federal government.

WHY THE SWAP IS THE BEST APPROACH TO WELFARE REFORM:

States are in a much better position than the federal government to make determinations about programs providing cash and noncash assistance for low-income individuals and families. In the past decade, most, if not all, of the innovation in the area of welfare reform has originated at the state and local levels. The number of waivers of federal mandates, regulations and rules being requested by states demonstrates a number of significant things:

There is a need to change the currently federally mandated system of welfare assistance because it is not working well.

Federal rules, regulations, and mandates have become a barrier to operating effective welfare assistance programs.

In the past decade, the momentum for restructuring the welfare system has been generated by the states--the innovations that are being discussed in Congress and by the administration are the result of state efforts to devise and operate more effective welfare systems.

States need the flexibility to adapt their basic assistance programs to better meet the needs of individuals and families in need of welfare assistance.

Economic conditions, employment, educational and training opportunities, and available support services vary widely among states--a "one-size-fits-all" federal welfare assistance program is not able to adapt readily either to this diversity of situations or changing conditions.

In contrast, the federal government is in a better position to devise and administer basic health care services for low-income individuals and families. As the health care reform debate has demonstrated, there is a need for the development of a broader view of health care financing and service provision--an appropriate role for the federal government.

KEY PROVISIONS OF THE "SWAP" PROPOSAL:

- The states will assume full fiscal and administrative responsibility for the Aid to Families with Dependent Children (AFDC), food stamp, and Nutritional Assistance for Women, Infants, and Children (WIC) programs.

- For five years, there will be a maintenance-of-effort requirement that funds currently obligated by states and the federal government for these programs be used to provide cash and noncash assistance for low-income individuals and families. States will have the responsibility and flexibility to design and operate assistance programs without federal rules, regulations, and mandates.

- In return, the states will receive a federal supplement to the state share of Medicaid expenditures equal to the amount currently spent by the federal government in a given state for AFDC, food stamps, and WIC (adjusted annually to account for changes in population and inflation).

- State Medicaid benefits and plan options will be frozen at the January 1, 1994, levels. In the process of redesigning state welfare systems, states may change Medicaid eligibility as long as the aggregate expenditures for the state do not grow faster than the projected costs for Medicaid under the current law.

- After five years, the federal government will assume responsibility for Medicaid (or its equivalent under a new national health care plan).

ST	Medicaid State Share 1994	AFDC 1994	Food Stamp Program 1994	WIC 1994	Medicaid - (AFDC+FSP+WIC)
AL	496,028,000	83,109,394	501,072,318	71,117,000	(159,270,712)
AK	127,480,000	62,106,365	53,930,360	10,698,000	745,275
AZ	561,553,000	196,232,543	433,217,573	59,910,000	(127,807,116)
AR	280,248,000	47,447,808	230,226,756	44,093,000	(41,519,564)
CA	8,106,973,000	3,138,454,180	2,383,573,707	385,760,000	2,199,185,113
CO	562,152,000	100,902,860	246,489,856	34,343,000	180,416,284
CT	1,169,094,000	200,241,366	162,316,932	41,522,000	765,013,702
DE	141,216,000	22,810,473	51,879,148	8,406,000	58,120,379
DC	331,973,000	67,497,817	91,765,506	10,112,000	162,597,677
FL	2,759,117,000	515,387,946	1,434,158,960	136,789,000	672,781,094
GA	1,196,057,000	299,014,716	726,666,754	105,205,000	65,170,530
GU	3,265,000	4,117,898	20,134,757	4,407,000	(25,394,655)
HI	240,870,000	76,179,538	142,104,169	19,924,000	2,662,293
ID	106,409,000	22,362,518	62,816,383	20,634,000	596,099
IL	2,577,265,000	470,670,185	1,141,965,464	132,974,000	831,655,351
IN	1,246,783,000	178,494,601	443,916,509	70,816,000	553,555,890
IA	403,073,000	112,964,096	159,768,255	31,426,000	98,914,649
KS	389,627,000	83,830,974	153,451,007	29,868,000	122,477,019
KY	567,845,000	170,288,835	462,339,685	61,968,000	(126,751,520)
LA	1,189,270,000	135,474,713	708,910,185	83,406,000	261,479,102
ME	333,149,000	75,912,184	121,629,486	15,603,000	120,004,330
MD	1,169,535,000	187,355,694	366,699,285	44,421,000	571,059,021
MA	2,257,484,000	409,618,332	358,125,142	55,007,000	1,434,733,526
MI	2,165,169,000	742,491,923	907,155,282	107,593,000	407,928,795
MN	1,123,929,000	247,909,622	263,434,572	46,072,000	566,512,806
MS	277,997,000	72,649,192	447,649,248	53,802,000	(296,103,440)
MO	969,665,000	183,211,175	517,917,671	66,638,000	201,898,154
MT	110,143,000	37,866,499	60,644,145	12,395,000	(762,644)
NE	254,845,000	56,480,146	88,686,882	18,846,000	90,831,972
NV	218,467,000	28,933,525	92,968,695	12,498,000	84,066,780
NH	469,725,000	29,899,689	50,451,268	11,302,000	378,072,043
NJ	2,512,671,000	356,204,375	535,153,839	73,384,000	1,547,928,786
NM	167,605,000	91,000,782	212,249,777	29,408,000	(165,053,559)
NY	11,671,460,000	1,635,945,100	1,978,040,977	248,959,000	7,808,514,923
NC	1,170,938,000	260,069,792	528,141,489	91,268,000	291,458,719
ND	76,991,000	22,352,465	40,241,397	11,164,000	3,233,138
OH	2,274,868,000	626,425,152	1,204,369,263	133,740,000	310,333,585
OK	312,354,000	143,755,609	322,588,775	50,064,000	(204,054,384)
OR	432,164,000	140,703,219	260,003,127	34,869,000	(3,411,346)
PA	3,081,206,000	545,182,143	1,077,272,223	133,530,000	1,325,221,634
PR	108,500,000	81,428,646	0	11,498,000	15,573,354
RI	360,163,000	72,488,392	80,877,781	12,615,000	194,181,827
SC	329,076,000	92,177,779	333,186,251	64,504,000	(160,792,030)
SD	91,284,000	18,491,010	48,068,465	14,175,000	10,549,525
TN	1,173,316,000	174,536,082	657,518,220	70,822,000	270,439,698
TX	2,985,841,000	379,095,548	2,439,266,641	280,620,000	(113,141,189)
UT	138,662,000	61,015,569	110,178,897	30,550,000	(63,082,466)
VT	112,742,000	40,791,796	43,818,976	10,136,000	17,995,228
VI	3,337,000	2,952,912	23,096,959	6,609,000	(29,321,871)
VA	977,626,000	130,107,102	487,117,037	66,494,000	293,907,861
WA	1,192,094,000	374,839,770	414,222,392	52,316,000	350,715,838
WV	307,478,000	97,381,077	275,728,184	29,384,000	(95,015,261)
WI	968,395,000	303,207,247	254,049,134	53,734,000	357,404,619
WY	53,260,000	19,936,306	29,483,438	7,889,000	(4,048,744)
	62,308,437,000	13,730,004,680	24,240,739,202	3,325,287,000	21,012,406,118

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

Food and Consumer Service
Economic Research Service

U.S. Department of Agriculture
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INTRODUCTION

The U.S. Department of Agriculture administers the Nation's domestic food and nutrition programs (Appendix A). Together, these programs serve more than 45 million Americans every month. The Food Stamp Program (FSP) alone serves about 27 million people monthly, more than half of whom are children, over a quarter of whom live in households with earnings, and about 7 percent of whom are elderly. The National School Lunch Program (NSLP) serves 25 million children each day. WIC provides food assistance, nutrition education, and critical health care referrals to nearly 7 million women, infants, and children monthly.

The Food Stamp Program is designed to help meet the basic nutritional needs of all eligible low-income families or individuals; other food and nutrition programs provide supplemental benefits to those with special needs, such as children or pregnant or lactating women. Together these programs fashion a network of food and nutrition assistance that ensures that every American, regardless of income, has access to an adequate and nutritious diet.

While food and nutrition programs have long enjoyed broad support, current fiscal realities compel a careful review of the merits of all federal programs. It is in this context that the Personal Responsibility Act and other proposals that could affect food assistance programs are being discussed.

The Personal Responsibility Act (HR 4), a key component of the Contract with America, would make sweeping changes that alter the very character of the existing food assistance programs. Specifically, the Personal Responsibility Act, if enacted, would:

- o Combine all USDA food and nutrition assistance programs into a single discretionary block grant to States;
- o Authorize an appropriation of $35.6 billion in fiscal year (FY) 1996 for the Food Assistance Block Grant;
- o Eliminate all uniform national standards;
- o Give States broad discretion to design food assistance programs, provided only that no more than 5 percent of the grant support administration, at least 12 percent support food assistance and

nutrition education for women, infants, and young children, and at least 20 percent support school-based and child-care meal programs;

- Eliminate USDA's authority to donate commodities; USDA could only sell bonus commodities to States;

- Require most single individuals or childless couples to work at least 32 hours per month in public sector jobs; and

- Eliminate assistance for virtually all noncitizens, legal or not.

This paper examines the consequences of the Personal Responsibility Act on the existing food and nutrition programs. First, we look at the impacts these changes would have on the food assistance safety net. Then, we examine the effects of these changes on the nutrition and health of the American people, particularly children and the poor. Next, we look at what might happen to the food and agriculture industry and the economy in general. Finally, we explore how these changes could affect States and the individuals currently served by food and nutrition programs.

While this analysis concentrates on the changes put forward in the Personal Responsibility Act, it is important to note that virtually any proposal that includes substantial reductions in funding or creation of large-scale block grants would have similar consequences.

FINDINGS

Enactment and implementation of the Personal Responsibility Act would have substantial consequences for the safety net of food assistance programs now in place; for the nutrition and health of low-income Americans; for food, agriculture, and the economy; and for the level and distribution of federal support to States. These effects are each described in turn.

Consequences for Food Assistance

The proposed Personal Responsibility Act would significantly reduce federal support for food and nutrition assistance. USDA funding for food and nutrition assistance would be cut by more than $5 billion -- or 13 percent -- from the FY 1996 current service estimate and by $3 billion below spending in FY 1995. The gap between current services and the adjusted block grant funding would widen to $7 billion in FY 2000 and total nearly $31 billion over five years (Table 1).

The Personal Responsibility Act would also eliminate funding for elderly congregate and home-delivered (meals-on-wheels) meals provided through the Administration on Aging (AoA). In FY 1995, AoA provided $470 million in addition to the $150 million provided through the USDA Nutrition Program for the Elderly. Funding for these programs would need to come from monies appropriated under the Personal Responsibility Act.

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

Table 1 -- Effect of the Personal Responsibility Act on USDA Food Assistance Program Costs
(Dollars in millions)

	Fiscal Year					Total
	1996	1997	1998	1999	2000	
Current Law:						
Food Stamps/NAP	$27,777	$29,179	$30,463	$31,758	$33,112	$152,290
Child Nutrition	8,681	9,269	9,903	10,556	11,283	49,692
WIC	3,924	4,231	4,245	4,379	4,513	21,291
All Other	382	351	351	351	351	1,784
Total	40,764	43,029	44,962	47,042	49,260	225,057
Proposed Law:	35,600	37,138	38,756	40,457	42,214	194,166
Difference	-5,164	-5,891	-6,206	-6,585	-7,046	-30,892
Percent Difference	-12.7%	-13.8%	-13.8%	-14.0%	-14.3%	-13.7%

Notes: Based on current service program level for USDA food assistance programs in Department estimates of September 1994 (excluding projected costs of Food Program Administration but including anticipated mandatory spending for WIC, consistent with Presidential policy). This table does not include the budgetary effects of food programs operated by the Administration on Aging in the Department of Health and Human Services.

The Food Stamp total includes the cost of the Nutrition Assistance Program in Puerto Rico.

The Child Nutrition total includes all administrative and program costs for the National School Lunch, School Breakfast, Special Milk, Summer Food Service, Nutrition Education and Training, and Child and Adult Care Food Programs, the value of commodities provided to schools, and support for the Food Service Management Institute.

The All Other total includes all administrative and program costs for the Commodity Supplemental Food Program, the Emergency Food Assistance Program, the Food Distribution Program on Indian Reservations, the Nutrition Program for the Elderly, and Food Distribution to Charitable Institutions and Soup Kitchens and Food Banks.

Proposed levels for the block grant in fiscal years 1997 through 2000 are increased from the 1996 amount using the projected increase in total population and the cost of the Thrifty Food Plan for the preceding year. Totals may not equal sum of columns due to rounding.

This table assumes that Congress appropriates the full amount authorized in each year.

annual appropriation priorities. There is no guarantee that Congress would appropriate the full amount authorized in any given year. Moreover, the authorization ceiling in every future year would be based on the previous year's appropriation. If the Food Assistance Block Grant is reduced in one year to support other priorities, funding for future fiscal years would be permanently lower. As a result, the difference between the funding needed to support current services for food assistance and the funding appropriated to support the food assistance block grent could be even greater than the estimates reported here.

Under the proposed block grant, food assistance programs would be unable to respond to changing economic circumstances. Historically, the Food Stamp and Child Nutrition programs have automatically expanded to meet increased need when the economy is in recession and contrected when the economy is growing.

Under current law, if e family or individuel is needy enough to qualify for Food Stamp or Child Nutrition benefits, they ere essured of benefits regardless of where they live. These families end individuals need only epply to receive these benefits. Thus, as unemployment end poverty grow, so does program participetion, cushioning some of the harsher consequences of economic recession.

It is not possible for the Food Assistance Block Grent, or any other block grant, to respond to economic or demographic changes in this way. While the number of people eligible for end in need of essistance will grow as the economy weakens, unemployment rises, or poverty increeses, they will not necessarily be entitled to receive any support. Because federal funding for food assistence would no longer automatically increase in response to greater need, States would have to decide whether to cut benefits, tighten eligibility, or dedicate their own revenues to enti-hunger programs. The demand for assistence to help the poor would be greatest at precisely the time when Stete economies are in recession and tax bases are shrinking.

Food stamp benefits are based on the amount of resources needed to purchase an adequate and nutritious diet. If benefits are reduced across the board, they would no longer be sufficient to enable families to purchase the food they need to sustein an active, healthy life.

The importance of the loss of an autometic adjustment to food assistance programs can be illustrated best by looking back to the period between 1989 and 1994, when the U.S. economy fell into recession and subsequently recovered. Hed total food essistance been cut by 13 percent in 1989 end then adjusted by changes in total population end food prices -- as proposed in the Personal Responsibility Act -- the block grant in 1994 would have been over $12 billion less than the federal support actually provided for food assistance (Table 2), a reduction of ebout one-third. Over the course of five years, the shortfall would have amounted to $46 billion.

Even in the absence of the initial 13 percent funding reduction called for in the Personal Responsibility Act, the block grant edjustment would not have kept pace with existing automatic adjustments. By 1994, funding for food assistance would have been $9 billion below actual spending. Any

Table 2 -- 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 assume 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 as shown in Table 1.

block grant proposal would have similar effects because no formula adjustment can replace the automatic adjustments built into the Food Stamp and Child Nutrition programs.

The proposed block grant would shift spending among food assistance programs. The floors and ceilings on spending for administration, for services for women, infants and young children, and for child nutrition would redistribute the funds available for these broad program categories (Table 3). The minimum set-aside for food assistance and nutrition education services to women, infants, and young children would be about $860 million more than the anticipated spending on comparable WIC services in the FY 1996 baseline. The minimum set-aside for child nutrition services excluding administration would be $1.2 billion less than the comparable baseline. The funds remaining would be $3.7 billion below the projected current service level for all other programs, including the Food Stamp and Food Distribution programs.

The federal share of State administrative expenses for food assistance programs now averages about eight percent, with substantial variations among States. Under the Personal Responsibility Act, States could use no more than five percent of their grant on program administration. Thus, the ceiling would effectively reduce federal support for administrative costs by more than one-third. Because the bill would not require States to contribute any of their own funds to program administration – while current law requires them to contribute about half of the cost of administering the Food Stamp Program – the actual reduction in total administrative support could be much greater.

Consequences for Nutrition and Health

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 – dietary intake is linked to major chronic diseases, including heart disease, stroke, diabetes, and certain forms of cancer. Fourteen percent of all deaths, about 300,000 per year, are linked to diet and activity patterns. Furthermore, small improvements in average dietary intakes towards the Dietary Guidelines for Americans have a large value. Very modest reductions in fat, saturated fat, and cholesterol intake due to food labeling changes (from 0.1 to 1.4 percent) were valued by the Food and Drug Administration at $4.4 billion to $26.5 billion over 20 years.

Low-income households are at greater risk of nutrition-related disorders and chronic disease than the rest of the population. There is a substantial body of research demonstrating that the incidence of nutrition-related disorders and health conditions related to poor nutrition is greatest among the low-income population. The Federation of American Societies for Experimental Biology, in a report on nutrition monitoring in the United States, summarizes various findings from key nutrition studies of recent years. Among the findings reported are the following:

Table 3 -- Distribution of Program Funds Under the Proposed Block Grant and Current Law
(Dollars in millions)

	Fiscal Year					Total
	1996	1997	1998	1999	2000	
Block Grant Funding:						
Administration (5%)	$1,780	$1,857	$1,938	$2,023	$2,110	$9,708
Women/Infant/Child (12%)	4,272	4,457	4,651	4,855	5,066	23,301
Child Nutrition (20%)	7,120	7,428	7,751	8,091	8,443	38,833
All Other	22,428	23,397	24,416	25,488	26,595	122,324
Total	35,600	37,139	38,756	40,457	42,214	194,166
Current Law Funding:						
Administration	2,864	2,958	3,042	3,154	3,273	15,291
WIC	3,414	3,685	3,699	3,817	3,937	18,552
Child Nutrition	8,321	8,884	9,480	10,088	10,766	47,539
All Other	26,165	27,503	28,742	29,984	31,283	143,677
Total	40,764	43,029	44,962	47,042	49,260	225,057
Difference:						
Administration	-1,084	-1,101	-1,104	-1,131	-1,163	-5,583
Women/Infants/Children	858	772	952	1,038	1,129	4,749
Child Nutrition	-1,201	-1,456	-1,729	-1,997	-2,323	-8,706
All Other	-3,737	-4,106	-4,326	-4,496	-4,688	-21,353
Total	-5,164	-5,890	-6,206	-6,585	-7,046	-30,892

Notes: The current law estimate of spending on administration includes federal funding of State Administrative Expenses for the Food Stamp, Child Nutrition, and Food Distribution programs; administrative funding (excluding the cost of providing nutrition education, health care referrals, and other services) for WIC; other program costs (such as printing and shipping of coupons) for the FSP; research and evaluation; coordinated review for the school meals programs; funding for the Food Service Management Institute, dietary guidelines implementation, and communication activities related to the Child Nutrition Program. Federal Food Program Administration is not included. Nutrition services, health care referrals, and other similar costs for WIC are included as a WIC benefit.

The current law Child Nutrition total includes all program costs for the National School Lunch, School Breakfast, Special Milk, Summer Food Service, Nutrition Education and Training, and Child and Adult Care Food Programs and the value of commodities provided to schools.

The current law All Other total includes all program costs for the Food Stamp Program, the Nutrition Assistance Program in Puerto Rico, the Commodity Supplemental Food Program, the Food Distribution Program on Indian Reservations, the Nutrition Program for the Elderly, and Food Distribution to Charitable Institutions and Soup Kitchens and Food Banks.

This table assumes that Congress appropriates the full amount authorized in each year.

Sums may not total due to rounding.

- The prevalence of health conditions directly or indirectly related to poor nutritional status is generally highest among the low-income population;

- The risk of nutrition-related disorders is generally greater in low-income groups than in groups with higher incomes;

- The prevalence of iron deficiency is greater among women below the poverty line than among women above it;

- Intakes of a number of vitamins and minerals are lower among the poor than among the nonpoor. For example, on average, low-income women have inadequate intakes of vitamin E, vitamin B-6, folacin, calcium, magnesium, iron, and zinc. Their intakes for these nutrients are below those of women at higher income levels; and

- The rate of anemia is substantially higher among poor children below the age of 4 than among nonpoor children in this age group.

Most of the food assistance and nutrition programs were started in response to documented problems of under-consumption and undernutrition in the United States in the 1960's and early 1970's. Results from three major nutrition surveys – the Ten State Nutrition Survey (1968-1970), the Preschool Nutrition Survey (1968-1970), and the first Health and Nutrition Examination Survey (1971-1974) indicated that problems of growth deficits, anemia, and dental caries were more common in low-income populations than in the U.S. population as a whole.

The existing food assistance programs contain a direct link to nutrition and health. Food stamp benefits across the country are tied to the cost of a modestly-priced nutritious diet sufficient to sustain an active, healthy life. The key components of WIC include food packages tailored to specific nutrition requirements, nutrition education, health care referrals, and immunization screening. The Child Nutrition Programs contain standards that ensure school meals served to America's children meet certain nutritional requirements.

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. USDA has conducted periodic surveys to assess the eating habits of the American people. These data show that the diets of the poor improved markedly between 1965-1966 and 1977-1978, a period that marked the nationwide expansion of the Food Stamp Program and the introduction of WIC. The percent of low-income households with diets that met 100 percent of the Recommended Dietary Allowances (RDAs) for 7 key nutrients essential to good health – protein, calcium, iron, vitamin A, thiamin, riboflavin, and ascorbic acid – grew from less than 40 percent to about 50 percent. This increase is more than double the increase – from 50 percent to 55 percent – seen in the general population over the same period.

Nutritional status in the United States as measured by growth, low birthweight, and hematological status has improved. A number of reviews credit a part of this improvement in the nutritional status of vulnerable groups to the safety net provided by the food and nutrition assistance programs.

- o *The incidence of stunting has decreased by nearly 65 percent.* Nutrition surveillance data (CDC, 1977) from 13 States for the period from 1974 to 1976 indicated that 22.8 percent of preschool aged children were stunted (having low height for their age). Similar data were reported from the first Health and Nutrition Examination Survey. However, by 1992, the prevalence of stunting in low-income children had dropped to 8 percent (DHHS, 1994).

- o *Similar improvements in the prevalence of low birthweight have been documented.* In 1965-1967, 8.3 percent of all live births in the United States were low birthweight (less than 2,500 grams). By 1990, the low birthweight rate had dropped to 7.0 percent.

- o *The prevalence of anemia in low-income preschool aged children has also improved dramatically.* Data from the CDC Pediatric Surveillance System indicate that rates of enemia in pre-school aged children dropped by 5 percent or more for most age and racial/ethnic groups between 1980 and 1991 (Yip et al, 1992). Researchers attribute a significant proportion of this reduction in anemia to participation in WIC.

  Anemia has, for a long time, been associated with apathy and listlessness. More recent data indicate that physical work capacity is decreased with anemia. In addition, mild to moderate anemia has been associated with diminished mental performance in school.

Under the Personal Responsibility Act all nutrition standards for food assistance programs would be eliminated.

- o *The Personal Responsibility Act would eliminate the standards that ensure America's children have access to healthy meals at school.* The current law authorizing the Child Nutrition Programs ensures that the meals served to school children satisfy certain nutrition standards. As a result, participating children are able to obtain the recommended one-third of the RDA for basic vitamins and minerals essential for good health from lunch and one-fourth from breakfast.

  Students' daily intakes of total fat and saturated fat, however, exceed current dietary recommendations. Daily intakes at lunch average 37 percent of calories from fat, compared with the Dietary Guideline goal of 30 percent or less, and 14 percent from saturated fat, compared with the Dietary Guideline goal of less than 10 percent. USDA -- through its School Meals Initiative for Healthy Children -- proposed regulations in June to update nutrition standards and require school meals to meet the Dietary

Guidelines. The 1994 reauthorization of the Child Nutrition Programs further endorsed the Dietary Guidelines as national standards by making them a program requirement by law.

- *The Personal Responsibility Act threatens the key components of WIC.* Much of WIC's success rests on a tightly prescribed combination of targeted food package, nutrition counseling, and direct links to health care for expectant and post-pertum mothers and their children. Under the Personal Responsibility Act, States no longer would be required to provide any of these key components. The potential loss of these components is particularly problematic given the significant body of evidence thet shows investments in WIC return substantially larger savings in public health care costs.

  Rigorous studies have demonstrated that WIC reduces infant deaths, low birthweight, premeture births, and other problems. Prenatal WIC participants have better birth outcomes than eligible nonparticipants. Participation in WIC increases average gestational age and birthweight while reducing the incidence of very low birthweight babies and infant mortality. As a result, Medicaid-eligible women who participate in WIC have lower health care costs. In the first 60 days after birth, the Medicaid savings for newborns and their mothers averaged between \$1.77 and \$3.13 for every dollar spent on WIC. The ratio of savings to costs was larger when measured over the first year, ranging from \$1.92 to \$4.21.

  WIC improves the nutrition of participants. The program played a significant role in the decline in the incidence of iron deficiency anemia. Children participating in WIC have more nutrient dense diets than eligible nonparticipants, with higher intakes of iron, vitamin C, thiamin, niacin and vitamin B_6.

  WIC participation is also responsible for better health care use. Pregnant participants ere more likely to receive prenatal care. WIC also significantly increases the rates of childhood immunization.

- ***States would not be held accountable for results.*** While the Personal Responsibility Act eliminates all nutrition standards, it provides no mechanism to ensure accountability for echieving results end ensuring proper stewardship of federal funds. There are no requirements or vehicles for State reporting of activities, federel oversight of operations, or reporting to Congress and the American public on the services provided or the results achieved with a multi-billion dollar block grant.

Consequences for Food, Agriculture, and the Economy

The Personal Responsibility Act would ultimately mean less money available to support food purchases and agricultural incomes. This effect occurs in three ways. First, the bill would reduce the amount of federal support for food assistance programs. Second, the bill would repeal USDA's authority to donate commodities. And finally, the bill would enable States to move away from food stamp coupons, electronic benefit transfer, and WIC prescriptions – each with a direct link to food purchase – and provide assistance in cash. Retail food spending will decrease when the same level of assistance is provided as cash rather than targeted assistance.

These changes have implications for the food and agriculture industry and the general economy. A reduction in federal support would result in lower retail food sales. As food spending declines, the loss in sales would affect earnings of food manufacturing and distribution firms. Agricultural producers would suffer decreases in gross farm income as farm prices and food sales decline. The economic effects would not be limited specifically to food-related goods and services. Non-food sectors would be affected by reduced government expenditures in the economy. This would occur through deficit reduction, tax cuts, or some combination of both. Appendix B describes the procedures and detailed results of an analysis to estimate impacts for farm and food sectors and the economy-at-large.

By reducing federal support for food assistance by \$5 billion and converting the remaining \$35.6 billion in food assistance to a block grant, the Personal Responsibility Act could result in an immediate fall in retail food sales of \$4.25 billion to \$10.5 billion. The cap on administrative spending will force States to look for ways to reduce administrative costs. Even without this incentive, many States have pushed hard for waivers to existing Food Stamp Program requirements to provide food stamp benefits in the form of cash rather than coupons. Under the Personal Responsibility Act, States would no longer need to seek USDA's approval and could immediately cash-out any and all food assistance programs. Cash-out could occur in spite of evidence that an in-kind benefit is more effective in stimulating food purchases than a similar benefit provided in cash.

Agricultural producers stand to lose under the Personal Responsibility Act. Farm income for livestock, vegetable and fruit commodity producers could fall by as much as \$1 to \$2 billion in response to a \$5 billion cut in federal support with conversion of remaining food assistance to block grants. Income losses for other agricultural producers would be moderated by existing farm price and income support programs. For example, grain and soybean producers' gross income (which includes government farm support payments) could potentially fall by \$200 million and federal grain program costs would increase by \$250 million. Gross farm income declines because government payments do not fully offset the loss of market income.

The impact on the dairy sector depends on the potential losses in fluid milk sales if the mandatory milk requirement in the National School Lunch Program is lifted. If fluid milk sales to the NSLP were to fall by 25 percent, dairy producers would lose as much as \$380 million in income. Federal dairy program costs would increase by \$228 million. With no decrease in milk usage by NSLP, the income loss would potentially reach $315 million and program cost would increase by $191 million.

For peanut producers, gross income losses could vary between $0 and $26 million depending on the extent to which the existing section 32 surplus removal policies absorbed the excess supplies. Likewise, peanut program costs could increase from $14 million to $37 million.

We also estimated impacts beyond the farm sector using economywide models that incorporate intersectoral linkages among different goods and service producing sectors. Impacts were estimated for several scenarios as detailed in Appendix B. Short run impacts were estimated assuming constant wages end prices.

In the short run, the Personal Responsibility Act could add a tenth of a percent to aggregate U.S. unemployment. A $5 billion reduction and conversion to block grants could cost 126,000 to 138,000 jobs, the majority of which are in the food sector. Farm and food sector output could fall by as much as $6 billion to $16 billion, and output in the nonfood sector could decrease by as much as $4 billion. (In some scenarios, output in the nonfood sector could increase by $2 billion.) In general, every $1 billion reduction in food assistance costs the economy about 25,000 jobs.

In the long-run, the Personal Responsibility Act would reduce employment in farm production by 15,000 to 45,000 jobs and output by more than $1 billion. Food processing and distribution sectors could lose between 28,000 and 83,000 jobs and between $3 billion and $9 billion in output. Employment declines in the food sector would be offset by non-food job increases. While some of the short-run impact would be mitigated as the economy adjusted back to full employment, there would be lasting changes in the composition of output and in the distribution of employment. We estimated long run impacts with an economywide model that allows for wages and prices to adjust to restore a balance between the supply and demand for labor and for various goods and services in the economy.

The economic effects would be felt most heavily in rural America. For both the short-run and long-run scenarios, nonmetropolitan areas would suffer disproportionate job losses. In the short-run, in response to a $5 billion food assistance funding reduction with conversion to a block grant, nonmetropolitan areas would lose twice as many jobs as urban areas as a proportion of employment levels. In addition to farming, food processing activities are located in these areas. In the long run, the nonmetropolitan employment and output losses diminish but would not entirely disappear. Conversely, employment in urban areas would actually increase slightly, thus permanently shifting employment from nonmetropolitan to metropolitan areas.

Under the Personal Responsibility Act, the amount of commodities made available to support food assistance would be significantly reduced. USDA would have authority only to sell bonus commodities to States. Eliminating federal food assistance programs would remove a significant outlet for the commodities obtained under price-support and surplus-removal programs.

This would result in diminished support to agricultural markets, increased federal storage costs and possibly increased donations to foreign countries in lieu of distribution of such commodities domestically for use in providing food assistance.

Consequences for States

The proposed formula for distributing grant funds to States would result in substantial individual losses for most States. If Congress appropriates the full amount authorized under the Personal Responsibility Act, most States would lose federal funding in FY 1996; only eight States would gain. In some cases -- as shown in Table 4 -- the gains and losses are substantial. For example, California could gain about $650 million; Texas could lose more than $1 billion.

Several factors help explain the pattern of winners and losers. On the one hand, there is the 13 percent reduction in total federal funds available for food assistance. Absent any other change, all States would lose federal funding.

On the other hand, there is the allocation of funds among States using their share of the economically disadvantaged population. This approach would redistribute benefits among the States for at least three reasons.

First, the income limits defining the economically disadvantaged are higher in some parts of the country than in others (Appendix C). Holding everything else constant, States in regions with higher income limits -- and, therefore, with larger numbers of people defined as economically disadvantaged -- should gain federal funding in the proposed block grant. Conversely, States in regions with relatively low income limits should receive a smaller share of the block grant.

Second, some States serve a higher portion of those eligible for food stamp benefits under the existing program. Because the block grant funds would be distributed among States based on a count of the number of economically disadvantaged people -- not the number of people actually served -- States with relatively high food stamp participation rates would be more likely to lose federal funding than those which have been less successful in enrolling the eligible population.

Finally, some States pay higher AFDC benefits than others. Food stamp benefits -- because they depend on household income, including AFDC -- tend to be smaller in States with large AFDC payments. Because the block grant funds would be distributed among States based on the number of economically disadvantaged people -- not the proportion of benefits currently going to those individuals -- States with the highest AFDC payments would be most likely to gain federal funding under the proposed block grant and States with the lowest payments would be most likely to lose.

In other words, the States that lose are likely to be in regions with relatively low income limits, to have higher than average rates of participation in the FSP currently, and to pay relatively low AFDC benefits.

The cases of California and Texas illustrate how these factors would interact to affect funding available to each State. California

Table 4 -- 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

State	Level of Food Assistance		Difference	
	Current	Proposed	Total	Percent
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	- 25	- 5
Wyoming	57	57	*	1
Territories/ITOs/Other				
Dept. of Defense	5	0	- 5	- 100
Indian Tribal Org.	122	85	- 37	- 30
American Samoa	5	5	*	- 3
Guam	31	30	- 1	- 3
Puerto Rico	1,478	1,698	221	15
Virgin Islands	39	38	- 1	- 3
Outlying Areas	2	2	*	- 3
Total	40,764	35,600	- 5,164	- 13

Notes: Individual cells may not sum to totals because of rounding.

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

* equals less than $1 million.

is in the West region (which has a relatively high income limit), has a food stamp participation rate 13 percent below the national average, pays $593 per month on average to food stamp households on AFDC, and would gain more than $650 million in funding under the block grant. Texas, on the other hand, is in the South region (which has the lowest income limit), has a participation rate 6 percent higher than the national average, pays only $174 on average to food stamp households on AFDC, and would lose more than $1 billion.

Funding reductions of the size called for in the Personal Responsibility Act would force States to reduce the number of people served by the FSP, benefit levels, or both. An estimated 34 States would lose funding for services to individuals currently served by the Food Stamp and Food Distribution Programs. Even if all spending on Food Distribution Programs were eliminated, half of these States would not have enough funding to serve the current food stamp population.

Unless States can fill the gap between current service and block grant funding, they will be faced with the choice of reducing benefits across the board, restricting participation, or some combination of both. As shown in Table 5, most States would have to make dramatic reductions in food stamp caseloads or benefits.

States could, for example, choose to accommodate the lower funding available by lowering eligibility limits for the Food Stamp Program, restricting participation to those with the least income and the greatest need. Applying this approach to projections for FY 1996, the reduction in funding available to the Food Stamp Program would require States to serve 6 million fewer food stamp participants, a 22 percent reduction. Ten States would have to restrict participation by more than 40 percent. This would mean lowering the income eligibility guidelines from the current limit of 130 percent of poverty to below 60 percent of poverty.

Alternatively, States could continue serving the current food stamp caseload, but reduce benefits across the board. If States adopted this approach, the average benefit per person would fall by about $11 per month (14 percent). In 9 States, the pro rata benefit reduction needed to sustain current participation would exceed 30 percent.

These estimates assume States spend only the 20 percent minimum on child nutrition services. If States spend more on child nutrition, the reductions needed in services to current Food Stamp and Food Distribution Program recipients would be even larger.

If States spend no more than the minimum on child nutrition services, the reductions in funding for child nutrition could be just as extensive. Based on current spending for Child Nutrition programs, all but 8 States will lose funding. Total child nutrition funds could be cut by over 25 percent in 19 States (Table 6).

Under current law, the School Lunch and School Breakfast programs provide means-tested support for all meals served to children. Modest subsidies provided to higher-income children help support the infrastructure to serve nutritious meals to

Table 5 – Effect of the Personal Responsibility Act on Food Stamp Program Participants by State in Fiscal Year 1996

State	Change in Food Stamp/Food Distribution Assistance (millions)	If States Adjust Caseload: Change in Average Monthly Participants	Percent Change	If States Adjust Benefits: Change in Average Benefit per Person	Percent Change
Alabama	- $65	-132,000	-23	-$ 9.15	-12
Alaska	- 2	-3,000	-8	- 3.95	-4
Arizona	- 93	-161,000	-33	-14.75	-20
Arkansas	16	20,000	7	4.70	7
California	568	670,000	23	16.45	23
Colorado	6	7,000	3	1.95	3
Connecticut	- 11	-33,000	-15	-3.55	-6
Delaware	- 17	-23,000	-40	-23.70	-31
District of Columbia	- 42	-42,000	-49	-37.80	-42
Florida	- 337	-520,000	-35	-18.15	-22
Georgia	- 157	-289,000	-36	-15.70	-21
Hawaii	- 23	-22,000	-22	-18.15	-16
Idaho	45	57,000	71	47.55	71
Illinois	- 240	-458,000	-39	-16.10	-20
Indiana	- 20	-49,000	-10	-2.85	-4
Iowa	1	2,000	1	.55	1
Kansas	11	13,000	7	4.70	7
Kentucky	- 108	-206,000	-39	-16.30	-22
Louisiana	- 252	-372,000	-48	-25.55	-33
Maine	- 20	-36,000	-26	-11.30	-15
Maryland	- 124	-162,000	-43	-26.80	-32
Massachusetts	- 7	-4,000	-1	-.30	*
Michigan	- 266	-370,000	-36	-19.95	-26
Minnesota	41	48,000	15	10.60	15
Mississippi	- 79	-176,000	-33	-11.75	-17
Missouri	- 57	-126,000	-21	-7.30	-10
Montana	25	28,000	40	29.10	40
Nebraska	17	21,000	18	12.20	18
Nevada	- 3	-4,000	-5	-1.50	-2
New Hampshire	6	7,000	12	8.55	12
New Jersey	- 103	-140,000	-26	-15.35	-18
New Mexico	- 18	-37,000	-15	-4.75	-6
New York	- 363	-528,000	-26	-14.00	-17
North Carolina	- 7	-8,000	-1	-.35	-1
North Dakota	6	7,000	15	10.50	15

State	Change in Food Stamp/Food Distribution Assistance (millions)	If States Adjust Caseload:		If States Adjust Benefits:	
		Change in Average Monthly Participants	Percent Change	Change in Average Benefit per Person	Percent Change
Ohio	- 427	-627,000	-49	-27.45	-34
Oklahoma	- 32	-73,000	-20	-6.55	-9
Oregon	- 50	-120,000	-42	-13.75	-18
Pennsylvania	- 185	-332,000	-28	-12.40	-16
Puerto Rico	- 44	-56,000	-4	-2.50	-4
Rhode Island	- 19	-32,000	-34	-16.70	-23
South Carolina	3	3,000	1	.60	1
South Dakota	10	11,000	20	14.75	20
Tennessee	- 207	-360,000	-46	-21.55	-30
Texas	- 826	-1,250,000	-47	-25.20	-32
Utah	61	72,000	54	38.20	54
Vermont	- 3	-8,000	-14	-3.80	-6
Virginia	- 126	-220,000	-41	-18.90	-24
Washington	- 146	-207,000	-45	-25.60	-34
West Virginia	- 88	-113,000	-35	-22.10	-31
Wisconsin	14	18,000	5	3.35	5
Wyoming	5	6,000	17	12.50	17
Total	- 3,734	-6,311,000	-22	-10.80	-14

Notes: Based on projected block grant funds available for all other programs within each State after setting aside 5 percent for administration, 12 percent for food assistance and nutrition services to women, infants, and young children, and 20 percent for child nutrition.

In those States where the remaining funds are insufficient to support the projected current service level for the Food Stamp and Food Distribution programs, this table assumes that States will first eliminate Food distribution programs and then either (a) lower the food stamp income eligibility limits to eliminate participants with relatively high incomes or (b) make a pro rata reduction in benefits across the board.

In those States where the remaining funds exceed the projected current services level for the Food Stamp and Food Distribution programs, this table assumes that States will maintain food distribution and add new food stamp participants or increase food stamp benefits across the board as funds permit.

In both cases, the impacts on caseload and benefits are based on projections of the number of participants and the average food stamp benefit per person in each State in fiscal year 1996.

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

Sums of columns may not equal total due to rounding.

Table 6 -- Effect of the Personal Responsibility Act on Child Nutrition Programs by State in Fiscal Year 1996

State	Percentage Change in dollars	$ Change (millions)	Children Made Ineligible for NSLP (thousands)	Potential Program Impact
Alabama	-18%	-$ 32	1,400	Cut exceeds size of the School Breakfast Program (SBP) and the Summer Food Service Program (SFSP).
Alaska	-29%	-$ 7	69	Cut exceeds 40 percent of NSLP.
Arizona	-19%	-$ 26	525	Cut exceeds size of SBP and SFSP.
Arkansas	-26%	-$ 29	262	Cut exceeds size of Child and Adult Care Food Program (CACFP) and SFSP.
California	- 6%	-$ 60	2,800	Nearly 3 million children would lose eligibility for NSLP benefits.
Colorado	-10%	-$ 9	400	Cut exceeds size of SBP and SFSP.
Connecticut	-24%	-$ 16	337	Cut exceeds size of CACFP and SFSP.
Delaware	-51%	-$ 12	71	Cut exceeds size of NSLP; or SBP and CACFP. Two-thirds of children in NSLP would be made ineligible.
District of Columbia	-22%	-$ 5	32	Cut exceeds size of SBP and SFSP.
Florida	-17%	-$ 75	1,120	Cut exceeds size of CACFP and SFSP.
Georgia	-31%	-$ 85	732	Cut equals size of SBP, CACFP, and SFSP; or more than 40 percent of NSLP.
Hawaii	+21%	+$ 7	137	Grant increases, while three-quarters of children in NSLP would be made ineligible.
Idaho	+8%	+$ 3	148	Two-thirds of children in NSLP would be made ineligible.

State	Percentage Change in dollars	$ Change (millions)	Children Made Ineligible for NSLP (thousands)	Potential Program Impact
Illinois	-4%	-$ 13	1,150	Cut exceeds size of SFSP.
Indiana	+ 3%	+$ 4	717	Grant increases, while two-thirds of meals served in NSLP would no longer be eligible for reimbursement.
Iowa	-32%	-$ 25	381	Cut exceeds size of SBP, CACFP, and SFSP; or more than 40 percent of NSLP. Three-quarters of children in NSLP would be made ineligible.
Kansas	-44%	-$ 42	324	Cut exceeds size of CACFP and SFSP; or more than 75 percent of NSLP. Two-thirds of children in NSLP would be made ineligible.
Kentucky	-22%	-$ 33	386	Cut exceeds size of SBP and SFSP.
Louisiana	-37%	-$ 91	328	Cut exceeds size of SBP, CACFP, and SFSP; or more than 50 percent of NSLP.
Maine	-2%	-$ 1	145	Three-quarters of children in NSLP would be made ineligible.
Maryland	-28%	-$ 31	547	Cut exceeds size of CACFP and SFSP; or more than 40 percent of NSLP. More than two-thirds of children in NSLP would be made ineligible.
Massachusetts	-16%	-$ 22	635	Cut exceeds size of SBP and SFSP. Almost three-quarters of children in NSLP would be made ineligible.
Michigan	+3%	+$ 6	1,150	While grant increases, almost 1.2 million or more than two-thirds of children in NSLP would be made ineligible.

State	Percentage Change in dollars	$ Change (millions)	Children Made Ineligible for NSLP (thousands)	Potential Program Impact
Minnesota	-38%	-$ 60	584	Cut almost equals size of CACFP; or SBP and SFSP; or more than 70 percent of NSLP. Almost three-quarters of children in NSLP would be made ineligible.
Mississippi	-29%	-$ 49	196	Cut almost equals size of SBP and CACFP; or exceeds size of SBP and SFSP. Almost three-quarters of children in NSLP would be made ineligible.
Missouri	-2%	-$ 2	596	Two-thirds of children in NSLP would be made ineligible.
Montana	+3%	+$ 1	98	While grant increases, almost two-thirds of children in NSLP would be made ineligible.
Nebraska	-44%	-$ 27	210	Cut exceeds size of SBP, CACFP, and SFSP; or more than 75 percent of NSLP. Almost three-quarters of children in NSLP would be made ineligible.
Nevada	+14%	+$ 4	138	While grant increases, almost three-quarters of children in NSLP would be made ineligible.
New Hampshire	+ .3%	+$ .5	154	While grant increases, more than four-fifths of children in NSLP would be made ineligible.
New Jersey	-10%	-$ 15	983	Cut exceeds size of SBP. Almost three-quarters of children in NSLP would be made ineligible.
New Mexico	-27%	-$ 24	149	Cut almost equals size of CACFP; or exceeds size of SBP and SFSP; or equals 50 percent of NSLP.
New York	- 9%	-$ 53	1,620	Cut exceeds size of SFSP; or more than two-thirds of SBP; or one-half of CACFP.
North Carolina	-27%	-$ 64	700	Cut exceeds size of SBP and CACFP.

State	Percentage Change in dollars	$ Change (millions)	Children Made Ineligible for NSLP (thousands)	Potential Program Impact
North Dakota	-44%	-$ 12	88	Cut exceeds size of CACFP; or SBP and SFSP; or more than 80 percent of NSLP.
Ohio	-2%	-$ 5	1,280	Almost three-quarters of children in NSLP would be made ineligible.
Oklahoma	-21%	-$ 26	347	Cut exceeds size of CACFP; or SBP and SFSP. Two-thirds of children in NSLP would be made ineligible.
Oregon	-12%	-$ 9	322	Cut equals more than one-half of CACFP. More than two-thirds of children in NSLP would be made ineligible.
Pennsylvania	+14%	+$ 37	1,210	While grant increases, more than two-thirds of children in NSLP would be made ineligible.
Puerto Rico	+100%	+$170	348	While size of grant doubles, almost one-half of children in NSLP would be made ineligible.
Rhode Island	- 9%	-$ 2	97	Cut exceeds size of SBP or SFSP. More than two-thirds of children in NSLP would be made ineligible.
South Carolina	-28%	-$ 43	343	Cut exceeds size of SBP and CACFP.
South Dakota	-36%	-$ 11	90	Cut exceeds size of SBP and CACFP; or more than 50 percent of NSLP.
Tennessee	-11%	-$ 19	535	Cut almost equals size of CACFP.
Texas	-31%	-$245	1,890	Cut exceeds size of SBP and CACFP; or more than 40 percent of NSLP.
Utah	-27%	-$ 20	42	Cut equals 45 percent of NSLP.

State	Percentage Change in dollars	$ Change (millions)	Children Made Ineligible for NSLP (thousands)	Potential Program Impact
Vermont	-12%	-$ 2	76	Cut exceeds size of SBP and SFSP. Three-quarters of children in NSLP would be made ineligible.
Virginia	-23%	-$ 36	693	Cut exceeds size of CACFP and SFSP. More than two-thirds of children in NSLP would be made ineligible.
Washington	-35%	-$ 47	652	Cut exceeds size of CACFP and SFSP, or more than 50 percent of NSLP. More than two-thirds of children in NSLP would be made ineligible.
West Virginia	-5%	-$ 3	185	Cut exceeds size of SFSP.
Wisconsin	-21%	-$ 24	629	Cut exceeds size of CACFP; or SBP and SFSP. Three-quarters of children in NSLP would be made ineligible.
Wyoming	-24%	-$ 4	72	Cut equals size of SBP and SFSP. Three-quarters of children in NSLP would be made ineligible.
U.S. Totals	**-14%**	**-$1,188**	**27,406**	

Notes: These estimates assume States spend no more than the 20 percent minimum level established in the Personal Responsibility Act. The dollar change in funding represents the difference between 20 percent of each State's block grant and the current service estimate, excluding administrative costs.

The estimates of children made ineligible for the NSLP assume all children not approved for free and reduced-price meals (who must have incomes below 185 percent of poverty) would be ineligible. This assumption is conservative, since proposed law would set a lower maximum income level -- between 140 percent and 170 percent of poverty, depending on region and urbanicity.

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

all children, including free or reduced price meals to low-income students.

The proposal would prohibit serving subsidized meals to children from households with incomes above the Lower Living Standard Income Level, which ranges from about 140 to 170 percent of the poverty level. At a minimum, this would make ineligible the 27 million children currently eligible for paid meal subsidies (children above 185 percent of poverty). In some States, as many as three-fourths of the currently eligible children would not be eligible for a subsidy under the proposed law. This raises the possibility that many currently participating schools and institutions, and even some States in their entirety, would no longer find school-based programs economically viable.

Although WIC would fare better than other food assistance programs under the proposed block grant, some women, infants, and children eligible for benefits now would lose their eligibility. The Personal Responsibility Act would limit eligibility to individuals with incomes below the Lower Living Standard Income Level; current WIC income eligibility limits are more generous. Approximately 1 to 3 million women, infants, and children would become ineligible -- a reduction of 9 to 23 percent.

Although initially some States gain funding, over time all States would fare worse than under current law. The redistribution of funds to States results in some States gaining substantial amounts of federal funds initially. However, over time, even these gains will erode because the block grant eliminates the automatic funding adjustments built into the existing Food Stamp and Child Nutrition programs.

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Appendix A: USDA Food Assistance Programs

USDA's Food and Consumer Service is charged with providing access to a healthful diet to needy Americans through its 15 food assistance programs and nutrition education efforts. USDA works in partnership with the States in all its programs.

Food Stamp Program

The Food Stamp Program is the cornerstone of the USDA food assistance programs. Initiated as a pilot program in 1961 and made permanent in 1964, the program issues monthly allotments of coupons that are redeemable at retail food stores, or provides benefits through electronic benefits transfer (EBT).

Eligibility and benefits are based on household size, income, assets, and other factors. The amount of the maximum food stamp benefit is linked to the value of the Thrifty Food Plan and provides eligible households with the resources to purchase a low-cost, nutritious diet.

The Food Stamp Program provides assistance to essentially all financially needy households without imposing nonfinancial categorical criteria on such things as household composition. In summer 1993, over half of all food stamp participants were children, most of whom lived in single-parent families. Households containing elderly persons represented about 16 percent of all food stamp households. Almost 21 percent of food stamp households had earned income.

The Food Stamp Program served an average of more than 27 million people each month in FY 1994. Average monthly benefits were $69.00 per person. Congress appropriated $27.7 billion for the Food Stamp Program for FY 1995.

The federal government pays for the benefits issued through the Food Stamp Program and shares with the States the cost of administrative expenses.

Special Supplemental Nutrition Program for Women, Infants and Children (WIC)

WIC's goal is to improve the health of low-income pregnant, breastfeeding and non-breastfeeding postpartum women, infants, and children up to 5 years old. WIC provides supplemental foods, nutrition education, and access to health services. Participants receive vouchers that can be redeemed at retail food stores for specific foods that are rich sources of the nutrients frequently lacking in the diet of low-income mothers and children.

WIC has been shown to be effective in improving the health of pregnant women, new mothers, and their infants. A study done for FCS in 1990 showed that women who participated in the program during their pregnancies had lower Medicaid costs for themselves and their babies than did women who did not participate. In the five States studied, savings in Medicaid dollars ranged from $1.77 to $3.13 for each dollar spent in prenatal WIC benefits.

The FY 1995 appropriation, at $3.5 billion, takes the program one step closer to full funding. The 1995 appropriation will allow WIC to serve 7 million people.

National School Lunch Program

Every school day, more than 25 million children in 93,000 schools across the country eat a lunch provided through the National School Lunch Program. More than half of these children receive the meal free or at a reduced price.

The NSLP provides cash reimbursements and commodity foods for meals served in non-profit food services in elementary and secondary schools, and in residential child care institutions.

Congress appropriated $4.2 billion for the National School Lunch Program for FY 1995, down from $4.3 billion in 1994. Carried-over funds from 1994 and commodity support from other USDA accounts are expected to lead to total program spending of $4.8 billion.

School Breakfast Program

Some 5.8 million children participated in the School Breakfast Program every day in fiscal year 1994. As in the school lunch program, low-income children may qualify to receive school breakfast free or at a reduced price, and States are reimbursed according to the number of meals served in each category.

Congress appropriated $1.1 billion for the School Breakfast Program for FY 1995, up from $980.4 million for 1994.

Summer Food Service Program

In 1994, more than 2 million low-income children received meals during school vacation periods through the Summer Food Service Program. All SFSP meals are served free, and the federal government reimburses local sponsoring organizations for meals served.

Congress appropriated $255 million for SFSP for FY 1995.

The Emergency Food Assistance Program (TEFAP)

Formerly known as the Temporary Emergency Food Assistance Program, TEFAP was initiated in 1981 to reduce inventories and storage costs of surplus commodities through distribution to needy households. While some surplus food is still distributed through TEFAP, Congress since 1989 has appropriated funds to purchase additional commodities for households.

Congress appropriated $65 million for TEFAP in FY 1995, down from $120 million in 1994. The 1995 appropriation provides $25 million to purchase food and $40 million to provide continued administrative funding to keep TEFAP's pipeline open and to help support the local agencies that distribute TEFAP foods. They will continue to receive "bonus" commodities purchased from agricultural surplus.

Child and Adult Care Food Program

This program provides cash reimbursements and commodity foods for meals served in child and adult day care centers, and family and group day care homes for children.

Some 2 million children and 38,000 adults participated in the program in 1994. Congress appropriated $1.5 billion for the Child and Adult Care Food Program for FY 1995; the 1994 appropriation was $1.6 billion.

The WIC Farmers Market Nutrition Program

The newest FCS Program, FMNP was established in 1992 to provide WIC participants with increased access to fresh produce. WIC participants are given coupons to purchase fresh fruits and vegetables at authorized local farmers markets.. The program is funded through a legislatively mandated set-aside in the WIC program appropriation. Congress appropriated $5.5 million for the program in 1995, the same as for 1994.

Commodity Supplemental Food Program

A direct food distribution program with a target population similar to WIC, CSFP also serves the elderly. As in WIC, food packages are tailored to the nutritional needs of participants. Average monthly CSFP participation in FY 1994 was more than 363,000 people. Congress appropriated $84.5 million in CSFP for FY 1995, down from $104.5 million in FY 1994

Special Milk Program

Children in schools, summer camps and child care institutions that have no federally-supported meal program receive milk through the Special Milk Program. In 1994, more than 150 million half-pints of milk were served through SMP. Congress appropriated $18.1 million for the program in FY 1995, down from $20.3 million for FY 1994.

Food Distribution Program on Indian Reservations and the Trust Territories

This program provides commodity foods to Native American families who live on or near Indian reservations, and to Pacific Islanders. Also known as the Needy Family Program, this is the oldest FCS Program, going back to the Great Depression of the 1930's.

An average of more than 116,000 people participated in the program each month in FY 1994. A decline in participation and a large inventory of food on hand led to a reduction in funding needed for this program in 1994. Congress appropriated $68.6 million in FY 1994, down from $81.6 million in 1993. The 1995 appropriation is $33.2 million, but large on-hand inventories of food will allow the program to continue to meet the needs of all eligible households.

Nutrition Program for the Elderly

Provides cash and commodity foods to States for meals for senior citizens. Food is served in senior citizen centers or delivered by meals-on-wheels programs. The Nutrition Program for the Elderly served an average of more than 936,000 meals every day in fiscal year 1994. Congress appropriated $150 million for NPE in FY 1995, the same as for 1994.

Commodity Distribution to Charitable Institutions and to Soup Kitchens and Food Banks

Commodities from USDA surplus stocks are provided as available to non-profit charitable institutions that serve meals to needy persons regularly. In addition to surplus food, Congress appropriated $40 million to purchase food for soup kitchens and food banks for FY 1995, the same as for 1994.

Nutrition Assistance Program
(Puerto Rico and the Northern Marianas)

The Food Stamp Program in Puerto Rico and the Northern Marianas was replaced in 1982 by a block grant program. The two territories now provide cash and coupons to participants rather than food stamps or commodity foods. Congress appropriated $1.143 billion for the 1995 Puerto Rico NAP block grant, up from $1.091 billion for FY 1994. For the Northern Marianas, funding has held steady at $3.7 million each year.

Appendix B: Economic Analysis

The economic impacts from food assistance program reform depend on the operation of the new program, how food stamp recipients respond to change, and how the savings in government expenditures are used. In order to fully document the range of possible outcomes, the analysis reported here distinguishes a comprehensive set of scenarios by type of program modifications, recipient response, and deficit impact. In all scenarios there is a $5 billion reduction in federal outlays for food assistance programs.

Assumptions regarding recipient response and impacts of program modification are of central importance to the entire analysis.

Recipients respond to food assistance by increasing food available to household members. However, they may also increase spending for nonfood items using some of the budget resources that, in the absence of food assistance, would have been required to provide needed food. This implies that food assistance may not result in dollar for dollar increases in food retail sales. The extent to which retail food spending increases with every dollar of food assistance received is referred to as the "supplementation effect."

The impact of program modifications is referred to as the "slippage effect." Slippage occurs when program regulations are changed to remove nutrition standards or restrictions regarding the form and use of food assistance transfers. For this analysis, the slippage effect gives the amount by which retail food spending will decrease when the same level of assistance is provided as cash rather than as targeted assistance under a particular program structure.

There is a substantial body of research on the responsiveness of food spending to changes in food stamp benefit levels. This research suggests that every dollar in food stamps going to poor households results in a supplementation effect of 20 to 45 cents. Although there is less research on the supplementation effect of other forms of food benefits, similar effects can be anticipated. The high and low estimates presented in Table B-1 represent the best judgments of program experts at USDA's Food and Consumer Service (FCS).

Research also suggests that program impacts on retail food sales vary with the form of benefits (e.g. whether assistance is provided as meals, food commodities, food stamps, or cash). There is uncertainty as to how states would choose to implement their block grants. However, if all food assistance were converted to cash, recent research on cash-out of the Food Stamp Program suggests that the conversion could result in a "slippage effect" of anywhere from 15 to 30 cents. Table B-1 provides FCS's expert opinion on reasonable ranges for these slippage effects for the principal FCS programs. As can be seen in that table, the average supplementation effects range from .15 to .42 and slippage effects from .1 to .24 for projected FY 96 federal spending on food assistance benefits and administrative costs.

These data were used to delimit five scenarios that differ with respect to recipient response and program modification impact. Two levels of supplementation (a low of SUPPL = .15 and a high of SUPPL = .35) and three levels of slippage (a zero level, SLIP = 0, a low level of SLIP = .10, and a high level of SLIP = .25) were assumed. These assumptions resulted in the following five initial scenarios analyzed by the Economic Research Service (ERS):

Scenario I: SUPPL = .15, SLIP = .00;
Scenario II: SUPPL = .35, SLIP = .00;
Scenario III: SUPPL = .15, SLIP = .10;
Scenario IV: SUPPL = .35, SLIP = .10;
Scenario V: SUPPL = .35, SLIP = .25.

The assumption of no slippage is appropriate for analyzing the possible impacts of funding cuts that do not involve any changes in current program structure. Correspondingly, the high slippage assumption is appropriate for considering impacts of a complete removal of nutrition standards and unilateral cash-out of all food assistance. (There is no combination of low supplementation and high slippage, because this would imply an overall negative impact of cash food assistance transfers.)

Direct Impacts on Food Retail Spending

Direct impacts of federal funding cuts and conversion of food assistance can be derived from supplementation and slippage assumptions as shown below:

Direct impact on food retail spending =
SUPPL x change in federal funding +
SLIP x amount of food assistance
converted to cash

Direct impacts on food retail spending for the five scenarios are as follows: Scenario I, \$.75 billion; Scenario II, \$1.75 billion; Scenario III, \$4.25 billion; Scenario IV, \$5.25 billion; and Scenario V, \$10.5 billion.

Farm-Level Impacts

To estimate farm-level effects, ERS distributed the estimated direct impacts on food spending for the five scenarios among key agricultural commodities based on food spending patterns of low-income households. (See Table B-2).

It also closely examined the implications of commodity support and surplus removal policies currently in place. USDA provides two types of commodity support to food assistance programs in addition to cash assistance: entitlement commodities and bonus commodities. Entitlement commodities are required by current laws. For example, schools participating in the NSLP are entitled to receive 14.5 cents worth of commodities for each USDA meal served in fiscal year 1995. In addition to entitlement commodities, when supplies permit, NSLP and other assistance programs can receive bonus commodities obtained through price support (Section 416, CCC) and surplus removal (Section 32) activities.

To assess the impact of revisions in commodity donation activity, ERS made several key assumptions. At the outset, it was assumed that states would not use their block grant funds to replace any of the lost USDA donated bonus commodities resulting in pound for pound reductions in market demand for those commodities. Secondly, the removal of the mandatory milk requirement in the NSLP was projected to reduce fluid milk sales for school use to somewhere in the range of 25 to 75 percent. Finally, alternative assumptions were made in peanut demand to account for the loss of Section 32 purchases.

The farm price, income and program cost impacts of a \$5 billion reduction in food assistance are shown for each of the five scenarios in Table B-3. Without a slippage effect (Scenarios I and II), impacts on the farm sector are relatively minor. However, impacts are magnified when food program structures are changed and slippage occurs (Scenarios III, IV and V).

Economy-Wide Impacts

Economy-wide output and employment impacts were estimated using simulation models. These models include a short-run, input-output model and a long-run, computable-general-equilibrium model that account for multiple layers of linkages among sectors in the U.S. economy. For the short-run model, output and consumption are allowed to decline in response to declines in food demand caused by cutbacks in federal food assistance spending. The long-run model simulates the adjustments that would occur in two to three years if prices and wages were allowed to adjust in order to restore full employment and readjust supply and demand for other goods and services.

The economy-wide impacts on output and jobs of the five scenarios are shown in Tables B-4 and B-5. In addition to differences in supplementation and slippage rates, these impacts also depend, in the long run, on how the deficit is managed in response to changes in federal food assistance spending. Two adjustment possibilities are compared. First, the reduction in government expenditures are used to reduce the federal budget deficit thereby reducing government borrowing and increasing funds available for investment by the private sector (savings-investment regime). Second, the reduction in government expenditures are used to offset a household income tax reduction, leaving the budget deficit unchanged (tax-reduction regime).

Compared to the short run, these two long-run scenarios return but redistribute the $5 billion reduction in food program expenditures back into the economy thereby increasing demand for goods and services.

The following points can be noted from Tables B-4 and B-5:

- o In both the short and long run, the farm and food-related sectors lose more when food assistance is folded into block grants and converted to a cash transfer. The losses increase with the assumed slippage effect.

- o Under current program status (i.e. with zero slippage) long-run impacts are not large. Farm sector output losses are $70 million to 170 million. Nonfarm food sector losses are $400 million to $900 million.

- o With food assistance programs (less $5 billion) converted to a block grant and turned into a cash transfer (Scenarios III - V) there is a noticeable impact on the farm and food sectors, even in the long run. Farm sector losses are $1 billion to $2.7 billion. Nonfarm food sector losses are $3 billion to $9 billion increasing with slippage.

- o The two long-run scenarios differ in the type of goods and services for which demand increases. With deficit reduction and new investment (savings-investment regime) demand for durable goods and construction increases. In both long-run scenarios, the jobs lost in the short run are regained in the long run and there is a permanent redistribution of employment with jobs moving out of the farm and food sectors.

- o The impact on total output (food plus nonfood) varies with how the reduced government expenditures are returned to the economy. A $1.24 billion increase in total output occurs with deficit reduction (Scenario II) primarily as a result of labor moving out of service sector jobs into jobs with greater productivity (construction and durable goods). These gains disappear with a tax reduction since household income and demand increases rather than investment. With program conversion and slippage effects (Scenarios III-V), demand shifts from food to nonfood goods and services, increasing the negative impacts on the farm and food sectors and reducing the negative impact on services. The result is a reduction in total output for the economy.

Regional Impacts

State and urban/rural data from the 1990 County Business Patterns (U.S. Department of Commerce) were used to estimate regional and State level employment and output impacts. Regional employment shares by industry (Table B-6) were used to distribute the changes in output and employment among the State and urban and rural regions. Estimates were made for three short-run scenarios: zero slippage; low slippage (.10) and high slippage (.35). Similarly three long-run scenarios were analyzed for each of the deficit regimes. (A single supplementation rate of .26 was used in all regional analyses.) Results of the regional analysis are summarized in Tables B-7 to B-9.

Some points to note from these tables are as follows:

- Nonmetropolitan employment accounts for 16.6 percent of total employment.

- For the three short-run scenarios, output losses range from $7.4 billion to $8.8 billion in metropolitan areas and from $1.7 billion to $5.2 billion in nonmetropolitan areas. Job losses range from 84,000 to 99,000 in metropolitan areas and from 22,000 to 55,000 in nonmetropolitan areas.

- The nonmetropolitan areas of the North Central and Plains States are the most heavily impacted areas.

- Long-run impacts reduce most of the output and job losses, but result in permanent job losses of larger magnitudes in the North Central and Plains regions.

Table B-1 -- Food Spending Effects of Food Assistance Supplementation and Block Grant Slippage

Program	Federal Food Assistance Spending		Supplementation Effect		Slippage Effect	
	$ million	%	Low	High	Low	High
Food Stamps	24,745	60.7	.20	.45	.15	.30
Child Nutrition	8,321	20.4	.00	.40	.00	.10
WIC	2,908	7.1	.20	.45	.15	.30
All Other	1,420	3.5	.45	1.00	.05	.40
Administration	3,370	8.3	.00	.00	.00	.00
TOTAL	40,764	100.0	.15	.42	.10	.24

Table B-2 -- Direct Impacts of Alternative Food Assistance Reform Scenarios on Food and Nonfood Spending
(Dollars in millions)

Food Group	Food Budget Share %	Reduction in spending Scenario I	II	III	IV	V
Total	**NA**	**5,000**	**5,000**	**5,000**	**5,000**	**5,000**
Nonfood	**NA**	**4,250**	**3,250**	**750**	**-250**	**-5,501**
Food	**100.00**	**750**	**1,750**	**4,250**	**5,250**	**10,501**
Dairy products	**14.12**	**106**	**247**	**600**	**741**	**1,482**
Fluid milk	6.23	47	109	265	327	654
Cheese	3.75	28	66	159	197	394
Butter	1.04	8	18	44	55	110
Other	3.10	23	54	132	163	325
Grain products	**15.27**	**115**	**267**	**649**	**802**	**1,604**
Meat, poultry, and seafood	**33.79**	**253**	**591**	**1,436**	**1,774**	**3,548**
Beef	13.71	103	240	583	720	1,439
Pork	8.52	64	149	362	447	894
Other	0.96	7	17	41	50	100
Poultry	6.54	49	114	278	343	687
Fish and seafood	4.07	31	71	173	214	427
Eggs	**1.54**	**12**	**27**	**66**	**81**	**162**
Sugars and sweets	**4.02**	**30**	**70**	**171**	**211**	**422**
White and brown sugars	1.71	13	30	73	90	179
Other	2.31	17	40	98	121	242
Potatoes	**2.34**	**18**	**41**	**99**	**123**	**245**
Fresh potatoes	1.16	9	20	49	61	122
Canned potatoes	0.08	1	1	3	4	8
Frozen potatoes	0.21	2	4	9	11	22
Other potatoes	0.89	7	16	38	47	94
Vegetables	**9.40**	**70**	**164**	**399**	**493**	**987**
Fresh vegetables	6.02	45	105	256	316	633
Canned vegetables	2.17	16	38	92	114	228
Frozen vegetables	0.86	6	15	37	45	90
Other vegetables	0.34	3	6	15	18	36
Fruit	**6.51**	**49**	**114**	**277**	**342**	**683**
Fresh fruit	5.65	42	99	240	297	593
Canned fruit	0.66	5	12	28	35	69
Frozen fruit	0.05	0	1	2	3	5
Other fruit	0.15	1	3	6	8	16
Nuts	**1.15**	**9**	**20**	**49**	**60**	**121**
Peanuts	0.86	6	15	37	45	90
Other	0.29	2	5	12	15	30
Fats and Oils	**1.60**	**12**	**28**	**68**	**84**	**168**
Shortening	0.33	2	6	14	17	35
Salad and cooking	0.46	3	8	20	24	48
Salad dressing	0.81	6	14	34	43	85
Other foods	10.28	77	180	437	540	1,079

Note: Negative numbers in this table denote an increase in expenditures.

Table B-3 -- Direct Impacts on Agriculture of Alternative Food Assistance Reform Scenarios: Farm Price, Farm Income, and Farm Program Costs

Commodity	Scenario I	II	III	IV	V
Potatoes					
Farm price ($/cwt)	*	-0.01	-.02	-.02	-.05
Farm income($mil.)	-4	-10	-25	-30	-61
Farm income (%)	-.2	-.4	-.9	-1.2	-2.3
Program Cost ($mil.)	0	0	0	0	0
Vegetables					
Farm price ($/cwt)	-.01	-.03	-.07	-.08	-.16
Farm income($mil.)	-24	-57	-138	-171	-341
Farm income (%)	-.3	-.6	-1.5	-1.8	-3.7
Program Cost ($mil.)	0	0	0	0	0
Fruits					
Farm price ($/ton)	-.3	-.7	-1.72	-2.12	-4.24
Farm income($mil.)	-19	-45	-109	-134	-268
Farm income (%)	-.2	-.5	-1.3	-1.6	-3.2
Program Cost ($mil.)	0	0	0	0	0
Tree nuts					
Farm price ($/cwt)	*	*	-0.01	-.01	-.01
Farm income($mil.)	-2	-4	-10	-12	-24
Farm income (%)	-.1	-.2	-0.6	-0.7	-1.4
Program Cost ($mil.)	0	0	0	0	0
Peanuts without loss of Sec. 32					
Farm price ($/ST)	0	0	0	0	-3
Farm income($mil.)	0	0	0	0	-6
Farm income (%)	0	0	0	0	0.6
Program Cost ($mil.)	1	2	4	8	14
Peanuts with loss of Sec. 32					
Farm price ($/ST)	-10	-10	-10	-10	-13
Farm income($mil.)	-20	-20	-20	-20	-26
Farm income (%)	-2.0	-2.0	-2.0	-2.0	-3.0
Program Cost ($mil.)	24	25	27	31	37
Grain and soybeans					
Farm price ($/MT)	-.20	-.40	-.80	-.98	-1.97
Farm income($mil.)	-20	-40	-80	-100	-200
Farm income (%)	*	-.1	-.3	-.3	-.7
Program Cost ($mil.)	25	50	100	125	250
Beef					
Farm price ($/cwt)	-.39	-.64	-1.25	-1.60	-2.77
Farm income($mil.)	-58	-134	-327	-404	-808
Farm income (%)	-.3	-.6	-1.4	-1.7	-3.5
Program Cost ($mil.)	0	0	0	0	0
Pork					
Farm price ($/cwt)	-.15	-.35	-.85	-1.05	-2.10
Farm income($mil.)	-24	-55	-134	-166	-331
Farm income (%)	-.04	-.1	-.2	-.3	-.6
Program Cost ($mil.)	0	0	0	0	0

Commodity	Scenario				
	I	II	III	IV	V
Broilers					
Farm price ($/owt)	-.18	-.42	-1.01	-1.25	-2.50
Farm income($mil.)	-20	-46	-111	-137	-275
Farm income (%)	-.3	-.7	-1.6	-2.0	-4.0
Program Cost ($mil.)	0	0	0	0	0
Turkeys					
Farm price ($/owt)	-.13	-.31	-.75	-.93	-1.86
Farm income($mil.)	-5	-12	-29	-36	-73
Farm income (%)	-.6	-1.4	-3.3	-4.0	-8.1
Program Cost ($mil.)	0	0	0	0	0
Dairy (no NSLP loss)					
Farm price ($/owt)	-.01	-.02	-.05	-0.07	-.13
Farm income($mil.)	-25	-54	-122	-159	-315
Farm income (%)	-.1	-.3	-.6	-.8	-1.5
Program Cost ($mil.)	13	31	80	95	191
Dairy (25% NSLP loss)					
Farm price ($/owt)	-.04	-.05	-.08	-.09	-.16
Farm income($mil.)	-90	-120	-194	-224	-380
Farm income (%)	-.4	-.6	-1.0	-1.1	-1.9
Program Cost ($mil.)	50	68	114	132 *	228
Dairy (75% NSLP loss)					
Farm price ($/owt)	-.09	-.11	-.14	-.16	-.22
Farm income($mil.)	-220	-250	-324	-364	-501
Farm income (%)	-1.1	-1.2	-1.6	-1.7	-2.4
Program Cost ($mil.)	124	142	188	206	302

* less than 0.005.

Notes: Farm income is gross. There is no measurable impact on seafood.

Table B-4 -- Alternative Scenarios -- Changes in Output

SECTOR:	OUTPUT 1993 BASE RUN ($Billions)	SHORT-RUN CHANGES IN OUTPUT ($Billions) SCENARIOS: I	II	III	IV	V
FOOD:	880	-1.19	-2.77	-6.46	-8.07	-15.88
FARM PRODUCTS	180	-0.25	-0.58	-1.59	-2.00	-3.95
FOOD PROCESSING	330	-0.53	-1.23	-3.57	-4.48	-8.92
TRADE&TRANS-FOOD	110	-0.18	-0.42	-1.22	-1.53	-3.04
RESTAURANT	260	-0.23	-0.53	-0.08	-0.07	0.03
NONFOOD:	8160	-8.15	-6.23	-4.15	-3.28	1.86
NON-DURABLE MFG	490	-0.72	-0.55	-0.43	-0.42	-0.15
DURABLE MFG	2000	-1.81	-1.38	-1.12	-1.10	-0.50
CONSTRUCTION	610	-0.17	-0.13	-0.10	-0.09	-0.02
TRADE&TRANS-OTHER	1140	-1.05	-0.80	-0.75	-0.28	0.68
SERVICES	3930	-4.40	-3.36	-1.76	-1.39	1.65
TOTAL	9040	-9.34	-9.00	-10.61	-11.34	-14.02

SECTOR:	OUTPUT 1993 BASE RUN ($Billions)	LONG-RUN CHANGES IN OUTPUT IN A DEFICIT-REDUCTION REGIME ($Billions) SCENARIOS: I	II	III	IV	V
FOOD:	880	-0.46	-1.08	-4.00	-5.07	-11.64
FARM PRODUCTS	180	-0.07	-0.17	-0.92	-1.16	-2.68
FOOD PROCESSING	330	-0.19	-0.44	-2.38	-2.99	-6.93
TRADE&TRANS-FOOD	110	-0.06	-0.15	-0.81	-1.02	-2.36
RESTAURANT	260	-0.14	-0.33	0.12	0.10	0.33
NONFOOD:	8160	3.04	2.32	4.95	4.32	8.31
NON-DURABLE MFG	490	-0.16	-0.12	0.03	0.03	0.29
DURABLE MFG	2000	2.51	1.92	2.22	2.19	1.99
CONSTRUCTION	610	2.17	1.66	1.94	1.78	1.70
TRADE&TRANS-OTHER	1140	0.18	0.14	0.66	0.25	1.67
SERVICES	3930	-1.66	-1.27	0.09	0.07	2.67
TOTAL	9040	2.57	1.24	0.95	-0.75	-3.32

SECTOR:	OUTPUT 1993 BASE RUN ($Billions)	LONG-RUN CHANGES IN OUTPUT IN A TAX-REDUCTION REGIME ($Billions) SCENARIOS: I	II	III	IV	V
FOOD:	880	-0.23	-0.53	-3.71	-4.78	-11.35
FARM PRODUCTS	180	-0.04	-0.10	-0.89	-1.12	-2.65
FOOD PROCESSING	330	-0.11	-0.27	-2.32	-2.91	-6.85
TRADE&TRANS-FOOD	110	-0.04	-0.09	-0.79	-0.99	-2.33
RESTAURANT	260	-0.03	-0.08	0.29	0.24	0.48
NONFOOD:	8160	0.51	0.39	2.83	1.99	6.08
NON-DURABLE MFG	490	0.00	0.00	0.19	0.18	0.44
DURABLE MFG	2000	0.23	0.18	0.11	0.11	-0.10
CONSTRUCTION	610	0.17	0.13	0.01	0.01	-0.15
TRADE&TRANS-OTHER	1140	0.18	0.14	0.73	0.27	1.71
SERVICES	3930	-0.08	-0.06	1.80	1.42	4.18
TOTAL	9040	0.28	-0.15	-0.88	-2.79	

Table B-5 -- Alternative Scenarios -- Changes in Jobs

SECTORS:	JOBS 1993 BASE RUN (1000s)	SHORT RUN CHANGES IN JOBS (in 1000s) SCENARIOS:				
		I	II	III	IV	V
FOOD:	14500	-17.6	-41.1	-73.4	-91.0	-176.2
FARM PRODUCTS	2600	-3.6	-8.3	-22.8	-28.5	-56.4
FOOD PROCESSING	1700	-2.8	-6.6	-19.3	-24.3	-48.4
TRADE&TRANS-FOOD	2700	-4.3	-10.0	-28.9	-36.2	-72.2
RESTAURANT	7700	-6.9	-16.2	-2.4	-2.0	0.8
NON-FOOD:	112900	-103.2	-78.9	-53.1	-38.0	37.8
NON-DURABLE MFG	4700	-7.3	-5.6	-4.0	-3.9	-0.6
DURABLE MFG	14700	-11.7	-8.9	-7.6	-7.5	-4.2
CONSTRUCTION	6600	-1.9	-1.4	-1.1	-1.0	-0.2
TRADE&TRANS-OTHER	24600	-23.1	-17.7	-15.1	-5.7	23.7
SERVICES	62100	-59.2	-45.3	-25.3	-20.0	19.1
TOTAL	127500	-120.8	-120.0	-126.5	-129.0	-138.5

SECTOR:	JOBS 1993 BASE RUN (1000s)	LONG-RUN CHANGES IN JOBS IN A DEFICIT-REDUCTION REGIME (1000s) SCENARIOS:				
		I	II	III	IV	V
FOOD:	14500	-8.5	-19.8	-43.3	-56.1	-128.0
FARM PRODUCTS	2600	-1.3	-3.1	-15.5	-19.4	-45.3
FOOD PROCESSING	1700	-1.3	-2.8	-12.6	-15.8	-36.3
TRADE&TRANS-FOOD	2700	-1.6	-3.6	-19.3	-24.2	-56.1
RESTAURANT	7700	-4.3	-10.1	4.0	3.2	9.7
NON-FOOD:	112900	8.5	19.8	43.3	56.1	128.0
NON-DURABLE MFG	4700	-2.4	-1.8	0.5	0.7	2.1
DURABLE MFG	14700	21.0	20.0	14.6	24.2	15.4
CONSTRUCTION	6600	22.6	21.6	15.1	23.1	17.5
TRADE&TRANS-OTHER	24600	0.1	5.3	13.6	8.6	67.2
SERVICES	62100	-32.9	-25.2	-0.5	-0.5	25.8
TOTAL	127500	0.0	0.0	0.0	0.0	0.0

SECTOR:	JOBS 1993 BASE RUN (1000s)	LONG-RUN CHANGES IN JOBS IN A TAX-REDUCTION REGIME (1000s) SCENARIOS:				
		I	II	III	IV	V
FOOD:	14500	-3.3	-7.8	-36.0	-49.4	-118.3
FARM PRODUCTS	2600	-0.8	-1.8	-14.9	-18.6	-44.0
FOOD PROCESSING	1700	-0.6	-1.5	-11.9	-14.9	-35.2
TRADE&TRANS-FOOD	2700	-0.9	-2.2	-18.8	-23.6	-55.5
RESTAURANT	7700	-1.0	-2.4	9.5	7.7	16.4
NON-FOOD:	112900	3.3	7.8	36.0	49.4	118.4
NON-DURABLE MFG	4700	0.1	0.2	2.1	4.0	6.2
DURABLE MFG	14700	1.0	2.3	2.4	4.7	4.7
CONSTRUCTION	6600	0.9	2.1	0.7	1.2	0.6
TRADE&TRANS-OTHER	24600	2.2	5.2	9.7	7.1	41.7
SERVICES	62100	-0.8	-1.9	21.1	32.4	65.2
TOTAL	127500	0.0	0.0	0.0	0.0	0.0

Table B-6 –State Shares of Employment from 1990 County Business Patterns Data

State	Employment 1990 Thousands	Percent of National Total	Percent of State Metro	Percent of State Non-metro
Total	108520.134	100.0	83.4	16.6
Northeast	25511.368	23.5	91.5	8.5
Connecticut	1607.390	1.5	94.0	6.0
Delaware	333.393	0.3	80.1	19.9
Maine	515.492	0.5	47.7	52.3
Maryland	2192.595	2.0	93.7	6.3
Massachusetts	2995.674	2.8	98.5	1.5
New Hampshire	490.335	0.5	61.5	38.5
New Jersey	3498.748	3.2	100.0	0.0
New York	8079.248	7.4	93.2	6.8
Pennsylvania	5098.356	4.7	88.1	11.9
Rhode Island	443.775	0.4	91.3	8.7
Vermont	256.362	0.2	33.2	66.8
District of Columbia	671.722	0.6	100.0	0.0
North Central	23555.956	21.7	81.6	18.4
Illinois	5206.625	4.8	87.0	13.0
Indiana	2489.515	2.3	75.3	24.7
Iowa	1283.271	1.2	49.8	50.2
Michigan	3756.207	3.5	86.2	13.8
Minnesota	2090.975	1.9	73.9	26.1
Missouri	2303.535	2.1	75.6	24.4
Ohio	4142.737	3.8	96.4	3.6
Wisconsin	2283.091	2.1	72.5	27.5
Appalachian	10356.492	9.5	70.6	29.4
Kentucky	1481.866	1.4	56.1	43.9
North Carolina	3180.845	2.9	69.7	30.3
Tennessee	2160.932	2.0	73.4	26.6
Virginia	2947.015	2.7	81.2	18.8
West Virginia	586.834	0.5	48.8	51.2
Southeast	14899.591	13.7	77.5	22.5
Alabama	1656.682	1.5	71.9	28.1
Arkansas	927.162	0.9	52.1	47.9
Florida	5330.963	4.9	94.3	5.7
Georgia	2964.594	2.7	71.9	28.1
Louisiana	1539.059	1.4	80.3	19.7
Mississippi	935.530	0.9	35.9	64.1
South Carolina	1556.601	1.4	74.1	25.9
Plains	10498.628	9.7	78.1	21.9
Kansas	1156.991	1.1	58.6	41.4
Nebraska	792.719	0.7	55.8	44.2
North Dakota	197.527	0.2	69.9	30.1
Oklahoma	1183.115	1.1	67.8	32.2
South Dakota	300.430	0.3	34.9	65.1
Texas	6868.046	6.3	87.9	12.1
Mountain	5744.032	5.3	73.4	26.6
Arizona	1458.201	1.3	86.8	13.2
Colorado	1529.061	1.4	83.0	17.0
Idaho	406.514	0.4	31.2	68.8
Montana	300.384	0.3	28.1	71.9
Nevada	606.161	0.6	86.1	13.9
New Mexico	572.703	0.5	58.2	41.8
Utah	688.906	0.6	82.5	17.5
Wyoming	182.102	0.2	24.1	75.9
Pacific	17282.147	15.9	92.8	7.2
Alaska	228.146	0.2	50.8	49.2
California	13137.151	12.1	97.1	2.9
Hawaii	576.928	0.5	78.4	21.6
Oregon	1208.307	1.1	74.0	26.0
Washington	2131.615	2.0	85.4	14.6

Table B-7 -- Short-Run Estimates of Output and Job Losses by Region

REGION	CHANGES IN OUTPUT ($ Millions) Metro	Non-Metro	Total	CHANGES IN JOBS (In 1000s) Metro	Non-Metro	Total
ZERO SLIPPAGE ASSUMPTION						
Northeast	-1880	-174	-2053	-25.7	-2.4	-28.1
North Central	-1693	-429	-2122	-21.5	-5.3	-26.8
Appalachian	-615	-287	-902	-7.9	-3.6	-11.5
Southeast	-915	-305	-1220	-12.6	-3.8	-16.4
Plains	-736	-265	-1001	-8.9	-3.0	-11.9
Mountain	-323	-140	-463	-4.6	-1.9	-6.4
Pacific	-1250	-104	-1354	-17.2	-1.5	-18.7
TOTAL	-7447	-1704	-9151	-99.0	-21.5	-120.4
LOW SLIPPAGE ASSUMPTION						
Northeast	-1798	-242	-2039	-22.3	-2.9	-25.2
North Central	-1933	-877	-2810	-21.1	-9.4	-30.6
Appalachian	-654	-402	-1056	-7.7	-4.7	-12.4
Southeast	-975	-510	-1485	-12.0	-5.4	-17.4
Plains	-807	-587	-1395	-8.7	-6.1	-14.8
Mountain	-337	-252	-589	-4.2	-3.2	-7.4
Pacific	-1404	-215	-1618	-17.1	-2.8	-19.8
TOTAL	-7929	-3084	-11013	-93.4	-34.5	-127.9
HIGH SLIPPAGE ASSUMPTION						
Northeast	-1692	-349	-2042	-16.6	-3.6	-20.2
North Central	-2333	-1574	-3907	-20.4	-15.8	-36.2
Appalachian	-727	-585	-1312	-7.2	-6.5	-13.7
Southeast	-1077	-827	-1904	-11.0	-7.7	-18.7
Plains	-930	-1088	-2018	-8.3	-11.0	-19.3
Mountain	-367	-428	-795	-3.6	-5.2	-8.8
Pacific	-1661	-386	-2047	-16.9	-4.7	-21.6
TOTAL	-8787	-5237	-14024	-84.0	-54.5	-138.5

Note: The Zero Slippage estimates are an average of the results from Scenarios I and II.
The Low Slippage estimates are an average of the results from Scenarios III and IV.
The High Slippage estimates are the results from Scenario V.

Table B-8 — Long-Run Estimates of Output and Job Losses by Region

Savings-Investment Regime

	CHANGES IN OUTPUT ($Millions)			CHANGES IN JOBS (in 1000s)		
	Metro	Nonmetro	Total	Metro	Nonmetro	Total
ZERO SLIPPAGE ASSUMPTION						
Northeast	58	35	93	-2.2	-0.2	-2.4
North Central	472	58	530	-0.4	-0.6	-0.9
Appalachian	110	45	154	-0.3	-0.3	-0.6
Southeast	194	45	238	-0.5	-0.2	-0.7
Plains	126	-5	121	-0.4	-0.5	-0.9
Mountain	78	6	84	-0.2	-0.3	-0.5
Pacific	363	3	366	0.2	-0.3	-0.1
TOTAL	1656	186	1842	-4.0	-2.3	-6.3
LOW SLIPPAGE ASSUMPTION						
Northeast	259	-26	-234	3.2	-0.3	2.9
North Central	191	-273	-83	2.4	-3.3	-1.0
Appalachian	72	-47	25	0.9	-0.8	0.0
Southeast	102	-118	-16	1.4	-1.0	0.4
Plains	18	-242	-224	0.8	-2.7	-1.9
Mountain	51	-77	-26	0.8	-1.1	-0.4
Pacific	175	-72	102	2.3	-1.1	1.2
TOTAL	870	-855	15	11.8	-10.4	1.4
HIGH SLIPPAGE ASSUMPTION						
Northeast	142	-135	8	12.9	-0.6	12.3
North Central	-339	-865	-1204	6.8	-8.4	-1.6
Appalachian	-6	-217	-223	2.9	-1.9	0.9
Southeast	-63	-407	-470	4.8	-2.6	2.2
Plains	-179	-662	-841	2.8	-6.5	-3.7
Mountain	-1	-225	-226	2.3	-2.6	-0.3
Pacific	-179	-206	-385	5.6	-2.6	3.0
TOTAL	-606	-2718	-3324	38.4	-25.1	13.3

Note: The Zero Slippage estimates are an average of the results from Scenarios I and II.
The Low Slippage estimates are an average of the results from Scenarios III and IV.
The High Slippage estimates are the results from Scenario V.

Table B-9 — Long-Run Estimates of Output and Job Losses by Region

Tax Reduction Regime

REGION	CHANGES IN OUTPUT ($Millions) Metro	Nonmetro	Total	CHANGES IN JOBS (in 1000s) Metro	Nonmetro	Total
ZERO SLIPPAGE ASSUMPTION						
Northeast	28	-1	26	0.03	-0.04	-0.02
North Central	29	-17	12	0.02	-0.28	-0.28
Appalachian	-4	-2	-6	0.03	-0.05	-0.02
Southeast	11	-3	8	0.06	-0.03	0.02
Plains	1	-19	-18	0.00	-0.22	-0.22
Mountain	6	-6	0	0.05	-0.09	-0.04
Pacific	24	-4	20	0.14	-0.08	0.07
TOTAL	95	-52	43	0.31	-0.79	-0.47
LOW SLIPPAGE ASSUMPTION						
Northeast	-51	-65	-116	5.7	-0.1	5.6
North Central	-285	-361	-646	2.8	-3.1	-0.3
Appalachian	-49	-99	-148	1.2	-0.6	0.6
Southeast	-93	-172	-265	2.0	-0.9	1.2
Plains	-117	-262	-379	1.2	-2.4	-1.2
Mountain	-26	-91	-117	1.0	-0.9	0.1
Pacific	-188	-82	-270	2.2	-0.9	1.3
TOTAL	-797	-1132	-1929	16.5	-9.0	7.4
HIGH SLIPPAGE ASSUMPTION						
Northeast	-167	-174	-341	15.3	-0.4	14.9
North Central	-814	-952	-1767	7.3	-8.2	-0.9
Appalachian	-127	-268	-395	3.2	-1.7	1.5
Southeast	-258	-462	-720	5.4	-2.4	3.0
Plains	-313	-682	-996	3.2	-6.2	-3.0
Mountain	-78	-239	-317	2.5	-2.4	0.1
Pacific	-541	-216	-757	5.6	-2.5	3.1
TOTAL	-2273	-2994	-5267	43.1	-23.7	19.4

Note: The Zero Slippage estimates are an average of the results from Scenarios I and II.
The Low Slippage estimates are an average of the results from Scenarios III and IV.
The High Slippage estimates are the results from Scenario V.

Appendix C: The Lower Living Standard Income Levels

The Lower Living Standard Income Level is based on the lower living family budget issued by the Secretary of Labor in the fall of 1981 updated for price changes based on the Consumer Price Index (CPI). The lower living family budget is a measure of the total cost or amount of income required to achieve the level and manner of living implicit in a generalized concept of modest living. It does not represent the ways in which family incomes should be spent, or the ways average families actually spend their incomes. The lower budget assumes the family lives in rental housing without air conditioning, relies heavily on public transportation or uses an older car, performs more services for itself, and utilizes free recreation facilities.

The income levels are published annually, usually in March or April of each year. The Department of Labor publishes two sets of income levels. One set covers 25 Metropolitan Statistical Areas (MSA); the second set covers the entire country, broken into metropolitan and nonmetropolitan areas within each of four regions. Both sets vary by household size.

States may be covered by more than one income level. For example, New Jersey has four levels; the New York City MSA, the Philadelphia MSA, and the Northeast metropolitan and nonmetropolitan levels.

The lower living standard income levels are used to define economically disadvantaged individuals for job training services in the Job Training Partnership Act (JTPA) and in the Internal Revenue Code for the Targeted Jobs Tax Credit (TJTC). These programs use 70 percent of the lower living standard income levels for defining economically disadvantaged individuals.

The Department of Labor, on publishing the income levels in the Federal Register, includes a disclaimer that the lower living standard income levels should not be used for any statistical purpose and are valid only for eligibility determination purposes under the JTPA and TJTC programs. This notice stems from the termination of the family budget series which otherwise would periodically update the underlying budget, and the imprecise price adjustments since not all components of the underlying budget are captured in the CPI.

The four-person regional Lower Living Standard Income Levels vary from 142 percent to 173 percent of the four-person poverty income level:

	Level	Percent of Poverty
Poverty Guideline	$14,800	100%
Lower Living Standard		
Northeast		
Metropolitan	25,540	173
Non-metropolitan	25,450	172
North Central		
Metropolitan	23,480	159
Non-metropolitan	22,200	150
South		
Metropolitan	22,420	151
Non-metropolitan	21,080	142
West		
Metropolitan	25,220	170
Non-metropolitan	24,540	166

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

Executive Summary

Food and Consumer Service
Economic Research Service

U.S. Department of Agriculture
January 17, 1995

The proposed Personal Responsibility Act, a key component of the Contract with America, would make sweeping changes that alter the very character of the existing food assistance programs. Specifically, the Personal Responsibility Act, if enacted, would:

- o Combine all USDA food and nutrition assistance programs into a single discretionary block grant to States;
- o Authorize an appropriation of $35.6 billion in fiscal year 1996 for food and nutrition assistance;
- o Eliminate all uniform national standards;
- o Give States broad discretion to design food and nutrition assistance programs, provided only that no more than 5 percent of the grant support administration, at least 12 percent support food assistance and nutrition education for women, infants, and young children, and at least 20 percent support school-based and child-care meal programs; and
- o Eliminate USDA's authority to donate commodities; USDA could only sell bonus commodities to States.

The consequences of these changes on the safety net of food assistance programs, the nutrition and health of low-income Americans, the food and agriculture economies, and the level and distribution of Federal support to States for food assistance are significant.

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 (Table 1).
- 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. During economic downturns, funding would not keep up with rising poverty and unemployment. The demand for assistance to help the poor would be greatest at precisely the time when State economies are in recession and tax bases are shrinking.

For example, if the Personal Responsibility Act had been in place over the last five years -- a period marked by both economic recession and recovery -- the block grant in 1994 would have been over $12 billion less than the food assistance actually provided, a reduction of about one-third (Table 2).

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

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 federal nutrition standards, including those in place to ensure that America's children have access to healthy meals at school. Even small improvements in average dietary intakes can have great value. The modest reductions in fat, saturated fat, and cholesterol intake due to the recent food labeling changes were valued by the Food and Drug Administration at $4.4 billion to $26.5 billion over 20 years among the U.S. adult population.

- The Act would also threaten the key components of WIC -- a tightly prescribed combination of a targeted food package, nutrition counseling, and direct links to health care. Rigorous studies have shown that WIC reduces infant deaths, low birthweight, premature births, and other problems. Every dollar spent on WIC results in between $1.77 and $3.13 in Medicaid savings for newborns and their mothers.

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

- o Under the proposed block grant, States could immediately cash-out any and all food assistance programs in spite of evidence that an in-kind benefit is more effective in stimulating food purchases than a similar benefit provided in cash.

- o In the short-run, the bill could reduce retail food sales by as much as $10 billion, reduce gross farm income by as much as $4 billion, increase farm program costs, 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 jobs and output by more than $1 billion. The food processing and distribution sectors could 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.

- o Every $1 billion in added food assistance generates about 25,000 jobs, providing an automatic stabilizer in hard times.

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 (Table 3).

- o Although some States initially gain funding, all States would eventually fare worse than under current law. Over time, the initial gains will erode because the block grant eliminates the automatic funding adjustments built into the existing Food Stamp and Child Nutrition programs.

Table 1 – Effect of the Personal Responsibility Act on USDA Food Assistance Program Costs
(Dollars in millions)

	Fiscal Year					Total
	1996	1997	1998	1999	2000	
Current Law:						
Food Stamps/NAP	$27,777	$29,179	$30,463	$31,758	$33,112	$152,290
Child Nutrition	8,681	9,269	9,903	10,556	11,283	49,692
WIC	3,924	4,231	4,245	4,379	4,513	21,291
All Other	382	351	351	351	351	1,784
Total	40,764	43,029	44,962	47,042	49,260	225,057
Proposed Law:	35,600	37,138	38,756	40,457	42,214	194,166
Difference	-5,164	-5,891	-6,206	-6,585	-7,046	-30,892
Percent Difference	-12.7%	-13.8%	-13.8%	-14.0%	-14.3%	-13.7%

Notes: Based on current service program level for USDA food assistance programs in Department estimates of September 1994 (excluding projected costs of Food Program Administration but including anticipated mandatory spending for WIC, consistent with Presidential policy). This table does not include the budgetary effects of food programs operated by the Administration on Aging in the Department of Health and Human Services.

The Food Stamp total includes the cost of the Nutrition Assistance Program in Puerto Rico.

The Child Nutrition total includes all administrative and program costs for the National School Lunch, School Breakfast, Special Milk, Summer Food Service, Nutrition Education and Training, and Child and Adult Care Food Programs, the value of commodities provided to schools, and support for the Food Service Management Institute.

The All Other total includes all administrative and program costs for the Commodity Supplemental Food Program, the Emergency Food Assistance Program, the Food Distribution Program on Indian Reservations, the Nutrition Program for the Elderly, and Food Distribution to Charitable Institutions and Soup Kitchens and Food Banks.

Proposed levels for the block grant in fiscal years 1997 through 2000 are increased from the 1996 amount using the projected increase in total population and the cost of the Thrifty Food Plan for the preceding year. Totals may not equal sum of columns due to rounding.

This table assumes that Congress appropriates the full amount authorized in each year.

Table 2 -- 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 assume 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 as shown in Table 1.

Table 3 -- 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

State	Level of Food Assistance		Difference	
	Current	Proposed	Total	Percent
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	- 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.

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.

* equals less than $1 million.

No Duty, No Floor: Permissible State Conduct Under the Temporary Family Assistance Block Grant

Mark H. Greenberg

Under pending legislation in the House of Representatives, the AFDC Program would be abolished and replaced with a Temporary Family Assistance Block Grant to states. Under the bill, states would be prohibited from using federal funds to provide cash assistance to certain groups of families and children, and would need to satisfy certain work requirements; otherwise, states would have a great deal of discretion in deciding how to spend their block grant. A state's share would generally be frozen at FY 94 levels through FY 2000, with a small population adjustor for the nation. States would have no duty to maintain their current levels of state spending, or any level of state spending, for the program.

Much of the initial discussion of the TFA has either considered the extent of state flexibility or focused on the specific prohibitions on assistance, i.e., time limits, family caps, denial of assistance to unwed teen parents and their children, denial of aid to legal immigrants, etc. A separate CLASP document reviews the TFA's prohibitions, work requirements, and frozen funding in detail. That document explains how the TFA would make it steadily more difficult for those states that want to both preserve a safety net and help poor families enter the work force.[1] However, it is also important to understand what the TFA could mean in states which want to significantly reduce assistance to poor families.

Under the TFA, no individual would be entitled to assistance. For some people, the idea of "ending entitlements" may initially sound like an opportunity to cut through bureaucratic complexity and rigid rules, and respond to individual cases more flexibly. However, eliminating the principle of individual entitlement would open the door to a world in which states had no duty to act fairly, reasonably, or appropriately when a poor family needed assistance. Eliminating entitlements would allow for more discretion, but that discretion could result in utter arbitrariness. To see why, it is helpful to consider what would be permissible conduct under the Temporary Family Assistance Block Grant. It may be that no state would wish to take advantage of all of these "options", but a state could legally exercise any or all of these if the TFA becomes law. In some instances, there may be federal or state constitutional claims that a particular approach might be unconstitutional, but each of the following courses of conduct would be permissible under the TFA.

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[1] See **The Temporary Family Assistance Block Grant: Frozen Funding, Flawed Flexibility** (CLASP, March 1995).

Under the TFA, a state would have:

No duty to accept applications for assistance: Families who met all eligibility rules would not have a federal right to apply for aid. If a state wished to say that applications for aid will only be accepted on the first Monday of the month, or the first Monday of the year, the state would be free to do so.

No duty to act on applications within a particular period of time: Under current law, a state must act on a family's application for assistance within 45 days. Under the TFA, a state could decide to act on applications within a six month time frame, or might choose to set no time frame at all.

No duty to provide assistance to an eligible family: If funds were running low, a state could decide to use waiting lists. However, there would be no duty to keep a waiting list. The state could also just tell a family that there was no assistance available now, and the family should check back in a month or two. This scenario could arise toward the end of a fiscal year, if applications for assistance had been higher than anticipated. However, since federal funding is frozen and there is no duty to use state funding, a state might simply decide that it will permanently keep its caseload at a particular level, and only provide assistance to a new family if an old family leaves.

No duty to provide assistance for any period of time: There has been much discussion of the fact that under the TFA, a state would be prohibited from using federal funds to provide cash assistance to a family for more than five years (with a state option to allow for extensions for 10% of the caseload). However, states would have no duty to provide aid for five years, or two years, or any period of time. If a state wished to impose a ninety day limit (or less) on all families, it could do so.

No duty to provide assistance to any category of people: There has been much discussion of the prohibition on using federal funds to provide additional aid to a family that has an additional child or to provide aid to unwed teen parents and their children. However, a state would be free to go much further. If the state wanted to permanently disqualify a family if a mother conceived a child while on aid, in order to encourage "responsible parenting", the state could do so. If a state wanted to permanently disqualify a child for being born out-of-wedlock, the state could do so. If a state wanted to deny aid to parents with no pre-school children, or to deny aid to all parents under age 25, the state would be free to do so under federal law.

No duty to operate a statewide program: Under current law, the program must operate on a statewide basis. Under the TFA, a state could decide to close some or all of its rural offices, as a means to reduce administrative expenses or for any other reason.

No duty to maintain current benefit levels: Under current law, a state risks a penalty in its Medicaid program if the state's AFDC benefit levels fall below their level from May 1988. Under the TFA, that protection would be eliminated, and a state would be free to set benefit levels as low as it wished.

No duty to provide a family the amount of aid it qualified for: Presumably, each state will have rules for calculating a family's assistance amount based on the family's income and other circumstances. However, a state would have no federal duty to follow its own rules. If a state erroneously denied aid, or paid a family a fraction of the amount the family qualified for, the state would not have violated federal law, and the family would have no recourse under federal law.

No duty to provide education or training assistance: Under current law, in the JOBS Program, states must develop employability plans based on an assessment of the individual. Nationwide, more than half of JOBS participants are in an education or training activity. Under the TFA, there would be no duty to provide an assessment, no duty to ensure that the activity was reasonable or appropriate, no duty to provide education in any case, no duty to provide child care for participation in education and training, and no duty to provide transportation or other support services. There would be no duty to provide a family employment-related assistance of any kind before the family reached its time limit.

No duty to have or follow rules allowing for good cause exceptions when a parent is unable to comply with program requirements: Under the block grant, a state could impose any employment-related requirements (and probably, any other behavioral requirements) it chose without regard to whether an individual could reasonably comply. For example, a state would be free to require a parent without a car or other means of transportation to appear at a worksite in the next county, and then cut off the family's aid when the parent was unable to appear because she had no way to get there. The state would be free to cut off a family's aid if the parent did not participate in a required activity because a child was sick and the parent had no available child care. A state could develop "good cause" exceptions, but it would have no federal duty to comply with them.

No duty to ensure that penalties are reasonable or appropriate under the circumstances: A state would be free to develop rules under which a family that was late for an appointment (or failed to meet any other program rule) would be disqualified from receiving aid for 30 days, or for life, or for any amount of time in between.

No duty to spend a penny in state funds: Under current law, each state must pay a part of the cost of AFDC benefits to poor families -- the richest states pay 50% of the cost of benefits, and the poorest states may pay as little as 20%. Under the block grant, states would have no duty to maintain their current level of effort, or any level of effort, in providing cash assistance or employment-related assistance to the families in need of assistance under the block grant. A state would be free to take the entire current state expenditure for the AFDC benefit and shift it to any other purpose.

Conclusion

Under the TFA block grant, there is no floor on state conduct. State spending will be subject to an annual audit, but nothing described above would violate federal law. It may be that many states will not want to exercise the options described above, but states will need to be fearful of their neighbors. A state could decide that its anti-poverty policy will be to discourage poor families from residing in the state, and that the way to do so is to provide emergency relief on a short-term basis, and otherwise encourage poor people to move elsewhere. At this point, it appears that bus tickets to other states would be an allowable block grant expenditure.

There is a difference between flexibility and chaos. The Temporary Family Assistance Block Grant would invite the latter.

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"BLOCKING" DEVOLUTION:

Why Block Grants are the Wrong Approach to Devolution—and Three Progressive Alternatives

By Ed Kilgore and Kathleen Sylvester

In their struggle to find legislative expression for some of the hazier elements of the Contract with America, Republicans in the 104th Congress are seizing upon "block grants" to states and localities as a cure-all technique, applicable to welfare, crime, and perhaps even health care.

In theory, block grants represent a procedural reform in the administration of federal-state or federal-local programs—a broad consolidation that gives the ultimate managers of domestic programs flexibility to meet national purposes without micromanagement by Congress or the federal bureaucracy.

In practice, however, the block grant label can be deceptive. Some past consolidations, such as the Social Services and Community Development Block Grants, did not supply the sweeping flexibility the name connotes. Conversely, the block grants being proposed by the current crop of congressional Republicans fail to articulate the national purposes that justify federal involvement in the first place.

Even in their ideal form, block grants do not supply a strategy for "devolution" of federal power as their proponents, who seek to link this procedural reform to voter mistrust of Washington, often imply.

Turning federal programs into block grants makes them easier to administer, but does not accomplish any clarification of federal and state roles, or of the national and local concerns that justify them. If a given domestic program is to become a purely state function, why maintain any federal funding, and if it's not, why should the federal government have no say over how the money's spent? Block grants ignore these questions and simply freeze current fiscal relationships among levels of government, as though they were dictated in the Federalist Papers.

Previous experience, especially during the Reagan Administration, would indicate that block granting a program may undercut the stated purpose of increasing flexibility. Large block grants designated for general purposes are easy targets for budget cutters, yet still vulnerable to federal prescriptions.

More fundamentally, true devolution should aim at giving citizens maximum power at the expense of government bureaucracies at every level. Block grants simply reallocate power among bureaucracies.

In the peculiar form advocated by congressional Republicans, block grants make little or no sense. They represent a "reform" in search of a rationale and a brain-dead devolution lacking any purpose or definition. The following two examples make the point.

Welfare Block Grants—Retreat from Reform

On January 6, after a day-long meeting with Republican governors, GOP congressional leaders announced a tentative agreement to "reform" welfare through a series of block grants to the states that would eliminate the entitlement status of low-income programs and supply total flexibility in the administration of these programs. Expenditures would be frozen at current levels for five years.

This tentative Republican agreement dramatically illustrated the inherent shortcomings and internal contradictions of the block-grant method of devolution. The welfare debate that took shape last year benefitted from a wide-ranging discussion of the proper object of reform—putting welfare recipients to work, improving their education and skills, or discouraging illegitimacy—and the best means for securing reform, including the roles of the federal government, the states, community organizations, private job placement services, and civic and community organizations.

Unfortunately, the Republican proposal to turn AFDC and related programs into block grants short-circuits the national debate on welfare reform, and simply shifts the welfare problem—both its definition and its solution—to the states, with limited federal funding. States thus lose any real incentive to change the welfare system. Indeed, because the proposal abandons existing requirements that states match federal funds, there is even less incentive for reform than under the current system, because reform costs money.

Welfare block grants are attractive to congressional Republicans precisely because they avoid any national decision on a controversial issue that divides the GOP—the object of welfare reform—while ensuring the one outcome all Republicans can agree on—reducing federal welfare spending to help pay for Republican tax cut and defense spending promises. *Actually reforming welfare* is associated federal funds: (1) a *community policing initiative* designed to place 100,000 new police officers on the streets, and, more indirectly, to influence police departments to reorient their crime-fighting strategies from rapid response to community policing; (2) a host of *crime prevention grants*, ranging from early youth intervention programs to support for inner-city civic organizations; and (3) *state prison construction grants* made conditional on state adoption of tougher sentencing laws.

The Contract with America promised to re-open the crime bill for a variety of purposes, including the elimination of the new prevention programs typically characterized by Republicans as "pork-barrel social programs." Once under Republican control, the House Judiciary Committee quickly took up a crime bill re-write, and replaced both the community policing initiative and the crime prevention grants with a new $10 billion crime block grant for cities and counties. The block grant proposal passed the full House in mid-February.

The debate within the Judiciary Committee on the block grant concept was illuminating. Committee Democrats cited a familiar litany of abuses—purchases of airplanes, real estate, and even a tank—associated with the last flexible set of crime-fighting grants to states and localities, the Law Enforcement Assistance Act. Committee Republicans blithely supported amendments to prohibit use of block grant funds for—airplanes, real estate, and tanks! As with the welfare block grants, the committee offered no articulation of a national purpose to justify federal involvement—only a definite willingness to make negative prescriptions. The highly prescriptive state prison construction grants championed by Republicans remained intact.

The community policing section in last year's crime bill was clearly designed to establish national policy by endorsing effective crime-fighting strategies and to supply limited federal funds to spur redeployment of local police resources. The array of crime prevention grants, too, was aimed at a new national emphasis on identifying at-risk individuals and communities and addressing their problems early on. Disagreement with the premise of either set of provisions is entirely legitimate, and would dictate amendment or repeal. *But it makes no sense at all to replace both programs with a single block grant*. If community policing or crime prevention grants are, as Republicans often argue, "pork," then replacing them with a huge new block grant literally throws good money after bad.

A Test for Program Consolidations

The GOP welfare and crime block grant proposals reflect an assertion that any consolidation of federal programs is a positive step towards devolution. We strongly disagree.

apparently less important than maintaining Republican unity and political advantage.

It is not clear, however, that the welfare block grant stratagem will succeed, in large part because some congressional Republicans do feel strongly about a national commitment to certain principles about welfare—if not a coherent strategy—whether or not their colleagues agree.

The House Ways and Means Committee has dutifully agreed to a series of welfare block grants while insisting that funding be conditional on the welfare measures contained in the Contract with America: no payments for children of unmarried minor mothers; no payments for legal immigrants awaiting citizenship; and a two-year time limit on cash assistance without work. The draft Ways and Means bill also requires states to put 20 percent of welfare recipients into work by the year 2003, though the definition of "work" is exceptionally vague.

In unveiling this new "compromise," Clay Shaw, a Florida Republican who chairs the subcommittee of jurisdiction, made a comment that should have triggered alarm bells in Republican state capitals:

> Some governors have asked for block grants from the federal government that come with no "strings." As I have said before and say again today, this we cannot do. As your elected representatives in Washington, you have sent us here to be stewards of your federal tax dollars. We simply cannot fulfill our role as stewards by signing a blank check to anyone, even our nation's governors.

In effect, the House Ways and Means Committee has approved block grants that really aren't block grants, because they come with strings. These strings, however, do not articulate any clear vision for welfare reform—nor any federal commitment to make sure it happens. The only principle consistently supported by congressional Republicans is to limit federal welfare spending; and some candidly view block grants as a way station to additional future cuts or even abandonment of federal responsibility. As such, these "block grants" represent a retreat both from welfare reform and from clear principles of devolution.

Crime Block Grants—Throwing Good Money After Bad

In terms of tradition, prior involvement, and current fiscal commitment, intrastate law enforcement and crime prevention are the most local of domestic government functions. If principles of federalism have any meaning at all, new federal intrusions into this area should be carefully rationalized to demonstrate a clear national purpose.

Last year's crime bill contained three separate new sets of federal policies affecting local law enforcement and crime prevention, with varying degrees of

The best test for any consolidation of federal programs is this: Does the consolidation *clarify* the national purpose underlying federal assistance, and then give state or local governments latitude—and accountable standards—in meeting that purpose? Or does it *obscure* the national purpose, and simply transfer money from one layer of bureaucracy to another?

The Republican welfare block grant proposal essentially abandons any clear expression of national purpose on welfare reform. That is true even if certain negative prescriptions disqualifying legal aliens or minor mothers of illegitimate kids are sneaked in through the back door, reducing the much-touted state flexibility without elucidating positive objectives or results.

The crime block grant proposal is even stranger. After all, the ink is barely dry on the legislation creating the new categorical programs that the block grant would replace. Thus the block grant represents a massive increase in federal spending in the most local area of domestic government, with absolutely no justification through an expression of national purpose, other than a vague sense that voters are upset about crime and that the Contract with America promises some response.

Progressive Alternative #1—Devolution through Performance-Based Grants

One alternative that does meet the test of a constructive consolidation of federal programs is the performance-based grant, which supplies flexibility to state or local administrators in exchange for achieving defined results that embody the national purpose justifying the use of federal funds.

The best existing example of a performance-based grant is the so-called "Oregon Option," a broad waiver recently negotiated among federal, state, and local officials governing human resources programs in Oregon. Federal officials have agreed to suspend most federal restrictions on how state and local officials can use federal funds. In return for this flexibility, state and local officials have agreed to meet a set of specified outcomes.

The Oregon model clarifies the national purpose underlying federal funds by requiring a results-oriented human services policy. The Oregon plan focuses on prevention rather than remediation of problems, delegates responsibility and decisionmaking powers to those on the front lines, and rather than budgeting more money, re-directs the current funds in a more efficient way.

Oregon officials have pledged to deliver results based on the state's own "benchmarks" reached through a public consensus-building process that defined goals important to Oregon citizens: healthy children, stable families, and a highly trained and competitive workforce. In return for the flexibility to combine federal funds and implement many policy changes without federal waivers, state and local officials have agreed to meet a series of defined "performance measures."

More specifically, Oregon will define success in welfare programs not by the number of clients served—currently the sole basis for federal funding—but by the results obtained: the percentage of AFDC clients who get jobs, the percentage who are able to establish child support; the average length of time families stay on welfare; the percentage of AFDC households headed by teen parents; and the basic skill levels of AFDC participants in job preparation activities.

The President's FY 1996 budget proposes a shift to performance-based grants in a variety of domestic program areas, including housing and community development, public health, pollution control, and transportation. If these proposals are developed and aggressively promoted in Congress, performance-based grants can serve as the most useful progressive alternative to Republican block grants.

On one critical issue outside the Administration's set of suggested performance-based grants, The Progressive Policy Institute has developed its own proposal. We support a work-based model for welfare reform that would effectively transform federal income maintenance and education and training grants into a performance-based system rewarding states for placement and retention of recipients in private-sector jobs.

Progressive Alternative #2—Devolution by "Swapping" Divided Functions

A second progressive alternative to the block grant is the "swap," an approach that shifts currently divided responsibilities—policy, administrative, and fiscal—to one level of government in a coordinated, revenue-neutral fashion. Swaps are based on the theory that some functions of government should be funded *and* implemented by a single level of government—the level best-suited to take on those responsibilities. This approach is also based on the sound belief that unified control of specific domestic government services promotes accountability, by clarifying the level of government responsible for this or that function.

Swaps are not a new idea. Arguments for swaps were well articulated in the early 1980s by reports from the Robb-Evans Commission, and the Advisory Commission on Intergovernmental Relations and more recently by David Osborne in PPI's *Mandate for Change*. Alice Rivlin, director of the Office of Management and Budget, proposed a thoughtful scheme for "sorting out" government functions in 1992. The National Governors' Association has suggested a variety of swap concepts, including one in which the federal government would take over both health and income maintenance responsibilities for the "Social Security population" (the aged, blind, and disabled) with the states assuming similar obligations for the "AFDC population" (non-elderly people with low incomes).

Even so, the politics of swaps make them difficult to achieve. President Reagan proposed a "swap" in his 1982 State of the Union Address, to the surprise of many congressional Republicans. Under the Reagan plan, Washington would have taken full responsibility for Medicaid and the states, in return, would have taken over welfare programs, including Aid to Families with Dependent Children and food stamps, along with a variety of other intergovernmental programs. The plan died quickly, mainly due to congressional hostility or indifference in both parties, but also because state officials were suspicious that the Reagan Administration was more interested in "dumping" the costs associated with programs to be assumed by the states than in balancing these "turnbacks" with full federal assumption of Medicaid.

In some respects, functional swaps are like an exchange of hostages: If they do not proceed simultaneously, and on roughly equal terms, the trust necessary to complete the exchange will break down. As with the Republican block grant proposals, which are clearly fueled by the need to generate quick federal spending cuts to pay for tax cuts and defense spending increases, swap proposals driven by short-term federal budget concerns rather than long-range federalism considerations are doomed to failure.

Swap proposals assume that federal officials are willing to completely withdraw from specific areas of domestic government. However good the policy in the abstract, so long as Congress and the President cannot resist the political pressure to intervene on any domestic concern that agitates focus group participants, devolution by swap will prove difficult if not impossible.

Progressive Alternative #3—Devolution to Citizenry

The most meaningful form of devolution, and the only form immediately responsive to the current mood of voters, is to bypass government bureaucracies at all levels and directly empower Americans to solve their own problems.

PPI has recently proposed two closely-related reforms that aim at devolution to the citizenry: the GI Bill for American Workers, and the Job Placement Voucher for welfare recipients.

Embraced in concept by the President, the GI Bill for American Workers would, among other reforms, scrap the current system of 70 categorical grant programs for education and training of dislocated workers *and replace it* with a flexible voucher that would stimulate and tap a growing market of public and private providers of re-employment services.

The proposal would also help workers set up tax-favored Individual Retirement Accounts that could be drawn upon to upgrade skills, and would promote greater use of National Direct Student Loans by workers who could then pay off the cost of college or postsecondary training with a percentage of future income.

Similarly, the Job Placement Voucher concept is aimed at breaking down welfare bureaucracies and stimulating a competitive market of job placement and support services. Part of the PPI's "work first" plan for welfare reform, the proposal would encourage states to provide welfare recipients with vouchers redeemable by public agencies, private firms, community enterprises, or employers, so long as they are used to place and keep the individuals in question in private jobs.

A third major avenue for devolution to citizenry is to strengthen the ability of non-government community organizations to address critical social problems while drawing on the energy and creativity of the people most affected. National Service, embodied in part by the AmeriCorps created by Congress at the President's urging in 1993, is one very promising approach for experimenting with non-governmental mechanisms for domestic service delivery while empowering participants through post-service benefits. To the extent that some congressional Republicans, including Speaker Gingrich, have announced strong opposition to AmeriCorps specifically and national service generally, progressives must challenge them to square this reflexive position with their alleged support for devolution of domestic government and empowerment of citizens.

Of equal importance, domestic programs aimed at fighting poverty and social pathology in low-income urban and rural areas must be re-focused to help citizens in these areas solve their own problems. Federal policy should shift from promoting paternalistic bureaucracies and tax-lured outside investment to an approach that builds on the real if hidden assets of impoverished citizens and their communities. Microenterprises, community banks, and individual development accounts could all help devolve power over community development while enlisting citizens in self-help measures that actually work.

Beyond Focus-Group Federalism

Implicit in the progressive critique of block grants, and in the three models of devolution we suggest as alternatives, is that *different domestic problems require a different deployment of resources among levels of government, and in some cases, beyond government*. There is no "cookie cutter" method of devolution that will work in every area. The national purpose justifying federal funds and the governance capacity of federal, state, and local governments will vary across program and issue lines.

Block grants as pursued by Republicans in the 104th Congress are based on a one-size-fits-all approach to devolution, and a resolute unwillingness to define national purposes or to assess governance capacities. As such, the GOP approach

Where will the money come from? The most difficult issue to resolve will be financing. If the federal government were to devolve certain functions or roles to the states, there would be an irresistible federal impulse to claim any savings for new programs or deficit reduction. Any power shift must assure that states or localities have fiscal capacity to do the job well.

Which level of government is best suited to ask citizens what they want? When states and local governments make decisions about priorities, citizens join in the process. At the state and local levels, citizens decide all the time what they value enough to pay for: They support or reject ballot initiatives; they approve or disapprove tax increases and bond issues earmarked for specific programs; and they lobby their legislative bodies.

These key questions can be asked in each area of domestic government, or can be asked comprehensively—across all areas of domestic government. PPI has called on President Clinton to hold a Federalism Convention in 1995 to begin a comprehensive evaluation. Governors Mike Leavitt, a Utah Republican, and Ben Nelson, a Nebraska Democrat, have announced an intention to hold a Conference of the States to launch the same process—with or without federal participation.

Whether or not a "big screen" discussion of devolution ensues, those who seek to promote an agenda for devolution must keep the "big picture" in clear view. True devolution cannot be advanced by a Congress obsessed with short-term federal budget savings, or even by governors struggling to regain control over state budgets stretched thin by congressional micromanagement. It is the *taxpayers' budget*—the sum total of federal, state, and local taxing, spending and borrowing, their effect on the economy, and the services and empowerment they buy, that offers the only proper context for devolution.

The authors of the Federalist Papers would agree. So should those who consult them now.

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is a cynical device that "blocks" real devolution. It also reflects the same "focus-group federalism" that created the chaotic system that devolution would reform: the knee-jerk tendency to design a federal response to any concern of voters, whether or not it makes sense or can promote either national or local purposes.

In many areas where federal and non-federal roles are fairly clear, performance-based grants can produce a useful combination of desired outcomes and administrative flexibility to achieve them. In a few isolated cases, swaps can be designed that will promote both efficiency and accountability. And in every area of domestic government, steps can be taken to devolve power to citizens, bypassing bureaucrats at every level.

But true, thorough, and lasting devolution will require a serious comprehensive evaluation of domestic government to more clearly define national and local purposes and more adequately assess the strengths and weaknesses of each level of government in each area.

After all, our system of federalism has never been static. The roles of the various levels of government have been defined and redefined by national crises: the Great Depression, three wars against foreign powers, and the civil rights struggle. The current crisis of governance requires reconsidering the relationships in that system again.

This reconsideration involves a series of questions for each area of domestic government:

Who can best do the job? The federal government has advantages in areas such as social insurance and regulating matters that cross state borders. Important redistributive functions, such as basic funding levels for income-support programs, must reside with the federal government. States and localities are better at delivering services. Any sorting out should also take into account the capacities of the various levels of government.

Who has a compelling interest in doing the job? States and localities have already honed their capacity for economic development because it expands their revenue bases. States dare not allow themselves to fall too far behind their more aggressive neighbors for fear of losing their tax bases. Localities have an interest in providing education and police protection because their voters demand services.

How can equity be assured? Poorer states and localities cannot compete on equal terms with the wealthier jurisdictions. The federal government should provide some balance by offering special financial assistance to the poorest states; states should also provide financial aid to localities with weak revenue bases or extraordinary needs. Revenue capacity, revenue effort, and service demand must all be taken into account.

The Temporary Family Assistance Block Grant:

Frozen Funding, Flawed Flexibility

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March 28, 1995

Center for Law and Social Policy

CLASP

The Temporary Family Assistance Block Grant: Frozen Funding, Flawed Flexibility
Executive Summary

On March 24, the House of Representatives approved a bill which would eliminate the AFDC Program and replace it with a Temporary Family Assistance Block Grant. The block grant has been promoted as a way to provide states more flexibility in return for less federal money. In one sense, this is accurate -- the block grant would provide states with flexibility to reduce and eliminate assistance to poor families. In a broader sense, the real impact of the block grant would be to end the federal government's ongoing duty to share in the cost of cash aid to poor families with children, and in the cost of welfare reform. Under the bill, the federal share would be frozen for five years at the FY 94 spending level with minimal adjustment for population growth. Any costs beyond that level would have to be met with state dollars alone. Thus, federal savings would be assured and all risk would be placed on the states. States could not compensate for all of the lost federal funding through "administrative savings." They would be forced to choose between increasing state spending - with no federal match - and reducing or terminating assistance to poor families. Many important elements of work-based welfare reform efforts - education, training, work slots, child care, support for working poor families - involve increased costs, but the loss of federal match would greatly increase the effective cost to states of any new spending. In practice, states would have the flexibility to make cuts, but not to implement the changes that matter most in reforming welfare. States should pursue alternative approaches that could increase flexibility without necessitating the loss of billions of dollars of federal assistance.

Key Features of the Temporary Family Assistance Block Grant

H.R. 4, the Personal Responsibility Act, would eliminate AFDC, the JOBS Program, and the Emergency Assistance Program. Instead, each state would receive a share of a pool of federal money. The overall amount, $15.39 billion, would be based on FY 94 federal spending and would be frozen through FY 2000; beginning in FY 97, an additional $100 million would be distributed among states that had experienced population growth. Congressional Budget Office estimates indicate that the effect of the freeze would be a loss to states in AFDC/JOBS/ Emergency Assistance of about $8 billion over five years; the Administration estimates state losses of about $11.8 billion. States would be prohibited from using federal funds to provide cash aid to certain categories of families and children. Otherwise, states would have substantial discretion to decide how to spend the money on cash assistance and work-related programs. States would have no duty to provide aid to any person or family and no duty to maintain current levels of state spending. The bill includes increased work requirements. A state could seek to meet its work participation rates either by having individuals participate in countable work activities or by any reduction in the state's caseload for any reason (except where the caseload reduction was mandated by federal law).

The bill would eliminate transitional child care and the child care guarantee. AFDC-related child care would be folded into a child care block grant which would have flat funding at $2.09 billion through FY 2000.

The TFA has been promoted as offering states flexibility in return for reduced federal funding. Accordingly, states should consider: 1) how much flexibility does the block grant offer? 2) How much do states have to pay for this flexibility in lost federal funding? 3) Are there ways to get more flexibility without a corresponding loss of federal funds?

1. **The block grant offers the flexibility to cut assistance or spending, but not to make changes that require new resources**

The bill has two principle "strings": work requirements, and prohibitions on using federal block grant funds to provide cash assistance to certain families and children.

The bill's overall work requirements increase from 10% in FY 96 to 27% in FY 2000, and then reach 50% in FY 2003. To count toward the rate, an individual would need to be in a countable work activity for 20 hours a week (reaching 35 hours in FY 2002); education could only count toward the rate when by an individual under age 20. Beside meeting the overall rate, the state would need to meet two-parent work requirements which would begin at 50% in FY 96 and reach 90% in FY 98. The bill provides no adjustment in TFA funding to meet the escalating work requirements; in fact, the freeze in federal block grant funding represents a dollar loss to states greater than the entire federal cost of the JOBS Program. Instead of providing open-ended access to child care funding, the PRA would consolidate child care funding into a single block grant with flat funding from FY 96 through FY 2000. By contrast, the Personal Responsibility Act introduced in January included a work mandate of 35 hours a week for 17% of the caseload in FY 2000, and would have added $9.9 billion in additional federal JOBS/work funding over five years, along with continued access to matching funds for child care spending.

In the initial years, some states may be able to meet the bill's participation rates based on the number of participants who are <u>already</u> working, or through a set of accounting devices. However, it seems clear that the current bill is billions short of the funds needed to make substantial increases in work program participation. The bill does offer an alternative way to meet the work participation rates. In calculating compliance, a state could claim credit for caseload reduction from an FY 95 baseline - the reduction would be claimable for any reason except where the caseload reduction was mandated by federal law. Accordingly, the bill's work requirements would ultimately force states to dramatically increase unmatched state spending, cut off assistance to large numbers of families, or accept a federal penalty for failure to meet the required rates.

Apart from the work requirements, the principle federal "string" on the block grant would be a prohibition on using block grant funds to provide cash assistance to certain individuals and families. Among the prohibitions would be a bar on using federal block grants to provide cash assistance to:

- a child born out of wedlock to an individual under age 18 or to the individual until the individual turns 18, with exceptions only when a child is born as a result of rape or incest;
- a child born to a recipient of cash benefits under the state's program, or to an individual who received cash benefits at any time during the 10 month period ending with the birth of the child, with an exception only for children born as a result of rape or incest;
- the family of an individual who, after attaining age 18, has received block grant funds for 60 months (whether or not consecutive) after the effective date of the provision. States could permit hardship exemptions from this provision for up to 10% of the number of families to which the state was providing assistance under the program under the block grant;
- a family including an individual who the state child support enforcement agency has determined is not cooperating in establishing paternity of any child of the individual, or in establishing, modifying, or enforcing a support order with respect to such a child;
- a family including an individual who has not assigned to the State any rights the individual may have to support from any other person; and
- legal immigrants, except for refugees during their first five years in the country; legal permanent residents over age 75 who have lived in the United States for at least five years; legal permanent residents who are unable to comply with naturalization requirements because of a physical or developmental disability or mental impairment (including Alzheimer's disease); and veterans on active duty or honorably discharged from the U.S. Armed Forces (and their spouses or unmarried dependent children).

These provisions would <u>compel</u> denial of federal assistance where states have not sought to do so. States would be barred from using federal funds to assist any of these parents and children, with no ability to modify policy based on experience. A state would be free to use state dollars to assist federally excluded persons, but this would become more difficult over time because the federally excluded group would increase each year. For example, initially, no one will be excluded based on having received 60 months of aid, but this group is estimated to eventually reach half or more of those currently receiving aid.

Apart from its prohibitions and work requirements, the TFA would seem to allow states much flexibility in establishing program rules. However, this flexibility is less than meets the eye. A state would be free to rewrite rules but the lack of federal matching funds would make it difficult or impossible to implement many important policy options. For example, many states have sought waivers to liberalize AFDC earnings rules, raise asset limits, or eliminate restrictions on aiding two-parent families. The principal constraint on adopting policy has been the federal cost-neutrality requirement. A block grant would make the cost-neutrality problem worse, because a state would now face 100% liability for any additional costs each year, with no tolerance margin.

The practical effect of the block grant would be to greatly increase the cost of any policy option that necessitated new spending. For example, suppose a policy option costs $1 million. If the state now has a 50% match rate, the state's effective cost is $500,000, because the federal government pays half. Under the block grant, the cost becomes $1 million in state funds. In effect, losing a 50% match doubles the option's cost. The problem is more severe for poorer states. Under current law, a state with a 75% federal match can implement a $1 million option for $250,000 in state funds. Under the block grant, the option's cost for the state is quadrupled.

A state would also be technically free to adopt broad participation requirements in work or training programs, but this freedom would be of little consequence without money. Under current law, states can already require up to 80% of AFDC adults (and more with waivers) to participate in such programs; the constraint preventing broader participation has been its cost. Given that most states have been unable to draw down all their JOBS funding when federal match was available, the likelihood of a larger state commitment with 100% state funds cannot be promising.

In effect, then, the block grant would allow flexibility in implementing options that had no cost or involved cutting spending, but it would make it more difficult to implement many of the changes that states have considered most important to welfare reform.

2. The cost of the new flexibility is the loss of billions in federal funds and of the federal responsibility to share in program costs

The apparent premise of the TFA is that with increased flexibility, states can reform welfare while significantly reducing costs. In evaluating this premise, states should keep in mind the following:

Federal savings are assured because federal spending is frozen; states must generate significant savings just to adjust for lost federal funds. Based on CBO estimates, it appears that states would need to generate about $.8 billion in savings the first year, and about $2.6 billion in savings in FY 2000 to make up for the lost federal funding.

Even large administrative savings would not likely compensate for the lost federal funding. In FY 93, state administrative costs for AFDC were $2.8 billion. A 25% reduction in administrative costs would translate to $.7 billion; the federal funding reduction for the first year of the block grant is projected at $.8 billion. Moreover, are administrative savings of this magnitude reasonable to project? Consider that:

- Some state reforms may reflect important policy goals, but may add to administrative costs. For example, adopting a social contract system with expanded participation requirements or imposing school attendance or immunization requirements may add to system complexity.

- Basic system improvements are also likely to add to administrative costs. Any effort to lower caseworkers' caseloads or to improve supervision or training will add to administrative costs.

- Administrative costs have been fairly flat in recent years. Monthly average administrative cost per case in FY 93 was $47.17, only slightly above the $45.05 cost per case in FY 84.

- Many federal rules are in place to minimize overpayments. A state may wish to simplify them, but in some cases, administrative simplification may result in increased benefit costs.

In addition, several TFA features could add to state administrative costs, e.g., work and data reporting requirements, implementation and administration of the prohibition on using federal funds for federally excluded persons.

In short, it is at best unclear whether freedom from existing federal requirements would result in administrative savings, when compared with new requirements and other changes that would occur as part of welfare reform.

Inflation, population growth, demographic changes, and economic changes may all lead to increased costs: However successful a state's welfare reform initiative, factors outside the welfare system may increase costs over a five year period. If all else remains constant, costs will increase due to inflation. If the same percentage of the state's population receives aid, population growth will lead to increased costs. Increased numbers of single-parent families can also be anticipated to increase the numbers of families in need of assistance. The bill allows a $100 million national fund each year to distribute among states that had experienced population growth. This represents a .6% adjustment for population growth over a five year period. To keep the amount in perspective, one should consider that California's AFDC benefit costs increased by $500 million from 1989 to 1990, and an additional $500 million the next year.

A factor that could dwarf all others in affecting benefit costs is the impact of a recession. Consider the experience of recent years. From 1982 to 1989, the nation's AFDC caseload increased by 200,000 families. Then in 1990, the caseload jumped by 200,000 families, and by 800,000 more families in the next two years. There may or may not be a recession of comparable effect in the next five years, but it is surely foreseeable that there will be an economic downturn at some point, and that frozen federal funding would not adequately address it. The bill offers three alternatives for addressing sudden increases in need, but each is inadequate:

First, states could save part of their block grant in a "rainy day" fund. However, since the block grant is set below current spending needs, a state cannot readily put part of its funding in reserve without denying aid to families currently in need. Moreover, few legislatures will want to spend additional state dollars in order to put federal dollars in reserve for the future.

Second, states could borrow a limited amount of money from a $1 billion federal "rainy day" fund with a duty to repay with interest within three years. These funds would only be available if the state reached 6.5% unemployment and exceeded the level of one of the last two years by at least 10%. As a result, a state with low unemployment could face large increases without reaching the trigger, as could a state where unemployment increased steadily but slowly. In addition, if caseload grows suddenly as it did in the early 1990s, a loan fund of $1 billion would address only a fraction of the need. Moreover, a state in the midst of recession has no way to know how long it will last or whether the state will have the capacity to repay within three years. Finally, it is a profound reduction of the federal role to shift from the current federal duty to pay half or more of program costs to a willingness to lend a limited amount of money under limited circumstances.

The third option would be to move funds from other block grants. However, each of these block grants will also likely involve reduced or frozen funding and no extra money to spare. Moreover, they involve assistance to the same or related populations, and when need increases in one area, it may also be increasing in others.

In short, if and when costs go up for reasons unrelated to welfare policy, a state would be left vulnerable to respond to those costs with virtually no additional federal assistance.

Would the state's reform initiative generate savings? Until recently, the litmus test of welfare reform was not reducing spending; it was success in ensuring that parents who could enter the workforce would do so. When the American Public Welfare Association presented its proposal for reform in 1994, APWA officials estimated that it would result in about $13 to $15 billion in additional federal costs over five years, because it sought to revamp the system to get more parents into the workforce. Last year, 30 states expressed interest in experimenting with more generous policies through the waiver process. At that point, CBO estimated that more liberal earnings and asset rules and removing restrictions on AFDC-UP eligibility would all increase program costs. Many states have articulated plans to increase participation in work programs. In costing out the Administration's Work and Responsibility Act, CBO estimated that the annual cost of participation in a work slot would add in excess of $6000 to a case. Many states have also sought to move toward universal participation in employment-related activities. However, it would seem difficult for a state to expand - or even hold constant - the size of its JOBS Program under the block grant in light of the frozen TFA funding and cap on child care funding.

Clearly, some states envision that they could expand spending in some areas with costs offset by savings resulting from the imposition of time limits. However, no state has experience from which to estimate the likely effect of time limits. Wisconsin is now testing time limits in two small counties, but the initiative just began in January 1995. Florida will test an aid cut-off in two counties, but with a state duty to provide a subsidized job to those who reach the time limit, have complied with program requirements, and are unable to find work. Before having any experience with a time limit, it is impossible for a state to know how frequently the state will want to grant exemptions or extensions, or in how many instances the state will face higher non-cash costs, e.g., foster care, homelessness, for families reaching the time limit. Accordingly, it would not be prudent for a state to count on time-limit savings as the basis for concluding that welfare reform will necessarily result in savings.

3. A flexible entitlement structure could provide states the opportunity to pursue welfare reform without losing the federal responsibility to share in program costs.

The alternative to the constraints of the block grant is to move toward a flexible entitlement system: a structure in which states are given broad flexibility to write their own state plan, but in which the principle of entitlement is left in place and the federal government has a continuing duty to share in state costs. This approach could identify the areas where states have most frequently sought waivers and turn those provisions into state options. In their state plans, states could define and set policies relating to income, assets, participation requirements, and virtually all administrative requirements. At that point, the state would have a duty to follow its state plan, and the federal government would have a duty to match state expenditures. The strength of this approach is that it would allow flexibility in the areas most important to states, but would assure the federal government's responsibility to join in the costs of program expenses.

If Congress is truly committed to state flexibility - as opposed to just cutting federal spending - then Congress should be responsive to developing a structure which both allows states to design reform alternatives and maintains a federal role in joining in the cost of implementing reform. The price of state flexibility should not be the loss of billions of dollars of federal resources, and the loss of the federal government's duty to respond to increased needs.

Temporary Family Assistance Block Grant: Frozen Funding, Flawed Flexibility

Introduction

On March 24, the House of Representatives approved the Personal Responsibility Act. The PRA would (among many features) eliminate the AFDC Program and replace it with a Temporary Family Assistance Block Grant.

In brief, the AFDC provisions of the PRA would repeal AFDC, the JOBS Program, and the Emergency Assistance Program. Instead, each state would receive a share of a pool of federal money. The overall amount would be based on FY 94 federal spending and would be frozen - with a small adjustor for population growth - through FY 2000. States would have substantial discretion to decide how to spend the money on some combination of cash assistance and work-related programs for poor families with children. However, federal funds could not be used to provide cash aid to certain categories of families and children. States would have no duty to provide aid to any person or family, and no duty to maintain current levels of state spending for the program. If more families needed help or the state wanted to increase spending for these purposes, the state could not attain additional federal funds except by borrowing a limited amount (with a duty to repay with interest) from a federal rainy day fund or by reducing spending in other block grants targeted at low-income individuals and families.

From Congressional Budget Office estimates, it appears that the effect of the TFA approach would be a loss to states of about $8 billion in AFDC/JOBS/Emergency Assistance funding over a five year period; the Administration estimates state losses of about $11.8 billion.

The bill would impose strong work requirements despite the fact that TFA funding would be frozen at the FY 94 level and other provisions of the bill would curtail state access to federal child care funding. A state could seek to meet its participation rate either by increasing the numbers of persons in work activities or by cutting families off assistance - caseload reductions for any reason (except those mandated by federal law) would count toward satisfying the participation rate.

The block grant has been promoted as offering states flexibility in return for reduced federal funding. Accordingly, states considering the pros and cons of the block grant should ask:

- How much flexibility does the block grant offer?
- How much do states have to pay for this flexibility in lost federal funding?
- Are there ways for states to get more flexibility without a corresponding loss of federal funding?

This text analyzes these questions and concludes:

- **The flexibility offered by the block grant is primarily the flexibility to cut assistance or spending.** The block grant's prohibitions on assisting certain families would pose increasingly serious problems over time for states that wished to continue assistance for federally excluded families. The bill's work requirements would be extremely costly to meet except by taking the approach of cutting families off assistance. Apart from the prohibitions and work requirements, the bill allows states broad discretion in deciding how to spend block grant funds. However, the lack of federal rules does not mean state flexibility. Many changes states have sought through the waiver process involve increased costs. Even if it is technically possible to adopt such changes in the block grant structure, it may be difficult or impossible to implement them with frozen federal funding. States would have flexibility to cut, but not flexibility to make improvements that require additional resources.

- **The freeze in federal funding, end to ongoing federal match, and curtailed access to child care funding will result in substantial fiscal losses to states over time.** States will need to generate cuts in assistance and large administrative savings simply to make up for the lost federal funding. No state should assume it will be able to compensate for the lost federal funding through "administrative savings." If a state's sole goal is to reduce spending by cutting assistance, the state will be able to do so under the block grant. However, if the state wishes to implement a welfare reform agenda that involves getting parents into the workforce while preserving a basic safety net, the funding losses in the bill will make it difficult or impossible to do so.

- **States should not be forced to lose federal funding in order to get more flexibility.** Congress could readily accommodate flexibility within the entitlement structure in the areas where states have shown the greatest interest in developing their own policies. A flexible entitlement approach would simultaneously address state flexibility concerns without cutting off state access to federal funding for their welfare reform efforts.

In the following text, Part I briefly summarizes key TFA and related child care provisions; Part II considers how much flexibility states will have under the block grant; Part III explores the cost of that flexibility in lost federal funds; and Part IV discusses an alternative approach to provide state flexibility without losing the resources and safeguards of the current entitlement structure. An Appendix contains a more detailed summary of the TFA Block Grant provision, including some features not discussed in the main text.

I. Key Features of the Temporary Family Assistance Block Grant

Major features of the TFA are:

1. Funding through a frozen block grant instead of ongoing access to federal matching funds: The overall amount of the block grant would be set at $15.39 billion, intended to reflect FY 94 federal spending for AFDC, AFDC Administration, Emergency Assistance, and the JOBS Program. The state's share would be the higher of federal obligations to the state for FY 94, or the average of obligations for FY 92-94, with adjustments as needed to ensure that the total of all grants equaled $15.39 billion. Beginning in FY 97, the federal government would allocate $100 million each year among states that had experienced population growth. Otherwise, the overall amount, and each state's share, would be frozen through FY 2000. States would have no duty to match their block grant funds, and would not be required to maintain their current, or any, levels of state spending for the affected programs.

2. No federal duty to join in additional program costs; a limited set of "rainy day" options: If costs increased, a state would essentially have five options: use money saved from prior years' block grants in a state "rainy day" fund; borrow a limited amount of money from the federal government, with a duty to repay it with interest, from a federal rainy day fund, if the state qualified; use funds from another block grant (if authorized by that block grant); use state dollars; or cut program spending.

3. Prohibition on using federal block grant funds to provide cash aid to certain people: A state could not use federal block grant funds to provide cash aid to a number of categories of people (described in the next section).

4. Broad state discretion to determine who would receive aid (among those not prohibited from receiving federal assistance); no individual rights to assistance: Among those not barred from receiving federal assistance, the state would have substantial flexibility to determine whether to provide aid. No individual would be entitled to assistance, i.e., the state would have no duty to assist individuals who met program eligibility conditions.

5. Reduced Assistance Until Paternity Established: States would be required to reduce assistance paid to a family by either $50 or 15% of the family's grant until paternity was established; the reduced amount would be withheld and remitted to the family once paternity was established if the family was still eligible for aid at that time.

6. Minimal Federal Oversight of State Policy or Program Operations: A state would need to describe its basic approach to spending the block grant funds but the federal government would be required to approve any state plan not in violation of the statute, and prohibited from enforcing any provisions except where expressly provided. State spending would be subject to audit requirements, and a state's block grant payment would be reduced to repay funds paid in violation of the statute, e.g., to excluded persons. Otherwise, a state would face potential penalties for failure to timely submit an annual report with required data; failure to participate in the Income and Eligibility Verification System (IEVS) designed to reduce fraud; and failure to meet an applicable work participation rate. In addition, current law penalties for failure to substantially comply with federal child support enforcement requirements would continue.

7. Elimination of the JOBS Program; work requirements but no additional funding to satisfy them: The bill would eliminate the JOBS Program, and substitute three work requirements (discussed in detail below). No additional TFA funding is made available to meet these requirements.

8. Elimination of the child care guarantee and transitional child care: States would no longer have a duty to guarantee child care to AFDC recipients in education, training, or work, and the transitional child care program (which provides a year of child care to qualifying individuals leaving AFDC due to employment) would be eliminated. AFDC Child Care, Transitional Child Care, and other child care programs would be consolidated into a single discretionary block grant authorized at $2.09 billion through FY 2000.

9. Bonus for reducing out-of-wedlock births: Beginning in FY 98, the state would be eligible to receive a 5% bonus for lowering its "illegitimacy ratio" by one percentage point and a 10% bonus for lowering the ratio by two percentage points. The numerator for the illegitimacy ratio would be the number of out-of-wedlock births plus any increase in the number of abortions in the state; the denominator would be the number of live births.

II. How Much Flexibility will the TFA Allow?

Evaluating state flexibility in the TFA block grant involves asking what states will be prohibited from doing; what states will be required to do; and what states will be able to do. Generally, there will be some substantial prohibitions on assisting groups of families, and the work requirements will force states to choose between spending large sums of unmatched state money or cutting off assistance to families. Apart from these provisions, states will have considerable flexibility in deciding how to spend the available funds, but the lack of federal resources will greatly limit what states are able to do in welfare reform efforts.

A. The Prohibitions on Assistance Will Become An Increasingly Serious Problem Over Time

The major prohibition under the block grant is a bar from using block grant funds to provide cash assistance to a number of categories of people. States would not be required to provide cash assistance to any individual, but would be prohibited from using federal funds to provide cash assistance to persons in the following categories:

- a child born out of wedlock to an individual under age 18 or to the individual until the individual turns 18, with exceptions only when a child is born as a result of rape or incest;

- a child born to a recipient of cash benefits under the state's program, or to an individual who received cash benefits at any time during the 10 month period ending with the birth of the child, with an exception only for children born as a result of rape or incest;

- the family of an individual who, after attaining age 18, has received block grant funds for 60 months (whether or not consecutive) after the effective date of the provision. States could permit hardship exemptions from this provision for up to 10% of the number of families to which the state was providing assistance under the program under the block grant;

- a family including an individual who the state child support enforcement agency has determined is not cooperating in establishing paternity of any child of the individual, or in establishing, modifying, or enforcing a support order with respect to such a child;

- a family including an individual who has not assigned to the state any rights the individual (or other members of the unit applying for or receiving aid) may have to support from any other person; and

- legal immigrants, except for refugees during their first five years in the country; legal permanent residents over age 75 who have lived in the United States for at least five years; legal permanent residents who are unable to comply with naturalization requirements because of a physical or developmental disability or mental impairment (including Alzheimer's disease); and veterans on active duty or honorably discharged from the U.S. Armed Forces (and their spouses or unmarried dependent children).

- assistance for a minor child who has been, or is expected by a parent (or other caretaker relative) of the child to be absent from the home for a period of 45 consecutive days; or at state option, such period of not less than 30 and not more than 90 consecutive days;

- assistance to an individual who is fleeing to avoid prosecution, or custody or confinement after conviction, under the laws of the place from which the individual flees, for a crime, or an attempt to commit a crime, which is a felony under the laws of that place (or is a high misdemeanor in New Jersey); or to an individual who is violating a condition of probation or parole imposed under federal or state law.

Where a state is prohibited from using federal funds to provide cash assistance, the state could opt to provide non-cash assistance, e.g., vouchers.

State expenditures under the block grant would be audited annually, and a states's subsequent grant would be reduced by any amounts spent in violation of the statute, e.g., to a federally excluded person (provided that any quarterly payment would not be reduced by more than 25%).

These prohibitions should be troubling to states for three reasons. First, states have not requested them, and in many instances would not wish to deny aid to the affected categories. Second, any assistance to members of the excluded groups must be provided with exclusively state funds, and sufficient state funds may not be available, particularly over time. Third, since any expenditure of block grant funds for cash assistance to a federally excluded person will have to be repaid, states will be forced to develop complex administrative tracking mechanisms that will reduce potential administrative savings.

The exclusion list seeks to compel denial of federal assistance in circumstances where most states have not asked to do so. Typically, states have not sought to impose statewide lifetime time limits against entire families; time limit waiver requests generally involve either a limited part of the state, or requirements to participate in work activities after a time limit, or a time limit that only affects the parent, or a time limit for a limited period of time. No state has sought authority to deny aid to legal immigrants. While some states have requested waiver authority to impose family caps, there are not yet any evaluation findings, and there is certainly no research basis for compelling all states to deny aid. Only a small number of states have sought waiver authority to deny cash aid to the children of teen parents or to impose full-family penalties for failure to cooperate with child support enforcement.[1]

Moreover, even if a state wishes to impose one or more of the limitations, it may wish to craft the policy itself and consider appropriate exceptions. For example, the family cap exclusion in the bill is drafted so broadly that it would apply to an individual who conceived a child before ever seeking cash assistance, and applied for aid when eight months pregnant. The paternity/child support cooperation provisions allow for no good cause exceptions. The arbitrary 10% cap on exceptions to the lifetime time limits would prevent states from being able to judge when exceptions were appropriate. Further, even if a state wishes to exercise one or more of these exclusions now, it is not in the interest of states to be barred from using federal funds to assist any of these parents and children, with no ability to refashion policy based on experience.

States would not be prohibited from using their state dollars to assist members of the federally excluded groups. Some people have suggested that as a result, a state wishing to avoid the restrictions may face little more than an accounting problem. However, if a state wishes to assist all or some members of the federally excluded groups, the following issues will arise:

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[1] In CLASP's review of state waiver applications to HHS, we have identified one state which is requesting to deny cash aid to teen parents (beginning in 1999) and one state that has requested authority to impose full-family sanctions for the third failure to comply with child support enforcement requirements.

Will there be sufficient state funds initially? Whenever the federal response is "use state funds," the poorest states will be at a significant disadvantage, because the elimination of state match requirements frees up proportionately more state money for richer than for poorer states. For example, consider two states, one now receiving federal funding at a 50-50 rate, and the other now receiving federal funding at a 75-25 rate. For the wealthier state, the elimination of match requirements frees up half its current funding; for the poorer state, the elimination of match requirement frees up only one-fourth of its funding. Accordingly, if both states want to assist the federally excluded groups, the poorer state will have a more difficult time doing so.

The ability to assist federally excluded people will also turn on state legislative decisions about how much state funding to apply to cash aid for poor families. Since there will be no duty to maintain any level of funding, some state legislatures may opt to shift some (or conceivably, all) current state AFDC spending to some other part of the state budget. The pressure to do so may increase because of lost federal funds in other areas, e.g., child care, child welfare, food programs.

If a state wishes to assist federally excluded persons and maintain its current state spending level, it will face another choice: what program services or assistance should be cut to compensate for the frozen federal funding. Given the federal freeze, savings will have to be generated somewhere, and (as discussed later) administrative savings will not be enough to compensate for the lost funding. Accordingly, a state may be able - at least initially - to retain eligibility for federally excluded persons, but only by making other reductions in basic assistance or eligibility.

Will there be sufficient state funds over time? Even if there is initially sufficient state money to assist members of the federally excluded groups, the situation may change over time, because the size of the federally excluded groups will accumulate over time. For example, the prohibition on paying aid for a child born to an AFDC family will apply for the eighteen years of childhood; each year, a new cohort of excluded children will be added to the federally ineligible pool. Initially, no one will be excluded based on having accumulated 60 months of aid, but the size of that group will steadily expand over time, and is estimated to eventually reach half or more of those currently receiving aid. As a result, the state will need to commit more state dollars to assist federally excluded people over time.

Will assisting federally excluded people result in administrative complexity? Suppose a state wishes to assist federally excluded persons with state funds. In some instances, an entire assistance unit will be federally excluded; in others, only certain members (e.g., children born to AFDC recipients) will be federally excluded. Thus, a state will need to track cases paid with federal-only funds, cases paid with part-federal and part-state funds, and cases paid with state-only funds. The distinctions will be important since there will be a duty to repay any amounts paid with federal funds to individuals not federally eligible. There appears to be zero tolerance for any erroneous payments made to federally excluded persons. It is not yet clear whether it will be necessary to allocate caseworker time, i.e., in determining eligibility and processing changes for federally excluded persons residing with federally eligible persons.

In short, it may be true that in some cases, states will be able to "get around" the federal strings if a state wishes to help federally excluded persons. But it does not follow that the federal strings are only cosmetic. The process of providing assistance to them is likely to become increasingly costly, and increasingly complex, over time.

B. The bill's work requirements would ultimately require states to choose between making a large increase in unmatched state spending, cutting off assistance to a large number of people, or accepting federal penalties.

The bill eliminates the JOBS Program, and contains no requirement to provide education, training, or child care assistance to individuals. The bill contains three work requirements. In effect, states are given the option to meet the work requirements by increasing work participation or by reducing caseload through any means. Both approaches would pose difficulties, and many states might be forced to accept the federal penalties as the easiest way to deal with the requirements. At least initially, some states may be able to circumvent the requirements through a set of accounting devices. However, over time, the work requirements will be a very serious "string" to any state not wishing to end assistance to families in need.

The work requirements are detailed and complex. This section will first summarize the requirements, and then analyze their effect on states.

Summary of the three work requirements

The first work requirement provides that all individuals who have received aid for 24 months must participate in a work activity as defined by the state. For this requirement, the bill does not define the allowable activities or the amount of time that an individual must participate in order to count. Accordingly, a state would be free to set substantial or minimal requirements. It is unclear whether the bill's authors intend this provision to be a stand-alone provision that imposes requirements above and beyond those set by the separate work activity participation rates.

If this is intended as a separate provision with independent meaning, then the principal problem it would pose for states would be if participation in the work activity was an eligibility requirement to qualify for federal cash assistance.[2] If that were the case, and if an individual did not participate as required, then it would seem to follow that the cash payment to the family would not be an allowable federal expense. In the annual audit, a state would be liable for any

[2] The other possibility is that this provision is not a stand-alone requirement or an eligibility requirement, and is simply intended to be read along with the other participation rates. If that is the case, then it would seem to have no meaning (other than allowing people to say that the bill requires work after twenty-four months.).

funds paid in violation of federal law, so the state would potentially risk liability for anything less than 100% compliance. The easiest way to comply with the requirement would be to terminate all assistance to a family that had received aid for 24 months; any other strategy would risk loss of federal funds for anything less than 100% monthly compliance.

The second work requirement is that a percentage of all families (ranging from 10% in FY 96 to 27% in FY 2000, and reaching 50% in FY 2003) participate in work activities each month. A state could count individuals toward the work activity requirements in two ways:

- **Participation in Work Activities:** To count as a participant, the individual would have to satisfy an hourly threshold (beginning at 20 hours a week through FY 98, eventually reaching 35 hours in FY 2002). A full schedule is contained in the table below.

- **Caseload Reduction:** Net reductions in caseload below the FY 95 baseline would count toward meeting the participation requirements. The bill's description of precisely how this would be calculated does not seem completely clear. The bill provides that the minimum participation rate for a fiscal year would be reduced by a percentage equal to the percentage (if any) by which the number of families receiving assistance during the fiscal year under the program funded under the block grant was less than the number of families that received AFDC in FY 95 [3] <u>except</u> to the extent that the Secretary of HHS determined that the reduction in the number of families receiving such assistance was required by federal law. The exception appears to mean, for example, that a state could not claim credit for caseload reductions resulting from implementation of federally-mandated time-limits. It is not clear how a state would be able to determine the extent to which caseload reductions were the result of federal mandates.[4]

A third provision would impose a separately-calculated work requirement on one parent in a two-parent family. This participation rate would begin at 50% in FY 96 and be at 90% in FY 98 and thereafter.

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[3] The bill language concerning how a credit is provided for caseload reduction reads differently from the way in which the provision was described at Ways and Means Committee mark-up. At that time, it was indicated that the intent was that if, for example, a state's caseload was 100, and then dropped to 90, the state could count 10 toward its participation rate.

[4] For example, suppose State A had a caseload of 100 in FY 95. Suppose that over the course of FY 98, 25 families are denied aid due to federal prohibitions, and over the course of the year, the state's caseload averages 90 families. What share of the caseload reduction is attributable to the federal prohibitions? Also note that in some cases, it may be difficult to determine whether a denial of aid is the result of federal requirements. For example, if federal law prohibits assistance beyond 60 months, and the state imposes a 48 month time limit (or a 59 month time limit), is the caseload reduction attributable to the federal prohibition?

Here is a summary of participation rates and hours required to count for the overall and two-parent rates:

Overall and Two-Parent Work Participation Requirements Under the TFA Block Grant				
Fiscal Year	Overall Participation Rate	Hours Required to Count as Participant Toward Overall Rate	Two-Parent Participation rate	Hours Required to Count as Participant Toward Two-Parent Rate
1996	0.1	20	50%	35
1997	15%	20	50%	35
1998	20%	20	90%	35
1999	25%	25	90%	35
2000	27%	30	90%	35
2001	29%	30	90%	35
2002	40%	35	90%	35
2003 and after	50%	35	90%	35

With one exception (treatment of unsubsidized employment), the definitions of countable activities to count toward the participation rate would be much narrower than current law. For purposes of the overall rate, at least 20 hours counting toward the rate would need to be from:

- unsubsidized employment;
- subsidized private sector employment;
- subsidized public sector employment or work experience (only if sufficient private sector employment is not available);
- on-the-job training; or
- job search and job readiness assistance, but only for the first 4 weeks for which the recipient is required to participate in work activities.

If the individual participated in one of the above activities for at least 20 hours a week, hours in excess of 20 could be counted for participation in:

- job search and job readiness assistance after the first 4 weeks in which the recipient is required to participate;
- education directly related to employment, in the case of a recipient who has not attained 20 years of age, and has not received a high school diploma or a certificate of high school equivalency;
- job skills training directly related to employment;

- at state option, satisfactory attendance at secondary school by a child or head of household under age 20 who has not completed secondary school.

Note, however, that hours in excess of 20 would only begin to be countable in FY 99, i.e., when the standard for counting toward the overall rate became 25 hours per week. At that point, 5 hours would be countable from these second-tier activities. For purposes of calculating compliance with the two-parent rate, at least 30 hours a week would have to be in a "core" work activities, and the second-tier activities would only be countable beyond the 30-hour level.

Issues Presented by the Work Requirements

How would the work participation rates affect states? As a preliminary matter, there is a major ambiguity about how many families would be affected by the requirements, because it is not clear whether the requirements only apply to federally-funded cases. Unless a state eliminates its entire state share of program funding, only a portion of its cases might be funded with federal funds; in some states, a very substantial share might be state-funded only. For example, suppose a state currently has a 50% Medicaid match rate. Under the block grant, if a state maintains its current state spending level, the state might opt to fund half of its cases with federal funds, and half with state funds (as opposed to funding them all with half federal, half state funds). Or, a state might choose to fund cases with federal funds for part of the year, and with state funds after the federal funds run out. If a state funds some cases with federal dollars, and others with state dollars, does the participation rate apply to just the cases funded with federal dollars, or does it also apply to the cases funded solely with state dollars? The bill's language is not clear, as it refers to families receiving assistance under the State program funded under the block grant. This could mean that the participation rate applies to both federally-funded and state-funded cases, though it would seem difficult for the federal government to impose work requirements on cases funded solely with state funds and where the state has no federal duty to provide any assistance to those families. Resolution of this question will be essential to determining the magnitude of state requirements under the block grant.[5]

[5] Note that either resolution of this question will present some significant difficulties. If the work requirements apply only to cases funded with federal dollars, then the ability to ensure a work-focused welfare system through federal policy would be substantially impaired, since all state-funded cases would be exempt from federal requirements. Further, such a result would invite states to "game" the system, i.e., by putting employed and the most employable recipients in federally-funded status in order to meet federal participation rates. In addition, any federal participation rates would place a greater burden on the poorest states, since a higher percentage of their total dollars are likely to be federal. If, on the other hand, work participation rates also extend to state-funded cases, the effect is to discourage states from having state-funded cases, as there is no duty to have such cases, and their cost will be significantly increased. Alternatively, the effect might be to encourage states to classify their state-funded cases as "general assistance" cases rather than "temporary family assistance" cases in order to avoid being subject to the federal requirements. In either case, the result would be that federal welfare-work policy would be impaired by the block grant structure.

In any case, one way to seek to meet the requirements would be to simply terminate assistance and restrict future eligibility in order to attain credit for caseload reductions. However, if the participation rate requirements only apply to federally-funded cases, it appears possible that a state would need to make extremely large caseload reductions to be able to take advantage of the "caseload reduction" option.[6] For example, consider a state that currently has a 50% match rate, and 100 cases. Suppose under the block grant that 50 cases become federal cases, and 50 are state cases. If there is any caseload reduction, the state will presumably want to reduce state spending, so there would still be 50 federal cases, and some lesser number of state cases. There would have to be a very large caseload reduction before the number of federal cases would decline.[7]

If, however, a state wanted to comply with the work requirements without cutting off families in need, the state would eventually face a large cost. In the initial years, the principal difficulty would be presented by the two-parent rate. It begins at 50% and rapidly moves to 90% despite evidence that the great majority of states have apparently been unable to meet a 40% AFDC-UP participation rate calculated in a more liberal manner.[8] In fact, <u>CBO's cost estimates for the TFA assume that no jurisdiction would meet the 90% two-parent participation rate.</u> Note, however, that if the participation rates only apply to federally-funded cases, a state might seek to avoid the two-parent rate problem altogether by shifting two-parent cases to being state-funded cases.[9]

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[6] In addition to the difficulties noted earlier, it is also hard to determine how it will be determined whether there has been a reduction from the FY 95 baseline if the participation rate only applies to federally funded cases. In FY 95, a state's entire caseload would have been federally funded. If, for instance, a state had 100 cases in FY 95, and then has 50 federally-funded and 50 state-funded cases in FY 96, has there been a reduction from the FY 95 baseline?

[7] A state might, of course, seek to reduce its number of federally-funded cases by shifting administrative costs to the block grant and cases into the state program, or by having the block grant bear the full cost of what was previously the state's emergency assistance program, etc. The structure would seem to invite maneuvering of this sort.

[8] The current rate should be less difficult to satisfy because it requires 16 hours a week of participation (as opposed to 35) and because more activities are countable toward the rate. HHS has not yet released information on the number of states failing to meet AFDC-UP participation rates for FY 94. However, in Congressional testimony last year, it was noted that only nine states had reported that they expected to meet the AFDC-UP participation rates for FY 94. <u>See</u> Testimony of Kevin Concannon, on behalf of American Public Welfare Association, before Subcommittee on Human Resources, House Ways and Means Committee, August 9, 1994.

[9] This would be a more feasible strategy in states that have smaller numbers of two-parent families receiving aid. For the nation in FY 92, a total of 10.6% of AFDC families had both parents present in the home. However, in sixteen states, less than 5% of families had both parents present, while in four states (West Virginia, California, Kentucky, and Vermont) more than 20% of AFDC families had two parents present.

The two-parent rules will also pose problems for many states because the rules requires states to implement a "pay-for-performance" structure for two-parent families, in which the amount of the assistance payment must be reduced proportionately to reflect any required hours which were not worked during the month. States currently have an option to apply "pay-for-performance" requirements for AFDC-UP families, and only a small number of states have elected this option.[10] The bill does provide that no federal official may enforce this requirement against states, but it is unclear whether this means that states could simply ignore it.

Taken as a whole, the expense of providing assistance and work slots, and the high risk of federal penalties would likely create a strong incentive for states to deny aid to two-parent families.

As to the overall rate, the cost of compliance might not be felt immediately in some states, because in the first two years, the rate is 10%, and some states already report that more than 10% of their cases have earned income.[11] However, the rate continues to increase each year even though TFA funding remains frozen. In FY 2000, the participation rate reaches 27%, and only those participating at a 30 hour level are countable. As the hourly threshold increases, states will be less able to count those in unsubsidized employment, because there is less likelihood that an individual employed for 30 hours a week still qualifies for cash assistance. Several factors will come together to make it most difficult for the poorest states to meet the overall rate.[12]

Most JOBS participants under current rules would not count toward meeting the participation rates. In fact, it appears that in FY 93, less than one-fourth, and possibly a substantially smaller number of JOBS participants would have been countable participants at the 20-hour level under the bill's standards.[13] It is striking that in a bill ostensibly emphasizing state discretion, the great

[10] According to the 1991 Characteristics of AFDC State Plans (the most recent edition available), five states and Guam and opted to exercise the pay-for-performance option.

[11] There are substantial variations between states in the percentages of cases with earnings. Nationwide, in FY 92, 7.4% of AFDC cases had earnings each month, but seven states had more than 15% of their cases with earned income, while nine had less than 5% with earned income. The percentage of cases with earned income may be partly affected by efforts of a state's JOBS/work Program but will also be affected by factors such as the state's basic benefit level, rules for counting earnings, and other caseload characteristics.

[12] One factor is that an individual working 30 hours a week is less likely to qualify for aid in a low-benefit state. A second factor is that if the rate applies to federally-funded cases, the burden is greatest for the states that had previously had the highest Medicaid match rates. A third factor is that the relative cost of any new spending is greatest for the states which previously had the highest Medicaid match rates.

[13] According to FY 93 data, 4.8% of JOBS participants were engaged in on-the-job training, work supplementation, or community work experience; an additional 1.7% were participating in activities categorized as "other", which sometimes included individuals in alternative work experience programs. An additional 12.5% were engaged in job search or job readiness activities. See JOBS-ACF-IM-94-8 (September 29, 1994), Table 1. These

(continued...)

majority of current state JOBS Program efforts - including high school completion, basic education, skills training programs, and most of current job search requirements - would not be considered countable activities toward the 20-hour-level participation rate.

As a state sought to increase the numbers of persons counting toward the participation rates, the state would incur additional costs. This is because imposing work requirements necessitates additional spending, for the costs of administration, supervision, and child care. For example:

- The original version of the Personal Responsibility Act (introduced in January) included a work mandate of 35 hours a week for 17% of the caseload in FY 2000. The bill would have added $9.9 billion in additional federal JOBS/work funding over five years, along with continued state access to matching funds for child care costs.

- The work, training, and child care portions of the Clinton Administration's Work and Responsibility Act, including a work mandate for a portion of the caseload at the two-year point, had five-year costs estimated at $8 to $9 billion.[14] In costing out the Administration's proposal, CBO estimated that in 1999, the average combined federal and state cost of a JOBS training slot for a year would be $3000; the average annual cost for each child needing child care was expected to average $3710.

- HR 3500, the Republican welfare bill preceding the Personal Responsibility Act, used a phase-in schedule for JOBS/work requirements in which participation escalated in the sixth year; in preliminary CBO estimates, the combined federal costs for work, training and child care were $5.4 billion for the first five years, and $7.3 billion in Year Six alone.

If work and training requirements were recognized to cost additional billions last year - and in fact, as recently as a few months ago - how is it possible for the bill to impose these additional

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[13](...continued)
figures would sum to 19.5%. However, this would substantially overstate the numbers of countable participants. Persons in job search/job readiness would only be countable toward the 20-hour-level in their first four weeks in the program, and it appears (Table 15) that two-thirds of job search participants, and almost three-fourths of job readiness participants had been in the program for over two months and therefore would not be countable; in fact, less than one-tenth of job search/job readiness participants were in their first month of program participation. Further, for all of the components, individuals would only be countable when participating at least 20 hours a week. From published data, it is impossible to calculate the numbers participating at the 20-hour-level, but about one-third of those in the countable work activities participated below the 16-hour-a-week level. Table 14.

Apart from those in work-related components, an additional 7.7% of JOBS participants are coded as "job entries." They would be countable under the participation rates (when working 20 or more hours a week), but if counted here, it would be necessary to not also count them in the aggregate figure of employed AFDC recipients.

[14] The CBO analysis estimated budget authority of $9.2 billion for the JOBS, WORK and Child Care components of the bill, and estimated five-year outlays of $8 billion.

requirements without any additional TFA funding and with a freeze through FY 2000 on federal child care spending? It is difficult to avoid the conclusion that the bill envisions that states will cut off assistance to large numbers of families or simply accept the federal penalties - without increased federal funding, no other strategy to meet steadily escalating work requirements appears affordable.

The bill's flat child care funding would make it even more difficult to meet escalating participation rates. Under current law, states have open-ended access to federal funding (at their Medicaid match rates) for additional child care costs as states expand program participation. The federal government bears half or more of the cost. The PRA would eliminate access to open-ended funding, and freeze the overall level of federal child care funding through FY 2000 at $2.09 billion. Flat funding is particularly difficult to understand in the context of child care because:

- if state welfare reform efforts are successful more families will be entering employment, and child care costs would be expected to increase; and
- even if a state envisions little or no increase in cash assistance benefit levels, a state would not likely envision that child care provider payment rates would or should be frozen for the next five years.

Some states may envision reduced costs since the bill does not require states to provide child care assistance for persons in work activities. However, many states are likely to be hesitant to require 20 or more hours a week of program participation by parents of young children without making some effort to ensure that children are not being left unattended or in unsafe settings. Before enactment of the Family Support Act, states generally did not provide the extent of child care assistance now being made available. However, before enactment of the Family Support Act, parents with children under 6 were exempt from program requirements, and programs did not typically mandate 20 or more hours a week of program participation. Reporting from FY 93 indicates (as one would anticipate) that the likelihood of receiving child care assistance increases when children are younger, that average payments per child increase when children are younger, and that average payments increase when the parent's weekly scheduled hours are greater.[15]

Looking at the bill's work requirements altogether leads one to conclude that states should find them very disturbing: they impose requirements without providing corresponding resources; they would fail to recognize most of what is in current state JOBS programs as countable activities; they would invite an array of accounting maneuvers by states seeking to meet the rates without new spending; and they would lay the groundwork for future crises when substantial numbers of states were unable to meet the rates.

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[15] See Title IV-A Child Care Information Memorandum CC-ACF-IM-94-2 (December 2, 1994), p.3; Tables 20, 22.

Flexibility to Implement Reforms Limited by Lack of Federal Match

Apart from its prohibitions and work requirements, the bill would seem to allow states much flexibility in establishing program rules. However, the flexibility is less than meets the eye. A state could be free to rewrite rules, but the lack of federal matching funds may make it difficult or impossible to actually implement a number of the most important policy options.

For example, some of the most common waiver requests in recent years have involved proposals to liberalize AFDC earnings rules, raise program asset limits, or eliminate restrictions on assistance to two-parent families. States wishing to change these rules through the waiver process have faced the restriction of federal cost-neutrality requirements. A number of welfare reform bills in 1994 would have given states options to make these changes. Technically, a state would be free to enact any of these changes under the block grant.[16] The problem, however, is that each of them costs money. Since the federal contribution would be fixed, any additional costs would have to be borne by the state alone.

For example, suppose a particular policy option is estimated to cost $1 million. If the state has a 50% match rate under current law, the effective cost to the state is $500,000, because the federal government pays the other half. However, under the block grant, the cost of the option becomes $1 million in state funds. In effect, losing a 50% match doubles the cost of any new policy option. The problem is more severe for poorer states. Consider a state which currently has a 75% federal match. Under current law, the state can implement a $1 million option for $250,000 in state funds. Under the block grant, the cost of the option is quadrupled, because it must all be borne with state funds.

Further, as discussed above, a state would be technically free to adopt broad participation requirements in work or training programs, but this freedom would be of little consequence without money. Under current law, states are already free to require up to 80% of AFDC adults (and more with federal waivers) to participate in work and training programs. The constraint preventing broader participation has not been federal rules; it has been lack of money. That constraint will be made more serious by the bill's freeze on TFA spending and cap on federal child care funding.

In effect, then, the block grant would allow broad discretion in policy options, but would greatly raise the cost of implementing any option that necessitated new spending. For the richest states, it would double the cost of any option involving new spending; for poorer states, it could quadruple or quintuple the costs. As a result, it seems clear that the block grant would allow

[16] The bill appears to prohibit states from implementing one change sought by some states: improved treatment of child support. Under current law, AFDC families generally only receive the first $50 of child support paid on their behalf. Under the bill, states would be prohibited from disregarding any amount of child support distributed to the family when determining the family's income for purposes of eligibility for assistance.

flexibility in implementing options that had no cost or involved cutting spending, but it would make it significantly more difficult to implement many of the program changes that states have considered most essential to welfare reform.

III. The Cost of the New Flexibility: Loss of Billions of Federal Funds and Loss of the Federal Responsibility to Share in Program Costs

The apparent premise of the TFA freeze in federal funding is that with increased state control and flexibility, it will be possible to reform state cash assistance programs while significantly reducing costs. In evaluating this premise, states should keep in mind:

- Since federal spending is frozen, the federal savings are assured. In contrast, states will have to generate substantial savings just to make up for the lost federal funds.

- The magnitude of the federal reductions is so large that a state cannot reasonably anticipate even recouping the federal reductions through "administrative savings".

- The costs of welfare do not just depend on welfare policy. A number of factors outside the welfare system and largely beyond the control of state government - inflation, population growth, demographic changes, economic changes - can all be anticipated to affect the cost and need for assistance.

- Many of the changes recognized as most essential to welfare reform are likely to add to program costs, at least in the short run. The freeze in funding will make it difficult or impossible to implement such changes.

Taken together, these factors lead to the conclusion that the TFA approach will seriously impair welfare reform efforts for any state that wishes to do more than cut off assistance to poor families.

Federal savings are assured; states must generate significant savings just to adjust for lost federal funds. Under the bill, federal savings are assured since the bill freezes federal spending, and federal costs would otherwise be increasing under current law.

For example, Congressional Budget Office estimates indicate that under current law, projected federal outlays for family support payments would rise from $16.099 billion in FY 96 to $18.042 billion in FY 2000.[17] However, the bill would freeze TFA spending at $15.39 billion in FY 96,

[17] The CBO estimates of current law spending are premised on assuming that the JOBS cap would have dropped from $1.3 billion in FY 95 to $1 billion in FY 96 and thereafter. When the Family Support Act was enacted in 1988, the legislation provided for JOBS spending to gradually increase to $1.3 billion in FY 95, and then

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and $15.49 billion (allowing for the population adjustor) in subsequent years. Therefore, the overall effect would be that states would need to generate $.8 billion in savings the first year, and about $2.6 billion in savings in FY 2000 simply to make up for the lost federal funding.

From the CBO estimates, it appears that the five year loss to states would be about $8 billion in AFDC/JOBS/Emergency Assistance funding.[18] Administration projections estimate even larger losses to states. The Administration estimates the five-year loss to states at $11.8 billion.[19]

Accordingly, in this approach, the first dollar of savings will not go to benefit the state, because states will need to generate initial savings just to make up for the lost federal funding.

Federal reductions are larger than any likely administrative savings: A number of state officials are hopeful that in a block grant approach, they will be able to generate administrative savings through simplification and freedom from federal requirements. However, one needs to keep in mind the amount of current administrative costs in relation to the reduced federal funding. For example, in FY 93, state administrative costs for AFDC were $2.8 billion. A 25% reduction in administrative costs would translate to $.7 billion. However, the reduction in federal funding for the first year of the block grant is projected at $.8 billion. Accordingly, even extremely large administrative savings would not compensate for the lost federal funding. By FY 2000, the cost of the federal freeze is $2.6 billion; states would need to eliminate almost all administrative costs to compensate for the funding loss.

Are very large administrative savings reasonable to project? Clearly, states envision some level of reduced administrative costs through freedom from federal regulations. This may or may not occur, but there are several cautionary notes to keep in mind:

- Some state welfare reform initiatives may reflect important policy goals, but are not likely to result in reduced administrative costs. For example, moving to a social contract system with expanded participation requirements adds to system complexity. Expanded school

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[17](...continued)
to drop to $1 billion in subsequent years. This was generally viewed as a provision which would ensure that Congress would review the program and make decisions about subsequent spending by FY 95. However, since Congress has not yet done so, the cap will automatically drop to $1 billion next year absent Congressional action.

[18] CBO also estimates a five-year increase of $900 million in Food Stamp spending to reflect the reductions in family income under the TFA. However, food stamp reductions contained in another title of the bill are estimated to result in a $23.4 billion reduction in federal food stamp spending over five years according to calculations by the Center on Budget and Policy Priorities.

[19] The Administration's estimates differ from CBO's estimates because of different estimates of projected caseload growth.

attendance and immunization requirements likely add to administrative costs. Tracking months of assistance for time limits will add to administrative costs.

- Basic system improvements are also likely to add to administrative costs. For example, any effort to lower caseworkers' caseloads, or to improve supervision or training will add to administrative costs. Further, a common theme in many discussions of welfare reform is the belief that welfare workers have focused their attention solely on payment accuracy rather than attending to issues of family functioning and parental labor market participation. If the goal is to move toward a more individualized, service-and-expectation focused approach, the effect may be increased administrative costs.

- Administrative costs have been fairly flat in recent years, despite caseload growth. In recent years, many states have been restricted by staffing freezes that have prevented them from increasing caseworkers in response to increased caseload. At least partly as a result, AFDC monthly average administrative cost per case in FY 93 was $47.17, an amount below 1988 levels, and only slightly above the $45.05 cost per case in FY 84.

- Some states already have quite low administrative costs relative to other states. There is a substantial range in reported state costs. Sixteen states already have administrative costs that are at least 20% below the national average. Those states with lower administrative costs may have attained them through greater efficiencies, or by having higher caseloads per worker, or by paying their workers less, or through other means. In any case, a state that already has significantly lower administrative costs needs to consider how much lower they can reasonably get.

- Finally, it is important to appreciate that many federal rules are in place because they seek to minimize the risk of overpayments, and assure recovery of overpayments whenever possible. These rules may be frustrating to both states and clients, and a state may wish to simplify them. However, in some cases, the likely effect of such administrative simplification will be increased benefit costs. For example, reducing change reporting requirements is likely to have that effect. It may be a desirable approach, but may not save overall costs.

In addition, several features of the TFA may have the effect of adding to state administrative costs. In particular, the distinction between federally eligible and federally ineligible cases could result in substantial administrative complexity. As noted above, the state will be liable for paying back any amounts paid to a federally ineligible case. Accordingly, at initial application, the state will need to determine whether all members of a case are federally eligible. If any are federally ineligible, the state will need to determine whether they are state-eligible. If a case contains both federally eligible and federally excluded persons, the state will need to track them separately over time. It is not clear whether federal administrative dollars can be expended to determine the state eligibility or administer state benefits for federally excluded persons.

The bill's data reporting requirements would also likely add to administrative complexity for states, because they would require collecting and reporting information about cases that may not be regularly collected now.[20]

In short, it is at best unclear whether freedom from existing federal requirements would result in administrative savings, when compared with the new requirements that would be imposed and other changes that would occur as part of welfare reform. There is certainly no reason to believe that a state could painlessly recoup the federal dollars lost in the freeze through "administrative savings."

Inflation, population growth, demographic changes, and economic changes may all lead to increased costs: However successful a state's welfare reform initiative, a set of factors outside the welfare system which are likely to have the effect of increasing costs over a five year period. Those factors include:

- **Inflation**: If all else remains constant, costs will increase due to inflation.[21] Might the state want to adjust grant levels at any time to reflect inflation? Might the state want to raise the salaries of agency workers at any point between now and FY 2000?

- **Population Growth**: If the same percentage of the state's population receives aid, the effect of population growth would be to lead to increased costs. The bill provides for a $100 million fund to be distributed among those states that have experienced population growth. This represents a .6% adjustment for population growth over a five year period. To keep the amount in perspective, one should consider that California's AFDC benefit costs increased by $500 million from 1989 to 1990, and an additional $500 million the next year.[22] Moreover, states have had and will continue to have varying rates of population growth --

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[20] The data reporting requirements are described in the Appendix.

[21] The Congressional Budget Office projects an annual inflation rate of 3.4% for Calendar Years 1996 through 2000. **The Economic and Budget Outlook: Fiscal Years 1996-2000** (Congressional Budget Office, January 1995), p.21.

[22] Apart from being small, there are other difficulties with the population adjustor. The bill indicates that a state's proportion would be the amount bearing the same ratio to $100 million as the increase in state population bears to the total increase in population for all states which have had a population increase. This would seem to mean that the amount would be distributed to states based on population increases without regard to differences between states in benefit levels, eligibility rules, poverty levels, or any other factor. Moreover, a state's share would turn partly on whether it had population growth, and partly on the extent of other states' population growth. If a state's population grew two years in a row, but other states had greater population growth, the state's share of the $100 million would fall, even though population was continuing to increase.

any state that is projected to have more rapid population growth is inherently disadvantaged by a frozen funding structure.[23]

- **Demographic Changes**: In 1993, the Congressional Budget Office concluded that the major factor affecting the rise in AFDC caseload in recent years had been the effect of demographic shifts to increased numbers of single-parent families. Accordingly, CBO projected that there would be continued caseload growth, though at a slower pace, after the recession had ended due to these demographic shifts.[24]

A factor that could dwarf all others is the impact of a recession. Consider the experience of recent years. In the seven years from 1982 to 1989, the nation's AFDC caseload increased by 200,000 families. Then, in 1990 alone, the caseload jumped by 200,000 more families. In the following two years, 800,000 additional families began receiving aid.[25]

There may or may not be a recession of comparable effect in the next five years, but it is surely foreseeable that there will be an economic downturn at some point in the future, and that an approach that freezes federal funding does not adequately address it. The bill essentially offers three alternatives for addressing sudden increases in need, but each is inadequate:

First, the bill would permit states to save a part of their block grant in a "rainy day" fund for future needs. However, since the block grant is set below current spending needs, a state cannot readily put a portion of its funding into reserve without denying aid to families currently in need.

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[23] From 1980 to 1990, the nation's population grew by 9.8%. However, twelve states had population growth of at least 15% (Nevada, 50.1%; Alaska, 36.9%; Arizona, 34.8%; California, 25.7%; Florida, 32.7%; New Hampshire, 20.5%; Texas, 19.4%; Georgia, 18.6%; Utah, 17.9%; Washington, 17.8%; New Mexico, 16.3%; Virginia, 15.7%). From 1990 to 2000, the nation's population has been projected to grow by 11.1%, but eight states are projected to have growth of less than 5%, while growth of 15% or more is projected for sixteen states. Between 1995 and 2000, all but three states (Massachusetts, Rhode Island, Connecticut) and the District of Columbia are projected to have some population growth. See U.S. Department of Commerce, **Statistical Abstract of the United States, 1994**, at xii, 28, 33. 10 y faster

[24] CBO Staff Memorandum, **Forecasting AFDC Caseloads, with an Emphasis on Economic Factors** (Congressional Budget Office, July 1993).

[25] CBO attributes much of the caseload growth during the recession to demographic shifts, and the increased numbers of single parent households. However, it is notable that the recession also resulted in dramatic increases in Food Stamp and free School Lunch participation; both of those programs serve a much broader low-income population. In the Food Stamp Program, in 1983, there were 21.6 million participants. From 1984 through 1989, participation was either flat or declining, reaching 18.8 million in 1989. Then, in 1990, participation jumped 1.2 million, and an additional 5.4 million in the next two years. Similarly, consider participation in the free meal portion of the school lunch program. In 1983, participation was at 10.3 million. Through 1990, participation was declining or flat. Participation then increased by .4 million in 1990, .8 million in 1991, and .7 million in 1992.

Moreover, few legislatures will have any interest in spending additional state dollars in order to put federal dollars in a reserve account for the future.

Second, the bill authorizes states to borrow a limited amount of money from a $1 billion federal "rainy day" fund, with a duty to repay with interest within three years. The funds would only become available if a "trigger" were reached. To reach the trigger, a state would have to have 6.5% unemployment and exceed the level of one of the last two years by at least 10%. The problem presented by this approach is that:

- There could be many circumstances in which need increased but which fell short of the trigger. For example, consider a state that now has unemployment of 5%. If unemployment increased by 1%, i.e., a 20% increase in the number of unemployed - the trigger would not be reached. If unemployment increased steadily but slowly, the state could reach a very high level of unemployment without the trigger ever being reached.

- The funds would only be loaned, with a duty to repay within three years. A state in recession has no ready way to know how long the recession will last or whether the state will have the capacity to repay within three years. Furthermore, legislatures will surely - and correctly - perceive a large difference between federal participation in program costs and a federal offer to provide a loan to be repaid with interest.

- The amount in the rainy day fund would not have been adequate to address the increased costs of the early 1990s. In 1990 alone, AFDC benefit costs increased by $1.3 billion. Costs in 1993 were $5 billion more than costs in 1989. A loan fund of $1 billion would address only a fraction of the need if there were a comparable surge in program costs.

The third option under the bill would be to move funds from another block grant into the TFA block grant. Other titles of the bill would authorize such transfers: i.e., up to 20% of the funds in the Child Care and Development Block Grant, the Family Nutrition Block Grant Program, or the School-Based Nutrition Block Grant; and beginning in FY 98, up to 30% of the funds in the child protection block grant could be transferred. However, each of these other block grants are projected to involve reductions from current-law spending projections, and none of them are likely to have extra money to spare. Moreover, they involve assistance to the same or related populations, and when need increases in one area, it may simultaneously be increasing in others.

In short, if and when need increased, a state would be left vulnerable to respond with virtually no federal assistance. Moreover, the lack of federal match would make it much more expensive for a state to respond by itself. For a state that currently has a 50% match rate, the cost of responding to increased need without federal match would be twice as high as under current law. For a state that currently has a 75% match rate, the cost of responding to increased need would be four times as high. Appendix B to this text calculates the additional cost to each state of 100 new cases under the block grant; the precise amount depends on the state's benefit level and current match rate, but the cost at least doubles for every state.

Would the state's reform initiative generate savings? What about the impact of welfare reform itself? Until recently, the litmus test of welfare reform was not reducing spending; it was success in ensuring that parents who could enter the workforce would do so. Indeed, when the American Public Welfare Association presented its proposal for reform in 1994, APWA officials estimated that it would result in approximately $13 to $15 billion in additional federal costs over five years, because it sought to revamp the system to be organized around getting more parents into the workforce.

In fact, many of the most requested changes sought by states in their welfare reform waiver packages increase rather than reduce program costs. For example, some of the most common state waiver requests involve liberalizing program earnings rules, expanding asset limits, expanding aid to two-parent families, and expanding requirements for participation in work and training programs. All of these initiatives increase costs, at least in the short-run and possibly in the long run. Indeed, one reason why states have found the waiver process frustrating has been federal cost-neutrality requirements.

In each of these areas, one can offer a hypothesis that there will be initial costs, but long-run savings. For example, one might contend that with improved earnings rules, more people will go to work, or that with improved asset rules, families will be able to save and be better able to leave AFDC without returning. While there may (or may not) be long-run savings, CBO projects costs for each of them. For example, last year, 30 states expressed interest in experimenting with more generous policies through the waiver process. At that point, CBO projected that:

- If half of the states adopted more generous earnings rules, federal spending would increase by $0.6 billion over four years;
- Raising the general asset limit would increase federal outlays by $0.4 billion over four years;
- If states with 60% of the AFDC-UP caseload removed the 100-hour rule, and states with a quarter of the caseload removed work history requirements for AFDC-UP cases, federal spending would increase by $0.6 billion over four years.

The area where reforms would have the largest fiscal impact would concern work requirements. In costing out the Clinton Administration's Work and Responsibility Act, the Congressional

Budget Office estimated that the annual cost of participation in a work slot would add in excess of $6000 to a case in combined work and child care costs.[26]

More generally, it would seem difficult for a state to expand - or even hold constant - the size of its JOBS Program in light of the block grant changes. The JOBS Program has been limited in size because it has been limited in resources - under current law, each month, about 13% of AFDC adults participate in JOBS, and about 3-4% of AFDC families receive AFDC child care assistance. States have been limited in their ability to expand JOBS because of program costs, particularly child care costs for parents of younger children. However, under the TFA, the reduction in federal funding for FY 96 alone - $800 million - roughly equals the amount of current federal spending on JOBS. Given this initial reduction and the subsequent freeze, it is very difficult to see how a state could substantially expand or even maintain its current program. The problem would be compounded by the block granting and capping of child care funding available to the state.

Clearly, some states envision that it will be possible to expand spending in some areas with costs offset by savings resulting from the imposition of time limits. The problem here is that no state has experience from which to estimate the likely effect of time limits. Wisconsin received federal waiver authority to test time limits in two small counties, but the initiative just began in January 1995. Florida also has waiver approval to test an aid cut-off in two counties, but in the Florida experiment, the state has a duty to provide a subsidized job to those who reach the time limit, have complied with program requirements, and are unable to find work.

Even if a state is interested in testing the impact of time limits, the state should keep in mind that before attempting the effort, it is impossible to be certain how frequently the state will want to grant exemptions or extensions, or in how many instances the state will face higher non-cash costs, e.g., foster care, homelessness, for families reaching the time limit. Accordingly, it would not be prudent for a state to count on time-limit savings as the basis for concluding that welfare reform will necessarily result in savings.

In summary, if a state's vision of welfare reform involves anything more than eliminating assistance to needy families, the TFA would make it significantly more difficult to accomplish that vision.

An Alternative: the Flexible Entitlement

The TFA offers one-way flexibility - flexibility to cut spending and deny assistance, but not to implement the changes that many states have recognized as essential to welfare reform. The

[26] CBO Staff Memorandum, **The Administration's Welfare Reform Proposals: A Preliminary Cost Estimate** (Congressional Budget Office, December 1994).

question, then, becomes how to provide for state flexibility that could allow states to implement the changes that can make welfare a system that is truly focused on getting parents to enter and succeed in the workforce.

The alternative to the constraints of the block grant is to move toward a flexible entitlement system: a structure in which states are given broad flexibility to write their own state plan, but in which the principle of entitlement is left in place and the federal government has a continuing duty to share in state costs.

This approach would systematically identify - and eliminate - every state plan provision in the AFDC title of the Social Security Act which needlessly impairs state flexibility without advancing any important national policy. For example, it is possible to identify the areas where states have most frequently sought waivers, and turn those provisions into state options. States could be free to define and set policies relating to income, assets, participation requirements, and virtually all administrative requirements, e.g., budgeting, reporting, verification, etc. States would elect their choices in their state plans. At that point, the state would have a duty to follow its state plan, and the federal government would have a duty to match state expenditures.

At the same time, it should be possible to eliminate many of the existing restrictions governing the use of JOBS funding. In the context of JOBS, there is a broad federal goal - increasing workforce participation by AFDC families - and a great deal of uncertainty about the best way to spend the money to attain that goal. So long as the broad federal goal is being addressed, the federal role should concentrate more heavily on data collection, evaluation, and technical assistance rather than detailed regulation of program operation.

The strength of the flexible entitlement approach is that it would allow flexibility in the areas most important to states, but would assure the federal government's responsibility to join in the costs of program expenses. It would mean that if a state wanted to impose a broad participation mandate on some or all families receiving assistance, the federal government would have a duty to share in the cost of implementing services and requirements. If a state wanted to establish work programs for families receiving aid, the federal government would have a duty to share in the increased costs. At the same time, if there were a sudden and unanticipated increase in the number of families needing assistance, due to economic fluctuations or demographic or population changes, the federal government would still have a duty to pay half or more of the costs for responding to the increased need.

This approach offers a major advantage to states: a federal responsibility to share in half or more of the costs of state efforts. In contrast with the block grant, it would allow states the flexibility to implement changes which may have short-run costs and long-run benefits, and would allow states the flexibility to make new investments with assurance of a continued federal role.

Conclusion

In the long run, the TFA is a bad deal for states, because it ends the federal government's responsibility to share in the cost of paying for welfare reform. If Congress is truly committed to state flexibility - as opposed to just cutting federal spending - then Congress should be responsive to developing a structure which both allows states to design reform alternatives and maintains a federal role in joining in the cost of implementing reform. The price of state flexibility should not be the loss of $8 to $12 billion over five years, and the loss of the federal government's duty to respond to increased needs.

Appendix A

A Summary of Key Provisions of the Temporary Assistance Block Grant

I. **Funding**

A. **State Share:** Each state would receive a share of $15.39 billion, an amount intended to reflect federal spending on AFDC, AFDC Administration, JOBS, and Emergency Assistance in FY 94. Each state's share would be based on the amount of federal obligations to the state for these purposes in the state for the higher of either FY 94 or the FY 92-94 average; however, state shares would be adjusted to ensure that the total amount equaled $15.39 billion. The amount would be frozen from FY 96 through FY 2000. Beginning in FY 97, an additional $100 million would be distributed each year among those states that had experienced population growth.

B. **No State Maintenance of Effort:** States would not be required to match their block grant funding, or maintain any level of state spending for the program.

C. **Transfer of Funds To Another Block Grant:** Up to 30% of the funds paid to the state for the block grant could be transferred to the state programs under four other block grants (if passed by Congress): the child protection block grant; the social services block grant, i.e., Title XX; a food and nutrition block grant; and the child care and development block grant.

D. **Federal Rainy Day Fund:** The federal government would operate a Federal Rainy Day Fund of $1 billion. A state could borrow from the fund if a state's total unemployment rate for a given three month period exceeded 6.5% and was at least 110% of the same measure in either of the previous two years. The state could borrow up to the lesser of half its annual share, or $100 million. Amounts borrowed would need to be repaid within three years, with interest.

E. **Out-of-Wedlock Reduction Bonus:** Beginning in FY 98, a state's grant would be increased by 5% if the state's "illegitimacy ratio" was at least one percentage point lower than in FY 95, and by 10% if the ratio was at least two percentage points lower. The numerator for the "illegitimacy ratio" would be the number of out-of-wedlock births and the increase (if any) in the number of abortions above the number in the prior year; the denominator would be the total number of births in the applicable year.

II. Permissible and Prohibited Expenditures

A. **Allowable Expenditures:** Except where prohibited, the state could use block grant funds in any manner reasonably calculated to accomplish its purposes. The purpose is described as to increase state flexibility in operating a program designed to:

1. provide assistance to needy families so that the children in such families may be cared for in their homes or in the homes of relatives;

2. end the dependency of needy parents on government benefits by promoting work and marriage; and

3. discourage out-of-wedlock births.

B. **Prohibition on Medical Services:** A state would be prohibited from using any part of its federal TFA block grant funds to provide medical services.

C. **Restrictions on payments:** Assistance could only be provided to families with minor children. If block grant funds were paid to a person receiving old age assistance, SSI, or foster care cash payments, the state would be required to treat the benefits under the other program as income for block grant purposes. The state could not disregard child support passed through to the family in determining family income for purposes of eligibility.

D. **Excluded Persons:** The bill would prohibit use of federal block grants to provide:

1. cash benefits to a child born out of wedlock to an individual under age 18 or to the individual until the individual turns 18, with an exception when a child is born as a result of rape or incest;

2. cash benefits to a child born to a recipient of cash benefits under the state's program, or to an individual who received cash benefits at any time during the 10 month period ending with the birth of the child, with an exception for children born as a result of rape or incest;

3. cash benefits to the family of an individual who, after attaining age 18, has received block grant funds for 60 months (whether or not consecutive) after the effective date of the provision. States could permit hardship exemptions from this provision for up to 10% of the number of families to which the state was providing assistance under the program under the block grant;

4. assistance to a family including an individual who the state child support enforcement agency has determined is not cooperating in establishing paternity of any child of the

individual, or in establishing, modifying, or enforcing a support order with respect to such a child;

5. assistance to a family including an individual who has not assigned to the State any rights the individual may have to support from any other person;

6. assistance to legal immigrants, except for refugees during their first five years in the country; legal permanent residents over age 75 who have lived in the United States for at least five years; legal permanent residents who are unable to comply with naturalization requirements because of a physical or developmental disability or mental impairment (including Alzheimer's disease); and veterans on active duty or honorably discharged from the U.S. Armed Forces (and their spouses or unmarried dependent children);

7. assistance for a minor child who has been, or is expected by a parent (or other caretaker relative) of the child to be absent from the home for a period of 45 consecutive days; or at state option, such period of not less than 30 and not more than 90 consecutive days;

8. assistance to an individual who is fleeing to avoid prosecution, or custody or confinement after conviction, under the laws of the place from which the individual flees, for a crime, or an attempt to commit a crime, which is a felony under the laws of that place (or is a high misdemeanor in New Jersey); or to an individual who is violating a condition of probation or parole imposed under federal or state law.

A prohibition on providing "cash benefits" would not prevent the state from providing assistance in the form of vouchers. The bill makes this explicit as to families denied additional cash aid due to family cap/child exclusion rules, and as to those denied aid based on the prohibition relating to children born out-of-wedlock to parents under 18; it seems implicit as to any other prohibitions on cash assistance. It is possible (though it is not clear) that where the bill makes a prohibition on "assistance", the intent is to impose a broader prohibition than the one on "cash benefits."

The state would be free to expend state funds on assistance to persons in the restricted categories or for any other purposes determined by the state.

E. **Paternity Penalty:** If a child's paternity had not been established, the state would be required to impose a financial penalty equal to \$50 or 15% of the amount of assistance that would otherwise be provided to the family; exceptions would apply for rape or incest. The penalty amount would be withheld and remitted to the family if the family was eligible for aid when paternity was established.

F. **Penalty for Multiple Benefit Receipt:** An individual found to have fraudulently misrepresented residence in order to simultaneously obtain benefits or assistance from two or more states for block grant assistance, food stamps, Medicaid, or SSI would be ineligible for federal block grant assistance for 10 years.

III. **Federal Oversight/State Plans:** Generally, federal oversight would be minimal.

A. **Certifications:** A state would be required to submit a state plan certifying:

1. that the state will operate a child support enforcement program;

2. that the state will operate a child protection program, including a foster care and an adoption assistance program.

B. **Outline:** The state plan must also outline how the state intends to:

1. conduct a program designed to provide cash benefits to families with needy children and provide parents in these families with work experience, assistance in finding employment, and other work preparation activities and support services the State considers appropriate to enable such families to leave the program and become self-sufficient;

2. require at least one parent in any family which has received benefits for more than 24 months (whether or not consecutive) to engage in work activities as defined by the state;

3. require parents to participate in work activities (as described below);

4. treat new immigrants from another state, if the state elects to treat them differently from other families; the state is authorized to pay the benefit level of the prior state for the first 12 months;

5. take reasonable steps the State deems necessary to restrict the use and disclosure of information about individuals and families receiving benefits under the program;

6. take actions to reduce the incidence of out of wedlock pregnancies; actions may include providing unmarried mothers and fathers with services to avoid subsequent pregnancies, and to provide adequate care to their children.

C. **Restriction on HHS Authority:** Except where expressly provided, the Secretary would not have the authority to regulate the conduct of the states or enforce any provisions of the law.

D. **Potential Penalties for States:** The Secretary would be authorized to reduce payments to a state under five circumstances. Payments to a state would be reduced by:

1. any amount used by a state in violation of the law governing the block grant, provided that any quarterly payment will not be reduced by more than 25%;

2. 3% for a fiscal year if the State did not submit its annual report within 6 months after the end of the immediately preceding fiscal year (but the penalty will be rescinded if the report was submitted within 12 months);

3. 1% if the state fails to participate in the Income and Eligibility Verification System (IEVS) designed to reduce fraud;

4. up to 5% if the state fails to meet the applicable work participation rate for the year.

5. Current law penalties for failure to substantially comply with federal child support enforcement requirements would continue.

IV. Work Requirements

A. **JOBS Program Repealed:** The JOBS Program would be eliminated, and states would have no duty to provide education and training assistance to families.

B. **Child Care Guarantee Repealed:** The current law guarantee of child care assistance for participants in JOBS and other approved education and training activities would be repealed. The child care guarantee for individuals who need child care to accept or retain employment, and the Transitional Child Care program would also be repealed. A child care and development block grant would be funded at 2.09 billion from FY 1996 to FY 2000.

C. **Overall and Two-Parent Participation Rates:** A state could lose up to 5% of its federal funding if the state failed to meet either of two required work activity participation rates.

1. **The Overall Rate** would be calculated for a month as the number of families receiving cash assistance under the State program funded under the block grant which include an individual engaged in work activities, divided by the total number of families receiving cash assistance under the State program funded under the block grant which include an individual who is at least 18 years old. **The Two-Parent Rate** would be the number of two-parent families in which at least one adult was engaged in work activities, divided by the total number of two-parent families receiving cash assistance under the State program funded under the block grant.

2. To count toward the rate, an individual would need to be in countable activities for at least a minimum number of hours each week. The annual rate would be the average of monthly rates for the year. The applicable rates and hourly thresholds would be as follows:

Overall and Two-Parent Work Participation Requirements Under the TFA Block Grant				
Fiscal Year	Overall Participation Rate	Hours Required to Count as Participant Toward Overall Rate	Two-Parent Participation Rate	Hours Required to Count as Participant Toward Two-Parent Rate
1996	10%	20	50%	35
1997	15%	20	50%	35
1998	20%	20	90%	35
1999	25%	25	90%	35
2000	27%	30	90%	35
2001	29%	30	90%	35
2002	40%	35	90%	35
2003 and after	50%	35	90%	35

3. **Requirements to Count Toward Rate:** To count toward a rate, the individual would have to be "engaged in work activities", i.e., make progress in work activities at a level of minimum average number of hours per week during the month (reflected in Table above). To count toward the overall rate, at least 20 hours per week (and to count toward the two-parent rate, at least 30 hours a week) must be attributable to:

- unsubsidized employment;
- subsidized private sector employment;
- subsidized public sector employment or work experience (only if sufficient private sector employment is not available);
- on-the-job training; or.
- job search and job readiness assistance, but only for the first 4 weeks for which the recipient is required to participate in work activities.

For the overall rate, hours in excess of 20 (and for the two-parent rate, hours in excess of 30) may be counted when an individual participates in:

- job search and job readiness assistance after the first 4 weeks in which the recipient is required to participate;
- education directly related to employment, in the case of a recipient who has not attained 20 years of age, and has not received a high school diploma or a certificate of high school equivalency;
- job skills training directly related to employment;
- at state option, satisfactory attendance at secondary school by a child or head of household under age 20 who has not completed secondary school.

4. **Caseload Reduction Credit:** States would be eligible to receive a credit for caseload reductions for purposes of meeting the overall participation requirements. States could count reductions in the caseload below the FY 95 baseline as participation; the minimum participation rate for a fiscal year would be reduced by a percentage equal to the percentage (if any) by which the number of families receiving assistance during the fiscal year under the program funded under the block grant was less than the number of families that received AFDC in FY 95, <u>except</u> to the extent that the Secretary of HHS determined that the reduction in the number of families receiving such assistance was required by federal law. (It does not seem clear precisely what this means.)

5. **Penalties for Families:** For all families who refused to participate, the state would reduce their cash assistance in an amount determined by the state. In addition, for two-parent families, states would be required to (at minimum) reduce the cash grant to reflect the proportion of required work hours that were not actually worked during the month. <u>However</u>, no federal officer or employee would be permitted to regulate the conduct of states or enforce these requirements against any state.

D. **Annual Ranking and Review:** The Secretary would be required to annually rank states in the order of their success in moving recipients into long-term private sector jobs, and review the programs of the three highest and lowest rank states. The Secretary is not authorized to take any action based on these reviews.

V. Annual Report/Data Collection/Evaluation

A. **Annual Report:** Not later than 6 months after the end of each fiscal year, the state would be required to transmit to the Secretary aggregate information on families to which assistance was provided during the fiscal year under the State program operated under the block grant or under an equivalent state program:

1. the number of adults receiving such assistance;

2. the number of children receiving such assistance and the average age of the children;

3. the employment status of such adults, and the average earnings of employed adults receiving such assistance;

4. the number of one-parent families in which the parent is a widow or widower, is divorced, is separated, or is never-married;

5. the age, race, educational attainment, and employment status of adults receiving such assistance;

6. the average assistance provided to the families under the program;

7. whether, at time of application for assistance, the families or any member of the families receives benefits from any housing program; food stamps; Head Start; and any job training program;

8. the number of months since the most recent application for assistance for which assistance has been provided to the families;

9. the total number of months for which assistance has been provided to the families under the program;

10. any other data necessary to indicate whether the State is in compliance with the state plan;

11. The components of any program carried out by the State to provide employment and training activities in order to comply with the block grant's work requirements, and the average monthly number of adults in each such component; and

12. The number of part-time job placements and the number of full-time job placements made by the program, the number of cases with reduced assistance, and the number of cases closed due to employment.

Data could be provided through use of scientifically accurate sampling methods.

States would also be required to report the total amount expended by the State during the fiscal year on programs for needy families, the percentage of funds paid to the state under the block grant that were used to cover administrative costs or overhead, and the number of noncustodial parents who participated in work activities during the fiscal year.

B. **Studies:** The bill would authorize $10 million a year to the Census Bureau to expand the Survey of Income and Program Participation (SIPP) to evaluate the impact of welfare reform on a random sample of families, paying particular attention to the issues of out-of-wedlock birth, welfare dependency, beginning and end of welfare spells, and causes of repeat welfare spells. The bill also requires the Secretary to conduct research on the cost/benefit of the mandatory work program and to evaluate promising State approaches in employing welfare recipients.

C. **Automatic Data Processing Study:** The bill directs the Secretary of HHS to report to Congress within six months on the status of automatic data processing systems in the states, and on a plan to build on current systems to produce a system capable of tracking participants in public programs over time and checking cash records of states to determine whether individuals are participating in public programs of two or more states, along with estimates of the cost and time involved in developing such a system.

VI. **Medicaid:** The bill appears to provide that a family would qualify for Medicaid if the family would have qualified for AFDC if AFDC eligibility rules in effect on March 7, 1995 were still in effect.

Effective Date: The provisions would generally have an effective date of October 1, 1995. The requirement to reduce assistance for recipient families in which paternity has not been established would take effect one year (or at state option two years) after the effective date.

The Risk to States Under the TFA Block Grant

STATE	Federal Match Rate for AFDC Benefits FY 95 (current law)	Maximum Monthly AFDC Grant for family of 3 January 1994	Annual State Costs for Cash Aid to 100 new cases (current law)	Annual State Costs for Cash Aid to 100 new cases (block grant)	Additional State Costs for 100 new cases (block grant)
Alabama	70.45%	$164	$58,154	$196,800	$138,646
Alaska	50.00%	$923	$553,800	$1,107,600	$553,800
Arizona	66.40%	$347	$139,910	$416,400	$276,490
Arkansas	73.75%	$204	$64,260	$244,800	$180,540
California	50.00%	$607	$364,200	$728,400	$364,200
Colorado	53.10%	$356	$200,357	$427,200	$226,843
Connecticut	50.00%	$680	$408,000	$816,000	$408,000
Delaware	50.00%	$338	$202,800	$405,600	$202,800
District of Columbia	50.00%	$420	$252,000	$504,000	$252,000
Florida	56.28%	$303	$158,966	$363,600	$204,634
Georgia	62.23%	$280	$126,907	$336,000	$209,093
Hawaii	50.00%	$712	$427,200	$854,400	$427,200
Idaho	70.14%	$317	$113,587	$380,400	$266,813
Illinois	50.00%	$367	$220,200	$440,400	$220,200
Indiana	63.03%	$288	$127,768	$345,600	$217,832
Iowa	62.62%	$426	$191,087	$511,200	$320,113
Kansas	58.90%	$429	$211,583	$514,800	$303,217
Kentucky	69.58%	$228	$83,229	$273,600	$190,371
Louisiana	72.65%	$190	$62,358	$228,000	$165,642
Maine	63.30%	$418	$184,087	$501,600	$317,513
Maryland	50.00%	$366	$219,600	$439,200	$219,600

The Risk to States Under the TFA Block Grant

STATE	Federal Match Rate for AFDC Benefits FY 95 (current law)	Maximum Monthly AFDC Grant for family of 3 January 1994	Annual State Costs for Cash Aid to 100 new cases (current law)	Annual State Costs for Cash Aid to 100 new cases (block grant)	Additional State Costs for 100 new cases (block grant)
Massachusetts	50.00%	$579	$347,400	$694,800	$347,400
Michigan	56.84%				
Washtenaw Co.		$489	$253,263	$586,800	$333,537
Wayne Co.		$459	$237,725	$550,800	$313,075
Minnesota	54.27%	$532	$291,940	$638,400	$346,460
Mississippi	78.58%	$120	$30,845	$144,000	$113,155
Missouri	59.86%	$292	$140,651	$350,400	$209,749
Montana	70.81%	$401	$140,462	$481,200	$340,738
Nebraska	60.40%	$364	$172,973	$436,800	$263,827
Nevada	50.00%	$348	$208,800	$417,600	$208,800
New Hampshire	50.00%	$550	$330,000	$660,000	$330,000
New Jersey	50.00%	$424	$254,400	$508,800	$254,400
New Mexico	73.31%	$357	$114,340	$428,400	$314,060
New York	50.00%				
Suffolk Co.		$703	$421,800	$843,600	$421,800
New York City		$577	$346,200	$692,400	$346,200
North Carolina	64.71%	$272	$115,187	$326,400	$211,213
North Dakota	68.73%	$409	$153,473	$490,800	$337,327
Ohio	60.69%	$341	$160,857	$409,200	$248,343
Oklahoma	70.05%	$324	$116,446	$388,800	$272,354
Oregon	62.36%	$460	$207,773	$552,000	$344,227
Pennsylvania	54.27%	$421	$231,028	$505,200	$274,172

The Risk to States Under the TFA Block Grant

STATE	Federal Match Rate for AFDC Benefits FY 95 (current law)	Maximum Monthly AFDC Grant for family of 3 January 1994	Annual State Costs for Cash Aid to 100 new cases (current law)	Annual State Costs for Cash Aid to 100 new cases (block grant)	Additional State Costs for 100 new cases (block grant)
Rhode Island	55.49%	$554	$295,902	$664,800	$368,898
South Carolina	70.71%	$200	$70,296	$240,000	$169,704
South Dakota	68.06%	$417	$159,828	$500,400	$340,572
Tennessee	66.52%	$185	$74,326	$222,000	$147,674
Texas	63.31%	$184	$81,012	$220,800	$139,788
Utah	73.48%	$414	$131,751	$496,800	$365,049
Vermont	60.82%	$638	$299,962	$765,600	$465,638
Virginia	50.00%	$354	$212,400	$424,800	$212,400
Washington	51.97%	$546	$314,693	$655,200	$340,507
West Virginia	74.60%	$249	$75,895	$298,800	$222,905
Wisconsin	59.81%	$517	$249,339	$620,400	$371,061
Wyoming	62.87%	$360	$160,402	$432,000	$271,598

Sources:

Column 2, Medicaid Match Rates-Federal Share under current law, Table 10-17 Federal Share of AFDC Payments, FY 1995. 1994 Green Book. Ways and Means Committee, U.S. House of Representatives, pp. 383-385.

Column 3, Maximum Monthly AFDC Benefit level, for a 3-person family January 1994, 1994 Green Book, pp. 368-369.

Column 4 reflects the annual State costs for AFDC cash assistance to 100 cases under current law. (Calculated by CLASP: monthly benefit x 12 months x 100 cases x State share.)

Column 5 is the annual State costs for cash aid to 100 new cases under a block grant with no Federal match for additional costs after the federal allotment has been exhausted. (Calculated by CLASP: monthly benefit level x 12 months)

Column 6 is the difference between State costs for 100 new cases under current law and under a block grant (Calculated by CLASP: Column 5 - Column 4).

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WR - Block Grants

January 19, 1995

MEMORANDUM FOR CAROL RASCO
BRUCE REED
JEREMY BEN-AMI

FROM: JENNIFER O'CONNOR

SUBJECT: ATTACHED LETTER FROM SECRETARY SHALALA ON BLOCK GRANTING INCOME SECURITY PROGRAMS

Secretary Shalala sent this over and asked that I get a copy to you right away. I gave the original to John Podesta and let him know copies went to you.

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 adjusted 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.

<u>Ending Welfare As We Know It</u>
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.

- *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.

- *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.

- *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:

- o *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.

- o *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.

- o *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.

- *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:

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

- o 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
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%
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%
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 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.

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%*
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 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.