



## REPUBLICAN GOVERNORS ASSOCIATION

*Now America's Majority*

### MEMORANDUM TO LEANNE REDICK

FROM: KIRSTEN FEDEWA *VF*  
DATE: JUNE 17, 1996  
RE: NEW YORK TIMES/MEDIA AVAIL

① WR - Repubs  
② WR - Wisc.

In follow up to our conversation this morning, here's what I've found out:

Ari is working on a letter by Gingrich, Armey, Shaw and Archer for release today urging the President to sign the W-2.

The Speaker's office is working on a press conference tomorrow with the 6 Republican members of the WI delegation on the W-2.

They would like us to help drive the press on this, *either through a RGA letter to the President and/or a news conference with Engler*. Other thoughts are welcome. For instance, I am sure the RNC would appreciate it if Governor Engler could cut an actuality today on the topic. (Tel: 202/863-8550, ask for Scott.)

Archer is not in town until late today; Shaw is expected around 2:30 p.m., so there is a possibility of a late news conference with Shaw and Engler.

The RNC is putting out talking points/Haley is going to do a statement, asking what kind of "new" Democrat is Bill Clinton? Is he a new Democrat, one that will join the 60 Dems in the House who voted for W-2, or is he really an old Liberal Democrat who will fight reform?

Please let me know your thoughts on letter and/or news conference. Thanks!

cc: Margaret Dwyer

**Congress of the United States**  
**House of Representatives**  
**Washington, DC 20515**

*BRAND*

May 19, 1996

File

- ① WR-Wisc
- ② WR-Repubs.

President William J. Clinton  
The White House  
1600 Pennsylvania Avenue  
Washington, D.C. 20500

Dear Mr. President:

We welcome your remarks concerning the innovative welfare reforms proposed by Governor Tommy Thompson of Wisconsin. The Wisconsin proposal is very similar to the Republican welfare reform bill you vetoed last year, so we are heartened that your welfare position may have changed once again. However, because there are many differences between your current national welfare proposal and the position you seem to have taken yesterday concerning the Wisconsin proposal, there is ample ground to be confused about where you stand on national welfare reform.

We must remind you that actions speak louder than words. Nothing less than full approval of Wisconsin's waiver proposal in its entirety will demonstrate your lasting commitment to welfare reform. In addition, while your kind words concerning Wisconsin's proposal give the impression you support welfare reform, an analysis of your current national welfare proposal shows that what's good enough for Wisconsin is not good enough for the nation. Your national proposal runs in the opposite direction of Wisconsin's welfare reforms.

The need for welfare reform is clear. The American people are demanding it and the people on welfare must have it. We have already lost too many people to the destructive cycle of welfare where the average stay on the welfare rolls is 13 years. As a result of this cycle, far too many children are at risk, growing up in fatherless homes where they have never known a working adult.

We all agree that welfare reform must be accomplished, and while you have vetoed our two previous welfare reform proposals, we are willing to work with you once again on this important issue. Only through continuous, open dialogue can we begin to understand each other's positions and hopefully reach an agreement.

We have just completed a detailed analysis of the national welfare reform proposal contained in your 1997 budget plan, and we regret to say that we are deeply disappointed because your plan does not time limit welfare benefits nor does it require an adequate number of people to work for their welfare benefits. Your welfare reform proposal does little to encourage families to support themselves, it encourages continued welfare instead of work, and it perpetuates the misguided practice of providing welfare to non-citizens. Your bill also does nothing to stop the corrupt practice of paying welfare benefits to felons sitting in our nation's jails. Finally, your bill's continuation of inflexible federal controls guarantees that the worst features of today's failed welfare regime would continue indefinitely. We have outlined below our major concerns.

In short, your welfare proposal contains four fatal flaws.

1. Your welfare reform plan "proposes" a five-year time limit on cash welfare benefits, but it has so many exceptions few families would ever be affected. In addition, because of your mandatory voucher program, welfare will remain a lifelong habit, just as it is today.

Under your plan, few welfare recipients would ever reach the five-year time limit because your plan provides so many exemptions. Your exemption list is so exhaustive that the Congressional Budget Office has predicted that at least 25 percent of families on welfare would be considered exempt in any given month.

For those who actually do reach the five-year limit, your bill maintains the welfare entitlement and requires States to provide non-cash welfare vouchers indefinitely. Mr. President, you must realize that only by applying a real five-year time limit can we transform welfare into insurance against the worst of times, instead of the lifetime guarantee of unearned benefits.

2. Instead of requiring work for welfare benefits, your plan allows families to avoid work for years and places sham "work requirements" on States.

Your plan requires States to set up education and training programs for every work-eligible parent who is not working within one year of coming onto welfare. After two years in these programs, you say that workers must work or lose welfare benefits. The catch? This requirement does not take effect until October 2003. Mr. President, we must act now if we are to save the most needy in our society, not wait six or seven more years by creating a major loophole that allows families to collect welfare without working.

In addition, by counting families that have left welfare and are now working as still on welfare, your bill artificially inflates state progress in moving welfare families into work. Under your plan, the natural flow of families off welfare means that States magically would be more than halfway towards meeting their required rates without even lifting a finger. You further discourage States from meeting this goal by failing to punish States that don't meet targets for moving families off welfare and into work. The result? The Congressional Budget Office has determined that your bill would require only half as many welfare families to work as H.R. 4, the Congressional welfare reform bill you vetoed in January. According to CBO, 1.3 million people will be required to work by the year 2002 under the Republican welfare proposal, while only 900,000 people will be working under your bill. We are deeply troubled by your loophole-ridden, liberal work "requirements."

**3. Your plan continues the current system in which noncitizens and felons collect welfare despite our country's laws and traditions.**

Everyone agrees that America is and will remain the land of opportunity for immigrants, but you would be hard-pressed to find support for allowing immigrants into the U.S. to go on welfare. Unfortunately, your proposal would continue this abuse of taxpayers' and immigrants' best interests. For example, the number of noncitizens on Supplemental Security Income exploded from 127,906 in 1982 to 738,140 in 1994. While you have proposed initiatives that claim to curb such abuse, your plan only nibbles around the edges: the Congressional Budget Office estimates your proposal would prevent 89,000 noncitizens from collecting SSI benefits in 1998. In contrast, H.R. 4, the welfare reform bill you vetoed, honors the promise noncitizens made not to go on the dole, keeping more than 427,000 noncitizens from collecting SSI benefits in the same year and saving taxpayers a total of \$15 billion more than your bill.

**4. Your plan maintains maximum Federal control over State welfare programs.**

Even though your bill replaces Aid to Families with Dependent Children (AFDC), the nation's largest cash welfare program for poor families, with the "Temporary Employment Assistance" (TEA) program, this is largely a semantic exercise. Like AFDC, the TEA program would provide unlimited entitlement funding to States - subject to State match - to provide cash welfare benefits to needy families. Certain new restrictions would apply for individuals, but States would receive more Federal funds if more families move onto welfare, maintaining the current perverse incentive structure associated with AFDC.

Your plan fails to provide State flexibility in many other ways, too. Unlike H.R. 4, under your bill States would not have flexibility to limit benefits to fewer than five years, and States would be required to operate a highly prescriptive federal "work first" (starting in FY 2004) job training program. States would be required to develop individual responsibility plans for every new welfare family, detailing benefits the State would have to provide to assist families in preparing for work. Finally, States would have little authority to limit State and local welfare benefits for noncitizens.

Mr. President, we remain hopeful that this year will be the final year of our nation's failed welfare system. Surely, those Americans who have lived on welfare from one generation to another deserve a chance to do better and to achieve more. However, after considering some of the key features of your plan, it is evident, despite your radio address, that there is still a long way to go before your actions match your words.

We look forward to taking action on national welfare reform this year and hope to have your support.

Sincerely,

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**Newt Gingrich**  
Speaker of the House

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**Dick Arney**  
House Majority Leader

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**Bill Archer**  
Chairman, House Committee on  
Ways and Means

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**E. Clay Shaw, Jr.**  
Chairman, Subcommittee on  
on Human Resources, House  
Committee on Ways and Means

Attn: Chris Jennings  
from: Hilary Stovt

- ① WR - Repubs
- ② WR - Medicaid

chris: here's what i want to use. thanks, hilary - 662-9233

"We're very close on a welfare deal and we strongly feel you shouldn't hold <sup>up the deal</sup> welfare hostage to disagreements over Medicaid."

or

"Our strong message is let's move forward on welfare, <sup>from</sup> let's get ~~this thing~~ <sup>the job</sup> done, let's not hold welfare hostage to Medicaid and political games."

WR is ~~not~~ <sup>the</sup> part of ~~the~~ <sup>the</sup> Clinton Contract and ours.  
~~but she's not a dealmaker~~  
Repubs leaders shouldn't hold

20

→ ~~The~~ Republican leaders have to decide when they want to play politics if get the job done.

What we could see is <sup>stronger</sup> agreement <sup>on</sup> welfare reform.

Repub leadership shouldn't try to poison that the prospect of ~~with~~ <sup>with</sup> Medicaid plan that ~~they~~ <sup>they</sup> Repubs can't support, <sup>if</sup> ~~we~~ <sup>we</sup> feel ~~that~~ <sup>that</sup> Democrats are ~~not~~ <sup>not</sup> ~~going~~ <sup>going</sup> ~~to~~ <sup>to</sup> ~~bring~~ <sup>bring</sup> ~~it~~ <sup>it</sup> ~~back~~ <sup>back</sup> ~~to~~ <sup>to</sup> ~~the~~ <sup>the</sup> ~~table~~ <sup>table</sup>.

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don't hold  
welfare  
hostage to  
political  
games.

WR-~~Amos~~  
Repos.



## DEPARTMENT OF HEALTH &amp; HUMAN SERVICES

**Melissa T. Skolfield**

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To: Bruce ReedFax: 456-5557 Phone: \_\_\_\_\_Date: 4/10/96 Total number of pages sent: 13

## Comments:

As discussed —

I'm still looking for the WSJ piece.

Please let me know if you need anything else.

Thanks —  
Sarah

P.S. Did you have any edits on the veto 1-pager or the talking points. (Sent over separately from the docs you edited yesterday)? Please call if you need them resent.  
Thanks

FROM: Robert Rector's testimony before the House Subcommittee on Human Resources of the Committee on Ways and Means, 3/12/96

## ISN'T LOW FAMILY INCOME THE REAL CAUSE OF PROBLEM BEHAVIOR?

A common liberal belief is that most social and behavioral problems are the result, not of collapsed family structure, but of low family income. According to this theory, crime and other dysfunctional behaviors emerge in young people raised in single parent homes, not because of the absence of the biological father, nor because of the norms within the family, but simply because single parent homes, on average, have lower incomes. Since a lack of money causes development problems, such problems can be reduced by providing ever larger welfare payments to single mothers.

This belief can easily be refuted by applying historical perspective. The typical family in the 1950's had an income roughly half of that of similar family today, after adjusting for inflation. But no one would really expect children raised in the 1950's to exhibit greater criminality, sexual promiscuity, and behavior problems simply because their families had less income. Similarly, the typical family living in the 1920's was "poor" by today's standards, adjusted for inflation. But lack of income did not generate greater behavioral problems among children of this earlier period.

Two principles seem to apply. First, children benefit greatly from the presence of a biological father and mother united in marriage. Second, in addition to family structure, it is the norms within the family (and also with the surrounding community) rather than income that make the difference in children's lives.

Finally, there is no credible evidence to support the belief that attempting to raise the incomes of single parent home through more generous welfare benefits will generate positive outcomes in children's development. Instead, more generous welfare promotes greater single parenthood and dependence, both of which have a sharply negative effect on children's well-being. In order to help children we must reverse the current national trend in which even greater numbers of children are being raised in welfare dependent single parent homes.<sup>33</sup>

## POLICY RECOMMENDATIONS

The primary goal of welfare reform must be to reduce illegitimacy and to save marriage. This will not be easy. Our current welfare system is like a giant ocean liner bound on a socially destructive course. It will take years to stop the behemoth and reverse direction. For example, even under the conference welfare reform bill, passed by Congress, the federal and state governments would spend nearly a half trillion dollars, over seven years, to subsidize and support illegitimacy and single parenthood through multiple welfare benefits, day-care, job training, and other services. Under the Congressional plan, government would spend \$1,000 to subsidize single parenthood and illegitimacy for each dollar spent to reduce illegitimacy.

However, the conference bill, enacted by Congress, did take some initial first steps to combat illegitimacy. Congress should be commended for its leadership; unfortunately the president vetoed that bill. In the future Congress should broaden and improve its efforts to deal with illegitimacy. Steps which should be taken include the following.

1. Congress should clearly identify reducing illegitimacy as the key goal of welfare reform and should use the bully pulpit to publicize the issue.

<sup>33</sup> Robert Rector, "Why Congress Must Reform Welfare", Heritage Foundation Backgrounder, No. 1063, 1992.

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March 18, 1996

SECTION: BACKGROUNDER; No. 1075; Pg. 1

LENGTH: 5968 words

HEADLINE: WELFARE REFORM FRAUD ONCE AGAIN: EXAMINING THE NGA WELFARE PLAN

BYLINE: Robert Rector, Senior Policy Analyst

BODY:

#### INTRODUCTION

The National Governors' Association (NGA) is proposing a new welfare reform plan, and Congress has initiated hearings on the governors' proposal. Unfortunately, this proposal, crafted by NGA bureaucrats and borrowing significant elements from President Clinton's welfare reform schemes, is another blueprint for flawed welfare reform.

Members of Congress should realize that the NGA plan repudiates most of the key elements of the Contract With America proposed by conservatives in the fall of 1994. The Contract contained a solid, comprehensive welfare reform based on three themes:

- \* A national goal of reducing illegitimacy and establishing a number of modest national policies to advance that goal;

- \* National work requirements for AFDC (Aid to Families with Dependent Children) recipients; and

- \* Greater flexibility to state governments in the operation of welfare programs. n1

n1 Newt Gingrich, Dick Army, and the House Republicans, *The Contract With America*, Republican National Committee, 1994, pp. 65-77.

The House/Senate conference bill passed by Congress, and vetoed by President Clinton on January 9, retained these three basic elements of reform, albeit with the pro-marriage provisions weakened. But the NGA plan effectively eliminates the first two principles of reform.

Decision makers enticed by the NGA's "bipartisan" reform package would do well to remember history. America supposedly ended welfare just eight years ago, when Congress in 1988 passed a comprehensive "bipartisan" reform which promised to replace welfare with work. This so-called reform, also predominantly shaped by the NGA, turned out to be a sham: Daycare spending soared; welfare caseloads skyrocketed; even today, almost no welfare recipients are required to work. With the NGA bureaucracy again in the lead, history is about to repeat itself.

The NGA plan is heavily flawed in four key aspects.

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1) The plan abandons the welfare reform goal of reducing illegitimacy. NGA officials have completely misdefined the real goal of reform. Their plan explicitly abandons the goal of saving marriage and reducing illegitimacy, which was the number one welfare reform plank in the Contract With America; the shift is so complete that the governors' policy declaration does not mention rising illegitimacy even as a minor social problem, let alone propose a reform structure to deal with it.

2) The plan eliminates all work requirements for AFDC recipients. The plan drawn up by the NGA bureaucracy completely guts the work requirements from the House-Senate conference bill and substitutes bogus requirements designed to deceive the public while preserving the status quo. The work requirements in the NGA plan are far weaker than those in the Democratic alternative bills supported by President Clinton, S. 1117, introduced by Senator Tom Daschle (D-SD) in the Senate, and the amendment to H.R. 4 introduced by Representative Nathan Deal (D-GA) in the House. In fact, under the NGA plan, no welfare recipients will be required to work.

3) The plan has a pervasive anti-marriage bias. Since the NGA bureaucracy rejected reducing out-of-wedlock birth rates as a reform goal, it is not surprising that the plan is indifferent, or effectively hostile, to marriage throughout. To the extent it modifies the conference welfare bill passed in the House and Senate, the NGA plan systematically discriminates against marriage. Further, it would penalize financially those states which pursue a pro-marriage welfare strategy and reward those which concentrate on the narrow goal of providing job-training and employment to single mothers.

4) The plan embodies the Clinton Administration's "reform" structure. The NGA plan incorporates many major elements of President Clinton's anti-dependency plans. As such, the governors' proposal encourages states to pursue the least efficient strategies for reducing welfare dependence and penalizes states that pursue efficient plans.

## ABANDONING MARRIAGE

The most important element of any reform plan is the goal. If the goal is set properly, all other elements eventually will fall into place. If the nation sets the wrong goal, no amount of tinkering will help. The number one goal of welfare reform must be to save marriage and reduce illegitimacy. All else is secondary. Setting a clear, paramount goal of reducing illegitimacy also serves a public education function: It frames the debate, alerts Americans to what is truly important, and establishes social expectations.

The governors' proposal is a failure because it sets the wrong goal. NGA officials declare that there are three "crucial elements" of real welfare reform:

- \* Providing more government-funded daycare;
- \* Increasing child support payments from absent fathers; and
- \* Imposing time limits and work requirements (with gaping loopholes) for welfare recipients. n2

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n2 Statement on "Welfare Reform" as adopted by the governors on February 6, 1996.

The rise in illegitimacy and the collapse of marriage do not even merit a concerned comment, let alone aggressive policies, from the NGA. n3

n3 In an February 29, 1996, article in the Washington Times, entitled "Can Welfare Reform Survive Friendly Fire?" Robert Carleson maintains that the National Governors' Association did not ignore the catastrophic rise in illegitimacy. Carleson cites "findings" contained in the welfare legislation passed last year by Congress and vetoed by President Clinton. The findings say that illegitimacy is harmful. It is important to note, however, that these findings are merely rhetorical and are not linked to policy. It is true that the NGA, as a practical matter, used the conference bill passed by Congress as a textual base and amended it to produce its own proposed policy. But one can be quite certain that no governor actually looked at the huge conference tome, and it would be very surprising if any governor was aware of the few paragraphs of legally irrelevant "findings" buried deep within the 650-page conference document. Certainly no one at the NGA seems to have regarded these forlorn paragraphs as important. All one need do is listen to the NGA's own words. In its official statement of policy, reducing illegitimacy is not mentioned as a goal or "crucial element" of reform, and the NGA, of course, makes not the slightest reference to the "findings" on illegitimacy.

Thus, over the last year, the focus of the welfare debate has undergone a radical metamorphosis, from combating illegitimacy to providing public support services to an ever-expanding population of single mothers. Eschewing the issue of illegitimacy, the NGA plan instead appears as a preparation for a future in which marriage plays a sharply diminishing role in America, and the government is heavily involved in meeting the needs of an ever-growing population of single-parent families. The triumph of liberals on this aspect of the debate has been complete: Fighting illegitimacy is "out," and funding government daycare is "in."

The governors' plan, borrowing heavily from the "reform" schemes of President Clinton and other liberal proposals, dovetails neatly with the interests of America's enormous welfare bureaucracy: an industry that thrives on social decay. While the plan will trim the growth rate in welfare spending slightly in the near term, by failing to deal with ballooning rates of illegitimacy it sets the stage for an unavoidable and explosive rise in welfare and social service spending in the future.

Nor are the governors alone. Under its recently passed version of welfare reform, the Republican-controlled Congress has committed itself to spending nearly half a trillion dollars, over the next seven years to subsidize and support illegitimacy and single parenthood through multiple welfare benefits, daycare, job training, and other services. Under the congressional plan, government will spend \$ 1,000 to subsidize single parenthood and illegitimacy for each dollar spent to reduce illegitimacy.

The NGA welfare reform plan will distort these priorities even further. When the dust settles on welfare reform, even token efforts to fight illegitimacy will have fallen by the wayside.

The Crisis of Illegitimacy

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But decisive action to deal with the collapse of the family is urgently needed. Last year, nearly one-third of American children were born out of wedlock. Even worse, the illegitimate birth rate continues to rise relentlessly -- by about one percentage point each and every year. Within the black community, the out-of-wedlock birth rate is now 69 percent. This figure astounds even Senator Daniel Patrick Moynihan (D-NY), who first issued his prophetic warnings about the erosion of marriage among blacks in the early 1960s. Moynihan's warning was vilified at the time, but the breakup of the black family and the accompanying social calamities have far outstripped his worst nightmares.

Ominously, the illegitimate birth rate among whites now is edging toward 25 percent -- almost exactly equaling the black rate when Moynihan first raised his alarm. The white family is teetering on the same precipice, heading rapidly toward the same lethal decomposition that devastated black communities in the late 1960s and 1970s.

The collapse of marriage and the concomitant rise in illegitimacy together form the number one problem facing America; family collapse is the root cause of other social problems, such as poverty, crime, drug abuse, and school failure. Some reasons why:

- \* Children born out of wedlock are seven times more likely to be poor than are those born to couples who remain married.

n4 See Patrick F. Fagan, "Rising Illegitimacy: America's Social Catastrophe," Heritage Foundation F.Y.I. No. 19, June 29, 1994. See also Patrick F. Fagan, "The Real Root Causes of Violent Crime: The Breakdown of Marriage, Family, and Community," Heritage Foundation Backgrounder No. 1026, March 17, 1995.

- \* Girls raised in single-parent homes on welfare are five times more likely to give birth out-of-wedlock themselves than are girls from intact non-welfare families.

- \* A boy from a single-parent home in the inner city is twice as likely to engage in crime as a similar boy who is poor but living with a father and a mother.

Some would argue that federal action on illegitimacy is unneeded: If left alone, the governors will tackle the problem on their own. But the governors' silence speaks volumes. Few, if any, governors have made reducing illegitimacy a central theme of reform; most are reluctant even to mention the topic. By refusing to acknowledge or mention the collapse of marriage, the governors are implicitly condoning and (through inaction) ultimately promoting the skyrocketing rise in illegitimacy. They are embarked on a path which will lead, in the near future, to half of all children being born out of wedlock and raised in government-supported daycare centers. This is not reform. It is a national disaster.

The goal of welfare reform must be to save marriage. But the governors have formally stated that promoting marriage and reducing illegitimacy is not a meaningful part of their reform plan. If the House and Senate adopt the governors' plan, they will have agreed with them and will have abandoned even token efforts to stem the rise of illegitimacy and decline of marriage in American society.

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## THE NGA'S SHAM WORK REQUIREMENTS

Nearly 90 percent of Americans believe that welfare recipients should be required to work for the benefits they receive. In response to this public pressure, the U.S. welfare establishment has a simple solution: sham work requirements that create the illusion that beneficiaries must work while, in fact, few actually do. For example, as part of the 1988 welfare reform (the Family Support Act) the public was told that "welfare will be replaced by work." But the NGA opposed real work requirements. As a consequence, the reform, enacted by a nearly unanimous bipartisan vote in the Senate, was a sham. Daycare funding exploded, AFDC caseload grew by some 30 percent, and today only some 2 to 3 percent of AFDC recipients actually are required to work. History is about to repeat itself.

A major provision of the conference bill passed by Congress is a requirement that some AFDC recipients must work. n5 Section 407 of the bill requires certain percentages of the AFDC caseload to work for benefits and provides a fairly tight definition of work. However, even these work participation requirements have loopholes. For example, up to 20 percent of those counted as working can be in vocational education instead. n6

n5 Some of the "work" requirements in the conference bill are illusory; for example, individuals who have received AFDC for over two years are required to "work," but a state may count one hour of job search per year as "working." These "requirements" are very similar to the cosmetic provisions of the sham reform of 1988. However, the work provisions of Section 407 of the bill are quite different, and for the first time in the history of AFDC, require a certain percentage of recipients actually to work

n6 Another loophole permits states to subtract women with children under age one from the denominator for purposes of calculating their work participation rate. Such women comprise about: 10 percent of the AFDC caseload; excluding them from the caseload count effectively cuts the required work participation rates by 10 percent.

The following table shows the nominal work participation rates in the conference bill and the real rates, once loopholes are taken into consideration.

YEAR	Nominal Participation Rates	Real Participation Rates
1996	15%	10.5%
1997	20%	14%
1998	25%	17.5%
1999	30%	21%
2000	35%	24.5%
2001	40%	28%
2002	50%	35%

Moreover, in the typical state, some 10 percent of AFDC recipients already are employed, voluntarily, in part-time jobs and can properly be counted toward the state work requirement rate. This means that, in the typical state, only 25 percent of AFDC recipients would be required to work by 2002.

Even this rate is far too high for the NGA. While the NGA proposal nominally accepts the work participation rates from the conference report, the plan actually includes a cavernous loophole which effectively obliterates all work

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requirements. The NGA proposes to count routine caseload turnover toward the work participation rates, so any AFDC recipient who ever obtained work and left AFDC could be counted toward the participation requirement. It is important to note that there always has been a considerable turnover in the AFDC caseload. Hundreds of thousands of recipients obtain jobs and leave AFDC in any given year as an equal or greater number of persons enroll. This routine turnover occurs even when total AFDC caseloads are rising rapidly. The governors wish to be given credit for this automatic turnover and to portray the status quo as successful reform. n7

n7 It is important to understand the distinction between routine caseload turnover and net caseload reduction. With caseload turnover, a certain number of persons leave the welfare rolls but an equal or greater number enter; the total size of the caseload remains the same or increases. With net caseload reduction, the actual number of persons on welfare declines due to a drop in enrollments or an increase in exits which exceeds new enrollments. Caseload turnover is omnipresent and meaningless; it not a valid measure of success in reducing dependence. Caseload reduction is difficult to achieve and has rarely occurred in the history of AFDC. The goal of welfare reform is not to increase the number of persons cycled through the welfare system (although the welfare bureaucracy would like such a goal); it is to reduce the level of dependence. Caseload reduction is a proper measure of that goal. The House-Senate conference bill established performance standards which gave states proper credit for anti-dependency efforts which resulted in real caseload reduction, but not for mere turnover.

By claiming credit for individuals who have obtained a job and left AFDC during the last 2.4 months, a governor could automatically obtain a work "participation rate" of roughly 40 percent without in any way altering the existing welfare system. n8 Nearly all states would be able to meet their work requirements for the next seven without the least change in the status quo. Thus, the NGA bill is almost a perfect repeat of the bogus 1988 reform. Once again, complicated sham work requirements will be substituted for the real thing.

n8 NGA bureaucrats in fact are demanding any individual who has ever obtained a job and left AFDC be counted toward the state's work participation rate. The figures become very complex since these individuals would be counted in both numerator and denominator for purposes of calculating the participation rate. However, the bottom line is simple: Even if caseload turnover only for the prior six months is counted, the actual work standards in the bill would be gutted, at least through the end of this century.

Not surprisingly, the Clinton Administration is enthusiastic about counting normal caseload turnover as "work." Very similar "credit for turnover" provisions played a key role in the Democratic alternative reform legislation rejected earlier this year in the House and Senate. Congressional Republicans at the time denounced these provisions as a crude effort to deceive the voters. It would be ironic if a Republican-controlled Congress now embraced the same deception.

**BUT ISN'T ENDING AFDC ENTITLEMENTS THE KEY TO REFORM?**

It is true that the NGA plan does end the entitlement status of AFDC and eliminates many of the unnecessary restrictions in the existing AFDC code.

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thereby giving greater flexibility to the states. n9 Replacing automatic entitlement funding with block grants also imposes greater fiscal discipline on each state. Under the current entitlement system, when a state expands its AFDC caseload, it gets an automatic increase in federal AFDC funds. If a state shrinks its caseload, its federal funding is cut. If the current automatic entitlement funding mechanism were replaced by a block grant system, each state would be given a fixed amount. Since the block grant amount would not expand automatically if a state's AFDC caseload grew, a block grant funding system would give states a greater incentive to curtail caseload growth.

n9 In particular, the plan would eliminate the current JOBS program, which has made it difficult for states to operate serious workfare programs.

The current entitlement nature of AFDC is objectionable and should be eliminated. However, eliminating entitlement status alone is not reform, or even a small part of reform. The impact of eliminating the entitlement nature of AFDC has been greatly overrated. Under the current funding system, states must match federal AFDC funding in the state (generally the state pays 40 to 50 percent of total AFDC costs within the state). Thus, states always have had a strong financial incentive to curtail AFDC caseload growth; this, however, has not prevented the program from swelling to the point where one out of five children receives benefits each year.

There have been recent efforts to exaggerate the importance of ending AFDC's entitlement status. For example, it has been claimed that ending the entitlement status and "block granting" were the only welfare goals of the Reagan Administration. This is misleading. A hallmark of welfare policy under President Reagan was the effort to establish national work requirements for welfare recipients. Bills to accomplish this aim were introduced year after year during the Reagan presidency.

In reality, eliminating AFDC entitlements would have only a modest effect on reform. Other far more significant factors in shaping reform at the state level are the overall framing of the welfare debate and the shaping of public expectations; the actual goal of reform in the minds of decision makers; the momentum of past policies; the vast influence of the state welfare bureaucracies; and the explicit goals, incentives, and requirements established by the federal government. n10

n10 However, some proponents of the NGA plan regard ending the entitlement nature of AFDC not only as the most important, but as the only acceptable element of reform. Such individuals tend to adhere to the philosophy of "value neutral revenue sharing." Under this doctrine, the federal government should collect the revenue for the welfare system and hand it over to state governments with no requirement other than that the funds be spent to aid the poor. According to this narrow doctrine, most of the welfare provisions of the Contract With America (and especially those dealing with work and illegitimacy) are not only unnecessary, but also highly objectionable. From this perspective, "success" in welfare reform necessarily means opposing and eliminating most of the Contract's welfare provisions as unwanted impediments on the states. Not surprisingly, the NGA plan draws very high praise from adherents of this view. However, this seems to be a perspective which is not widely shared.

OTHER PROBLEMS WITH THE NGA PLAN

Heritage Foundation Reports, March 18, 1996

The governors' plan would create a huge performance incentive fund, costing roughly \$ 6 billion over the next seven years. This fund -- a central feature of the Clinton reform strategy -- would provide cash bonuses to states which have higher rates of AFDC mothers obtaining jobs. This is a very limited and illogical measure of success. For example, increasing marriage and reducing out-of-wedlock births would have far more beneficial effects on children and society than merely increasing employment of single mothers. But the NGA plan is indifferent or hostile to the issues of illegitimacy and marriage.

Even from the more limited perspective of reducing welfare dependence, the NGA plan is illogical. Welfare dependence can be reduced by six means:

- \* Reducing illegitimacy;
- \* Reducing divorce;
- \* Increasing marriage among women who have had children out of wedlock but have not yet enrolled in welfare;
- \* Encouraging single mothers to take jobs before they enter AFDC;
- \* Increasing marriage among welfare mothers; and
- \* Having welfare mothers obtain jobs.

Employment of welfare mothers is, in fact, the least effective of these six mechanisms for purposes of shrinking dependence, reducing child poverty, and enhancing the well-being of children. However, employing welfare mothers is the mechanism which least disrupts the ideological status quo and it is attractive to the huge welfare bureaucracy, whose material interests require a growing population of welfare recipients needing more and more services, such as daycare and training. Hence, despite its irrationality, the employment of welfare mothers remains the almost exclusive focus of the NGA plan.

The NGA plan thus is narrowly focused on the least effective means of reducing dependence and the one which is least beneficial to children. Under the proposal, states which concentrate on other aspects of reform would bear a heavy financial penalty. But by encouraging states to focus on the least effective and least desirable means of reducing dependence, the governor's plan actually will slow the reduction of welfare dependence. n11

n11 It could be argued reasonably that the rewards and incentives provided in the NGA plan are irrational but that this fact is of lessened importance because it is greatly outweighed by the impact of removing the AFDC entitlement funding mechanism. In this view, giving each state a fixed-sum block grant creates an implicit fiscal discipline which will drive states to pursue rational means to reduce dependency, irrespective of the explicit, contrary system of goals and bonus incentives. However, in the experience of this writer, explicit goals, reform concepts, and rewards play a very large role in shaping the outlook of state-level bureaucrats and decision makers, a role which greatly outweighs any implicit fiscal impetus.

Rewards for Bogus "Success"

## Heritage Foundation Reports, March 18, 1996

The NGA's focus on "exits from welfare," borrowed from the Clinton Administration, is illogical. The evidence indicates that serious work requirements have their strongest impact not by encouraging people to leave welfare, but by reducing the number of persons who bother to apply for welfare in the first place. Similarly, a state which restricts welfare entry to the truly needy (those who are the least able to support themselves) almost certainly will have proportionally fewer "exits" from the welfare caseload than would states with more liberal entrance standards.

The entire notion of measuring success in welfare by caseload exits makes no sense. It is like measuring success in the war on drugs not by a decline in drug use, but by an increase in the number of persons passing through rehabilitation, or judging the nation's health by counting the number of successful exits from hospitals -- a criterion which might be popular among hospital administrators but would make no sense for society at large.

Moreover, there is little relationship between "employment exits" and the level of welfare dependence or caseload size. In the NGA plan, there is no requirement that "successful" states actually lower caseloads. States would be rewarded for "success" even when their caseloads were consistently growing. If, for example, the NGA "performance incentive fund" had been created seven years ago, states automatically would have been rewarded with billions for "success," year after year, while their AFDC caseloads were growing between 25 and 30 percent. Unfortunately, the creation of bogus measurements of successful reform is no accident -- such measures are a key element in the welfare industry's strategy to forestall real change.

#### Anti-Marriage Bias

Even from the limited perspective of promoting welfare exits, the NGA plan is inconsistent. The NGA bureaucrats would reward states when a single mother gets a job and leaves welfare, but give no reward if a mother marries and gets off welfare -- even though the marriage is far more effective in reducing long-term dependence and poverty. In keeping with the prevailing ideology of the nation's welfare establishment, the NGA plan is heavily biased against marriage and focused on obtaining employment for single mothers.

#### No Real Money for Reducing Illegitimacy

The vetoed House-Senate conference bill did contain a fund to reward states which reduced illegitimacy without increasing abortions, and the NGA plan retained this. However, it is useful to compare this illegitimacy reduction bonus fund with the NGA's "performance incentive fund," which rewards the employment of AFDC mothers. The performance incentive fund rewards states on a comparative or relative scale; states would be ranked, and states with higher employment records relative to other states would be given substantial bonuses. Such a comparative reward system creates automatic winners; cash incentives will be paid out automatically under the plan even if the overall level of real performance remains the same or deteriorates.

By contrast, the illegitimacy ratio bonus fund is linked to absolute -- not relative -- performance, so a state must achieve a real reduction in its illegitimacy ratio (the proportion of births which are out of wedlock) in order to receive a reward. The requirements are very difficult to achieve -- so much so that little or no bonus money actually will be paid from this fund.

## Heritage Foundation Reports, March 19, 1996

The NGA thus has adopted very tough absolute standards for rewarding illegitimacy reduction but lax comparative standards for rewarding employment. Yet the latter standards guarantee winners. Consequently, under the NGA plan, little or no money would be paid to reward states for efforts to reduce illegitimacy, while \$ 6 billion in rewards would be given automatically for efforts to employ welfare mothers. Once again, the NGA's relentless bias against promoting marriage and reducing illegitimacy is apparent.

## Large Increases in Mandatory Day Care Funding

The House-Senate conference bill increased federal daycare funding by \$ 2 billion over seven years. The NGA plan would require another \$ 4 billion. Overall, this means that federal daycare funding would be increased by a third. States would be required to spend all the increased funds on daycare even if they would prefer to spend it on other services to the poor.

## Family Cap.

The conference bill prohibited states from using federal funds to give higher welfare benefits to women who have children out of wedlock while already enrolled in AFDC; states could choose to "opt out" of this restriction by enacting specific legislation. The governors' plan eliminates the family cap provision entirely. As under current law, states could have a family cap if they wish, but there is no legal impetus for them to do so. n12

n12 Under the current law, a state government must request a federal waiver to enact the family cap. Under the NGA plan, a waiver would no longer be needed.

The family cap is not only sound policy; it is widely supported by the public. Nearly nine out of ten Americans "oppose increasing a welfare mother's monthly welfare check if she has another child out-of-wedlock." n13 The popularity of the family cap is so great that the Clinton Administration does not publicly oppose the policy. Nor did the White House cite the inclusion of the family cap provision as a reason for its veto of the House/Senate conference bill.

n13 Family Research Council poll conducted by Voter/Consumer Research, mid-October 1995. The poll surveyed 1,000 randomly selected American adults about their views on welfare and social issues and has a margin of error of plus or minus 3 percent.

## RECOMMENDATIONS

The Contract With America advanced three principles of welfare reform: promoting marriage and reducing illegitimacy, requiring work, and increasing state flexibility. The NGA plan abandons the first two of these principles despite the fact that they are supported overwhelmingly by the public. Real welfare reform must carry out the principles of the Contract.

Restoring a sensible debate on marriage and illegitimacy is crucial. This issue has been trivialized or ignored by those pretending it is merely a question of whether the family cap provision in the House/Senate conference bill should be retained or eliminated. In reality, conservatives have proposed nearly a dozen national measures aimed at reducing illegitimacy. Many were included in the Contract With America. But in each case, they have been resisted by the

## Heritage Foundation Reports, March 18, 1996

Washington establishment and, one by one, they have been whittled away. What is now required is a complete reorientation of the debate back to the topic of illegitimacy, and the establishment of multiple measures to deal with the problem.

In order to produce real reform, the following ten steps are needed.

1) The leadership of the House and Senate should assert publicly that reducing illegitimacy is the key goal in welfare reform and should commit to an ongoing effort to use the "bully pulpit" to raise concern about the collapse of marriage in society.

2) The family cap provision of the conference bill (with the opt out clause) should be retained in any future legislation.

3) The illegitimacy reduction bonus fund established in the conference bill is a good idea and should be retained. However, the criteria for successful performance are so strict that even those states which make serious attempts to reduce illegitimacy will be unlikely to achieve them. Of course, incentive bonuses which are nearly unobtainable are not likely to have much effect on state plans and activities. The success criteria for this fund should be softened to give states a more realistic opportunity to obtain the bonuses.

4) The NGA performance incentive fund rewards only employment by welfare mothers, even though this is the least effective and least desirable way of reducing dependence. The fund should be altered to reward a composite score of all of the following: a reduced illegitimacy rate, reduced divorce rate, reduced AFDC application rate, increased AFDC employment exits, and increased AFDC marital exits. Moreover, states should be rewarded only if caseload and illegitimacy actually are declining.

5) States should be given the option of providing food commodities rather than food stamp coupons to AFDC mothers and retaining any resultant savings for other anti-poverty efforts. By reducing the attractiveness of the welfare life-style, this policy has the potential to greatly reduce future out-of-wedlock births.

6) The amount of funding in the conference bill's abstinence program should be increased from \$ 75 million to \$ 200 million per year in any future legislation.

7) Each state should be required to submit a plan showing how it intends to reduce illegitimacy.

8) Within the existing AFDC program, a new set-aside fund should be established providing \$ 300 million per year for states to devise their own programs to reduce illegitimacy without increasing abortion (with firm evaluations required).

9) The work requirements in the conference bill should not be weakened or undermined through the governors' proposal to count employment exits. Performance goals should not be linked to exits in any way, since the best reform schemes will reduce enrollments rather than increase exits. The hourly work requirements for AFDC recipients, especially AFDC-UP fathers, should not be reduced.

## Heritage Foundation Reports, March 18, 1996

10) Under the bill, daycare funds could be spent only for daycare even if the governors wish to use them for other services for the poor. This "lock in" of the daycare money should be eliminated in future legislation.

## CONCLUSION

On the crucial issues of work and illegitimacy, the NGA plan resembles the Democratic alternative bills introduced in the House and Senate much more closely than it does the original Contract With America. Indeed, the work requirements in the NGA plan actually are weaker than those in either Democratic bill. ] ✓

The welfare "reform" proposed by the National Governors' Association is, in reality, an anti-reform. The NGA has abandoned the goal of saving marriage and reducing illegitimacy. Instead, NGA officials call for a massive investment in government daycare for an expanding population of single-parent families. The NGA seeks to abolish the work requirements in the conference bill passed by the House and Senate and to substitute sham requirements in their place. The bill is biased against marriage. The NGA has adopted a reward and incentive system which has as its exclusive goal the employment of single mothers despite the fact that this is the least effective means of reducing dependence and improving children's well-being.

Sham reforms such as that proposed by the NGA are very harmful. By creating the illusion of reform, bogus reform reduces public pressure for change and thereby helps to preserve the existing system. The bogus welfare reforms of 1988, created in large part by the NGA, delayed action on real reform for nearly a decade. This sad mistake should not be repeated.

Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

LANGUAGE: ENGLISH

LOAD-DATE: April 1, 1996

EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET

ROUTE SLIP

FAX  
to ROBIN

TO <del>Lead</del>	Take necessary action	<input type="checkbox"/>
Jennings	Approval or signature	<input type="checkbox"/>
Abernathy	Comment	<input type="checkbox"/>
	Prepare reply	<input type="checkbox"/>
	Discuss with me	<input type="checkbox"/>
	For your information	<input checked="" type="checkbox"/>
	See remarks below	<input type="checkbox"/>
FROM <u>Countours</u>	DATE	

REMARKS

WR-Repubs.

F41 - Welfare  
Letter from  
90+ Repubs

P. 02

**Congress of the United States****Washington, DC 20515**

June 26, 1996

The Honorable Newt Gingrich  
Speaker of the House  
U.S. House of Representatives  
H-232 U.S. Capitol  
Washington, DC 20515

The Honorable Trent Lott  
Senate Majority Leader  
United States Senate  
S-230 U.S. Capitol  
Washington, DC 20510

Dear Speaker Gingrich and Majority Leader Lott:

As you negotiate the make-up of the first of the Fiscal Year 97 Budget Reconciliation bills, we wish to express our continued strong support for separating the welfare and Medicaid reform proposals. We believe that separating the bills is clearly in the best interest of the American people.

While we all agree that the need for immediate reforms in both the welfare and Medicaid programs has exceeded critical mass, we are not swayed by the view that the two programs must be reformed together or not at all. Even if only one of the bills is signed into law this year our nation's governors will have substantially greater flexibility to make the local changes we all support.

All the talk in the world about reforming the American welfare state is useless unless our reforms are signed into law or the veto of the president is overridden by Congress. We have worked too hard to bring about changes in the welfare program as a group and as individuals to risk its final passage.

We hope that you will consider throughout your discussions our strong belief that a separate welfare reform bill is the right thing to do.

Sincerely,



John Easton



Dave Camp

Speaker Newt Gingrich  
Majority Leader Trent Lott  
June 26, 1996  
Page Two

Clay Shaw Shaw

George Dunn Dunn

Greg Laughlin Laughlin

Jim Rumsfeld Rumsfeld

Tom Bunning Bunning

Jeff Hayes Hayes

Jim McCrory McCrory

Wally Herger Herger

Tom Christensen Christensen

Barbara Cubin Cubin

Wes Hancock Hancock

Robert Portman Portman

Bill Thomas Thomas

Phil English English

Anna Houghton Houghton

Nancy Johnson N. Johnson

Sam Johnson S Johnson

Jack Zimmer Zimmer

Cal Seastrom Seastrom

John Kingston Kingston

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Majority Leader Trent Lott  
June 26, 1996  
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Richard Pombo Pombo

W. Cooley Cooley

Chernowin Chernowin

W. Jones W. Jones

Watts Watts

Bass Bass

Scarborough Scarborough

Castle Castle

Young Young

Hansen Hansen

Saxton Saxton

Riggs Riggs

Tate Tate

Dickey Dickey

Funderburk Funderburk

Quinn Quinn

Wamp Wamp

Blute Blute

Livingston Livingston

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June 26, 1996  
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Chas. T. Canady Canady

Harold Holtzman Ras-lehtinen

James A. D. Hunter Hunter

James Manzullo Manzullo

Stan Gundersen Gundersen

Jim Guttentag Guttentag

Jim Kolbe Kolbe

Tommy Carver Carver

John Horn Horn

Bob Gass Gass

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Jim Meyers Meyers

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Reginald T. ... Reginald

Robert Moorehead Moorehead

Mark Forbes Forbes

Tom Campbell Campbell

Tom Kelly Kelly

Tom Petri Petri

Phil I. Ehrlich Ehrlich

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Majority Leader Trent Lott  
June 26, 1996  
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Robb Heineman Heineman

Jim Leary Leary

K.P. Dornan Dornan

Springer Bond

Mal Foley Foley

Colin Smith C Smith

Greg Franks Franks

Phil Crane Crane

Mark Hoke Hoke

Steve Staben Staben

Buck Macken Macken

John Hastetter Hastetter

John Myers Myers

Jim Walsh ~~Walsh~~

Laughter Laughter

Chris Cripps Cripps

Jan Wash Wash

Lazio Lazio

John Horn Horn

Jon Lewis Lewis

Mary T. Gilchrist Gilchrist

Matt Salmon Salmon

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Speaker Newt Gingrich  
Majority Leader Trent Lott  
June 26, 1996  
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Bill Martini Martini

Th. G. Todd Todd

J. Cantor Cantor

Joseph Morella Morella

John Duncan Duncan

Weldon Weldon

Lauren Lauren

Jeffrey Hefley Hefley

Schaefer Schaefer

McIntosh McIntosh

Fowler Fowler

Tom Davis Tom Davis

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**Congress of the United States**  
**House of Representatives**  
 Washington, DC 20515

WR-Repubs

May 19, 1996

President William J. Clinton  
 The White House  
 1600 Pennsylvania Avenue  
 Washington, D.C. 20500

Dear Mr. President:

We welcome your remarks concerning the innovative welfare reforms proposed by Governor Tommy Thompson of Wisconsin. The Wisconsin proposal is very similar to the Republican welfare reform bill you vetoed last year, so we are heartened that your welfare position may have changed once again. However, because there are many differences between your current national welfare proposal and the position you seem to have taken yesterday concerning the Wisconsin proposal, there is ample ground to be confused about where you stand on national welfare reform.

We must remind you that actions speak louder than words. Nothing less than full approval of Wisconsin's waiver proposal in its entirety will demonstrate your lasting commitment to welfare reform. In addition, while your kind words concerning Wisconsin's proposal give the impression you support welfare reform, an analysis of your current national welfare proposal shows that what's good enough for Wisconsin is not good enough for the nation. Your national proposal runs in the opposite direction of Wisconsin's welfare reforms.

The need for welfare reform is clear. The American people are demanding it and the people on welfare must have it. We have already lost too many people to the destructive cycle of welfare where the average stay on the welfare rolls is 13 years. As a result of this cycle, far too many children are at risk, growing up in substance abuse homes where they have never known a working adult.

We all agree that welfare reform must be accomplished, and while you have vetoed our two previous welfare reform proposals, we are willing to work with you once again on this important issue. Only through continuous, open dialogue can we begin to understand each other's positions and hopefully reach an agreement.

We have just completed a detailed analysis of the national welfare reform proposal contained in your 1997 budget plan, and we regret to say that we are deeply disappointed because your plan does not time limit welfare benefits nor does it require an adequate number of people to work for their welfare benefits. Your welfare reform proposal does little to encourage families to support themselves, it encourages continued welfare instead of work, and it perpetuates the misguided practice of providing welfare to non-citizens. Your bill also does nothing to stop the corrupt practice of paying welfare benefits to felons sitting in our nation's jails. Finally, your bill's continuation of inflexible federal controls guarantees that the worst features of today's failed welfare regime would continue indefinitely. We have outlined below our major concerns.

In short, your welfare proposal contains four fatal flaws.

1. Your welfare reform plan "proposes" a five-year time limit on cash welfare benefits, but it has so many exceptions few families would ever be affected. In addition, because of your mandatory voucher program, welfare will remain a lifelong habit, just as it is today.

Under your plan, few welfare recipients would ever reach the five-year time limit because your plan provides so many exemptions. Your exemption list is so exhaustive that the Congressional Budget Office has predicted that at least 25 percent of families on welfare would be considered exempt in any given month.

For those who actually do reach the five-year limit, your bill maintains the welfare entitlement and requires States to provide non-cash welfare vouchers indefinitely. Mr. President, you must realize that only by applying a real five-year time limit can we transform welfare into insurance against the worst of times, instead of the lifetime guarantee of unearned benefits.

2. Instead of requiring work for welfare benefits, your plan allows families to avoid work for years and places sham "work requirements" on States.

Your plan requires States to set up education and training programs for every work-eligible parent who is not working within one year of coming onto welfare. After two years in these programs, you say that workers must work or lose welfare benefits. The catch? This requirement does not take effect until October 2002. Mr. President, we must act now if we are to save the most needy in our society, not wait six or seven more years by creating a major loophole that allows families to collect welfare without working.

In addition, by counting families that have left welfare and are now working as well on welfare, your bill officially indicates wide progress in moving welfare families into work. Under your plan, the natural flow of families off welfare means that States naturally would be more than halfway towards meeting their required rates without even lifting a finger. You further discourage States from meeting this goal by failing to punish States that don't meet targets for moving families off welfare and into work. The result? The Congressional Budget Office has determined that your bill would require only half as many welfare families to work as H.R. 4, the Congressional welfare reform bill you voted in January. According to CBO, 1.3 million people will be required to work by the year 2002 under the Republican welfare proposal, while only 500,000 people will be working under your bill. We are deeply troubled by your top-down, top-down, liberal work "requirements."

3. Your plan conditions the current system in which communities and States collect welfare despite our country's laws and traditions.

Everyone agrees that America is and will remain the land of opportunity for immigrants, but you would be hard-pressed to find support for allowing immigrants into the U.S. to go on welfare. Unfortunately, your proposal would continue this abuse of taxpayers' and immigrants' best interests. For example, the number of noncitizens on Supplemental Security Income exploded from 127,906 in 1982 to 734,140 in 1994. While you have proposed initiatives that claim to curb such abuse, your plan only slashes around the edges: the Congressional Budget Office estimates your proposal would prevent 89,000 noncitizens from collecting SSI benefits in 1998. In contrast, H.R. 4, the welfare reform bill you voted, because the private noncitizens made not to go on the dole, keeping more than 427,000 noncitizens from collecting SSI benefits in the same year and saving taxpayers a total of \$15 billion more than your bill.

4. Your plan endangers taxpayers' Federal control over State welfare programs.

Even though your bill replaces Aid to Families with Dependent Children (AFDC), the nation's largest cash welfare program for poor families, with the "Temporary Employment Assistance" (TEA) program, this is largely a semantic exercise. Like AFDC, the TEA program would provide unlimited entitlement funding to States -- subject to State match -- to provide cash welfare benefits to needy families. Certain new restrictions would apply for individuals, but States would receive more Federal funds if more families move onto welfare, maintaining the current perverse incentive structure associated with AFDC.

Your plan fails to provide State flexibility in many other ways, too. Unlike H.R. 4, under your bill States would not have flexibility to limit benefits to fewer than five years, and States would be required to operate a highly prescriptive federal "work first" (starting in FY 2004) job training program. States would be required to develop individual responsibility plans for every new welfare family, detailing benefits the State would have to provide to assist families in preparing for work. Finally, States would have little authority to limit State and local welfare benefits for noncitizens.

Mr. President, we remain hopeful that this year will be the final year of our nation's failed welfare system. Surely, those Americans who have lived on welfare from one generation to another deserve a chance to do better and to achieve more. However, after considering some of the key features of your plan, it is evident, despite your radio address, that there is still a long way to go before your actions match your words.

We look forward to taking action on national welfare reform this year and hope to have your support.

Sincerely,

---

**Newt Gingrich**  
Speaker of the House

---

**Dick Armey**  
House Majority Leader

---

**Bill Archer**  
Chairman, House Committee on  
Ways and Means

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**E. Clay Shaw, Jr.**  
Chairman, Subcommittee on  
on Human Resources, House  
Committee on Ways and Means

8:45	Dan Este	P6/(b)(6)
9:35	Maura Cullen	
9:44	Marty Parrets in Cambridge	
9:50	Mary Jo Bane	
10:30		
10:00	Whitney, WH Bulletin	
10:01	Rahm	
10:16	Janet Murguia Re: POTUS memo she's working on for his visig with House Dem Govs next week -- needs to talk with you for guidance on WR	
10:20	Frank Aukofer	
10:45	Nicole Elkon, Advance & Scheduling Office Re: POTUS Trip to Princeton	
10:55	Rob Shapiro	
11:00	Chad	
11:05	11:15 MEETING ON TEEN PREGNANCY IS POSTPONED	
	<p>Medical mtg. → No agmt.</p> <p>- quietly work w/ Shaw to separate - Castle, Johnson, Rayburn, McGree</p> <p>- best strategy</p> <p>- less than 10 vote for it</p> <p>- letter to Shaw</p> <p>- veto. prob. margin - start w/ our bill</p>	

WR - Repubs.



STATE OF DELAWARE

WASHINGTON OFFICE  
444 North Capitol Street, NW, Suite 230  
Washington, DC 20001  
Phone: 202/624 - 7724  
Fax: 202/624 - 5495

Thomas R. Carper  
Governor

J. Jonathon Jones  
Director

Maura J. Cullen  
Deputy Director

*WR -  
~~WR~~  
Reps*

FACSIMILE COVER PAGE

TO: *Bruce Reed*

FAX#: \_\_\_\_\_

FROM: *Maura*, Office of Governor Carper, Delaware

DATE: \_\_\_\_\_

# OF PAGES: \_\_\_\_\_ (INCLUDING COVER)

NOTE: *FYI - Apparently there are over*  
*50 signatures, but Ensign's*  
*office will not release additional*  
*signatures because leadership*  
*had asked them not to*

Please note: The pages comprising this facsimile transmission contain confidential information from the Washington Office of Governor Tom Carper. This information is intended solely for use by the individual entity named as the recipient thereof. If you are not the intended recipient, be aware that any disclosure, copying, distribution or use of the contents of this transmission is prohibited. If you have received this transmission in error, please notify us by telephone immediately so we may arrange to retrieve this transmission at no cost to you.

**Congress of the United States**  
**Washington, DC 20515**

June 13, 1996

The Honorable Newt Gingrich  
Speaker of the House  
U.S. House of Representatives  
The Capitol  
Washington, DC 20515

The Honorable Trent Lott  
Senate Majority Leader  
United States Senate  
The Capitol  
Washington, DC 20510

Dear Speaker Gingrich and Majority Leader Lott:

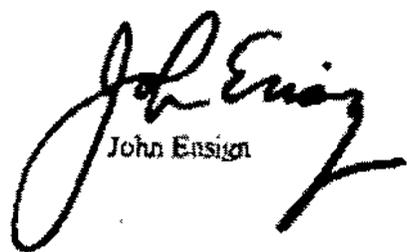
As the House begins to move forward in our promise to balance the federal budget and contain the escalating costs of entitlement programs, we strongly believe it is in the best interest of the American people to send the Welfare Reform bill to the President separate from any other legislation, including Medicaid reform.

Republicans and Democrats, governors and legislators have overwhelmingly agreed on the immediate need to pass welfare reform into law so that people can begin to lift themselves out of a cycle of perpetual dependency and into the workforce. This reform is critical to saving the children being raised in the welfare state and to bringing relief to hard-working Americans whose tax dollars fund this dependency.

Welfare Reform is just too important to risk defeat due to its connection with other legislation that may not be as overwhelmingly supported. For those who do not support real Welfare Reform, there should be nowhere to run to and nowhere to hide.

We stand ready to work with you to ensure that the President is given the chance to sign or veto a separate Welfare Reform bill.

Sincerely,

  
John Ensign

  
Dave Camp

PRINTED ON RECYCLED PAPER

**Congress of the United States**  
**Washington, DC 20515**

*WR Repub's*

June 13, 1996

The Honorable Newt Gingrich  
Speaker of the House  
U.S. House of Representatives  
The Capitol  
Washington, DC 20515

The Honorable Trent Lott  
Senate Majority Leader  
United States Senate  
The Capitol  
Washington, DC 20510

Dear Speaker Gingrich and Majority Leader Lott:

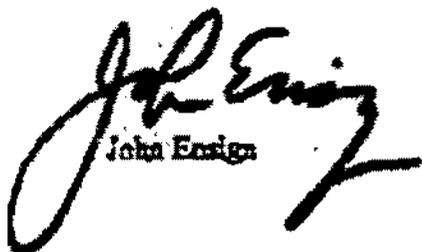
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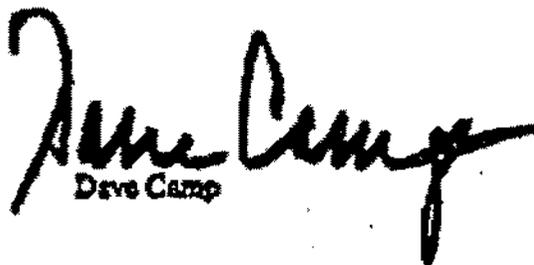
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We stand ready to work with you to ensure that the President is given the chance to sign or veto a separate Welfare Reform bill.

Sincerely,

  
John Ensign

  
Dave Camp

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STATE OF DELAWARE

WR-Repubs.

Thomas R. Carper  
Governor

J. Jonathan Jones  
Director

Maura J. Cullen  
Deputy Director

WASHINGTON OFFICE  
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TO: Bruce Reed

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FROM: Maura, Office of Governor Carper, Delaware

DATE: 6/25/96

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06/25/96

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MI DC OFFICE

SPEAKER'S OFFICE

002/003



REPUBLICAN GOVERNORS ASSOCIATION

NOW AMERICA'S MAJORITY

June 25, 1996

The Honorable Trent Lott  
Senate Majority Leader  
S-230 U.S. Capitol  
Washington, D.C. 20510

The Honorable Newt Gingrich  
Speaker of the House  
H-232 U.S. Capitol  
Washington, D.C. 20515

Dear Mr. Leader and Mr. Speaker:

In February, the nation's governors unanimously agreed on a strategy to reform the federal cash welfare and Medicaid programs. This bipartisan reform plan is currently making its way through Congress.

We believe strongly that welfare cannot be reformed without addressing critical concerns regarding Medicaid. We are concerned, however, that legislation might move forward without provisions to fix an overly complicated Medicaid system that is failing the very families it is supposed to help.

There is no question that these two issues are inextricably linked and cannot be separated. In fact, continued rigidity in one program diminishes the value of flexibility in the other. Medicaid and cash welfare are mutually dependent, and failure to reform both will mean the failure to reform either. Neither the states nor the people we represent can afford to fail. Too many families are depending on us.

Think of these issues in another way. If you went to the doctor complaining of chest pains and a broken leg, you would expect the doctor to treat both problems. However, if the Congress only addresses welfare and not Medicaid, it would be like setting the broken leg and ignoring the heart problem.

For example, many families become dependant on welfare mainly because they need the health care coverage provided by Medicaid. At the same time, a barrier to leaving the welfare rolls is the prospect of losing Medicaid coverage. Under the current system, states are severely limited in their ability to address this Catch-22 that perpetuates dependence.

*Charlie Selen*

06/25/96 08:21

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MI DC OFFICE

--- SPEAKER'S OFFICE @ 003/003

The Honorable Trent Lott  
The Honorable Newt Gingrich  
June 25, 1996  
Page 2

Reforming the Medicaid system means removing burdensome federal rules and giving more flexibility to the states to solve this problem and to design innovative ways to deliver services that reach more people. As a result, the states, the federal government and clients will be able to share the cost of providing Medicaid coverage to more working families. In addition, states will be able to run the program more efficiently and to choose the types of coverage that help people who need help the most.

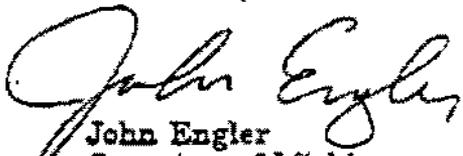
We believe that removing Medicaid from the reform package will lend credence to invalid criticisms of our plan. Contrary to the defenders of the status quo, the truth is that the Medicaid Restructuring Act protects vulnerable Americans by:

- guaranteeing eligibility for low income pregnant women, children, elderly and the disabled;
- providing a generous comprehensive medical benefit package;
- limiting premium and cost-sharing charges;
- retaining current law nursing home standards and recipient protections; and,
- increasing Medicaid spending substantially - an increase of 35.5% over the next six years.

By wide margins, the American people support reforming the welfare system by requiring work and personal responsibility. If we don't include Medicaid in our reform plan now, public pressure to address this issue will fade, and an historic opportunity will be lost.

The bottom line is this: If our goal is independence for more strong, healthy families, Congress must reform both welfare and Medicaid.

Sincerely,



John Engler  
Governor of Michigan  
Chairman



Steve Merrill  
Governor of New Hampshire  
Vice Chairman

cc: Senator Roth  
Congressman Ellzey  
Congressman Archer  
Congressman Shaw

JE/jn/lr.dc

# Preserving Welfare As We Know It

By MICKEY KAUS

Many conservatives seem to think that a Washington-based cabot of liberal bureaucrats and activists secretly plots to maintain an unpopular, failed welfare system. After a decade watching the welfare beat, I think I'd know if such a conspiracy really existed. And I can assure you it does. Some of my best friends are members. They're pretty good-humored these days because, in the epic battle over welfare reform, the left is on the verge of achieving a stunning victory: the preservation of welfare's status quo until at least 1997. When they aren't conspiring, my friends have started to chuckle about how they've snookered the right again.

Only four months ago, radical welfare reform looked inevitable. The House and Senate had passed bills turning the basic welfare program, Aid to Families With Dependent Children, over to the states in the form of a block grant. President Clinton had actually endorsed the Senate plan. The pro-welfare conspiracy was demoralized to the point of desperation. All that remained was for the Republicans to merge the Senate and House bills, avoiding provisions that would give Mr. Clinton an excuse to change his mind.

## An Excuse

But the Republicans (and a leaked administration study claiming the Senate bill would push 1.2 million children into poverty) gave him that excuse. Mr. Clinton has now vetoed the GOP block grant reform twice, without a noticeable outcry from the press or public. My liberal friends are increasingly convinced that no legislation will be signed before the November election. "There is nothing so exhilarating as to be shot at and missed," gloats Sen. Daniel Patrick Moynihan (D., N.Y.), who strangely has emerged as AFDC's leading defender.

How can the left be so confident—especially since Mr. Clinton has pointedly kept open the possibility of signing a sweetened block grant bill, and the nation's governors recently proposed just such a plan? Because the left knows it can rely on its best friends in this welfare battle: Washington Republicans. Republicans, especially conservatives, seem almost determined not to reach a welfare deal, thus leaving in place the system they claim to despise. They've talked themselves into this perverse position with two sorts of arguments: one tacti-

cal, the other substantive.

The now-familiar tactical argument assumes that welfare is a part of the presidential chess match between President Clinton and Senate Majority Leader Bob Dole. If Sen. Dole puts another welfare bill on Mr. Clinton's desk, the argument goes, it won't be one the president can actually sign and take credit for. Instead, Sen. Dole and his strategists will engineer a bill they

*Republicans, especially conservatives, seem almost determined not to reach a welfare deal, thus leaving in place the system they claim to despise.*

know will produce a veto, probably by linking it to controversial changes in the Medicaid program. Sen. Dole can then use Mr. Clinton's veto to "sharpen" the "contrast" between the parties, blasting the president as a talker who said he'd reform welfare and didn't.

Of course, there is one small drawback to this strategy, as Journal columnist Paul Gigot admits, even while urging it on Mr. Dole—it means "ending any hope that [Republicans] can get anything meaningful accomplished this year." In other words, the ancient conservative goal of abolishing the AFDC entitlement is to be sacrificed in the cynical pursuit of transitory electoral advantage.

Naturally, my conspiratorial liberal friends privately applaud this brilliant strategic calculation. They know that this year was the conservatives' best chance in half a century to transform welfare. They know that the history of welfare is the history of dramatic reforms that were almost enacted, put off until "the next Congress," and that somehow never happened.

They know, too, that even if Mr. Dole pulls his veto-baiting stunt, Mr. Clinton is still likely to be re-elected—and what chance will a conservative block grant plan have then, with a lame duck Democratic president freed from the need to show he's tough on welfare to please the electorate? They know that even if Mr. Dole does win, he, too, is far less likely to look kindly on a block grant bill in 1997, when he will be tempted to distance himself presidentially from Newt Gingrich's congressional Republicans. By all means, they nod, wait till next year. Heh, heh.

The irony is that, for all its cunning, a

Dole "let's make a veto" strategy may not work very well. Mr. Dole, remember, is already tarred as a partisan cynic; is it a good cynical calculation for him to make such an obviously cynical calculation? Mr. Clinton, for his part, may be surprisingly successful defending a veto, especially if he's vetoing a package that includes Medicaid changes, which have proved unpopular in the past. And being able to say "we

reformed welfare" would certainly help Republicans hold on to the House.

What most terrifies my liberal acquaintances is the possibility that the Republicans will suddenly wise up, make a few more concessions, and cut a deal with Mr. Clinton that preserves the essence of their reform, which is the end of the AFDC entitlement. But, my friends note contentedly, there is little sign of this happening. Any attempt to reach such a compromise will run into a second, substantive, argument favored by the Republican right: that the GOP already has given away so much that welfare reform is almost not worth doing.

The most likely vehicle for a Clinton-GOP welfare deal, after all, is the governors' block grant plan. Yet Robert Rector, the influential welfare analyst of the Heritage Foundation, charges that this plan is a "sham" that "blithely ignores America's No. 1 social problem: the catastrophic rise of illegitimacy." Mr. Rector's complaints have been taken up by the Christian Coalition and by conservative House Republicans such as Jim Talent and Tim Hutchinson.

But wait a minute. For decades conservatives have argued, plausibly, that illegitimacy is subsidized by the "liberal welfare state," mainly by AFDC payments to unwed mothers. The governors' block grant scheme abolishes AFDC. States could slash welfare payments, terminate them after two years, or do away with cash aid entirely. They could deny benefits to unwed mothers or to teen mothers. They could discourage potential welfare mothers by imposing stringent work requirements. The block grant system even stacks the deck in a rightward direction: Governors will have a powerful incentive to

compete at making their states inhospitable to potential recipients (the "race to the bottom").

This would be a revolutionary, radical change, which is why liberals are apoplectic about it. It's more radical, in some respects, than the welfare plan in the Contract With America, which didn't mandate AFDC block grants.

In comparison, Mr. Rector's complaints are insignificant. His one substantial gripe, that the governors' plan doesn't mandate any work, will almost certainly be addressed by congressional modifications acceptable to Mr. Clinton. Congress is also planning to add the right's precious "family cap," which would encourage states to deny extra payments to welfare mothers who have additional children while on AFDC. But even the family cap is a relatively modest innovation, affecting only the \$50 or \$60 a month extra a mother typically gets if she has another child, not the several hundred dollars she gets for her initial child.

## Pitifully Trivial

The rest of the changes that Mr. Rector declares "would be necessary for me to say it was a good bill" amount to a pitifully trivial "anti-illegitimacy" wish list. He wants \$125 million more for an "abstinence program." A new \$300 million "set-aside fund" for "states to devise their own programs to reduce illegitimacy." A public declaration that "reducing illegitimacy is the key goal."

Needless to say, the liberal conspirators are delighted to see the Republican right threaten to kill welfare reform over such wispy concerns. In fact, they have been quietly egging the Republican "anti-illegitimacy" faction on. When welfare reform dies, I half expect to see Marfan Wright Edelman send Robert Rector a big bouquet.

Imagine that, two years ago, you'd told conservatives that in 1996 they would have a chance to end the AFDC entitlement and would throw it away. Historians of the future may produce volumes explaining how Mr. Gingrich and Mr. Dole succeeded in snatching defeat on welfare from the jaws of victory. On second thought, I take that back. Historians, like voters, tend to pay attention to politicians who actually accomplish something.

Mr. Kaus, author of "The End of Equality" (Basic Books), is a contributing editor of The New Republic.

MR. KAUS

## What Price Job Security?

Steve Yokich, a 30-year union man who took the helm at the United Automobile Workers last year, claimed to be hellbent on reversing the UAW's shrinking membership, organizing the Hondas and BMWs, and bringing the industry's nonunion parts suppliers back under collective bargaining. Mr. Yokich, in short, has whistled a lot of dixie.

When the crunch comes, the union has always swallowed outsourcing and layoffs for those not blessed with seniority. That has seemed the better part of valor than accepting pay cuts or allowing younger

### Business World

By Holman W. Jenkins Jr.

workers to come aboard at less than the union wage. The result is plainly visible in the industry's skewed demographics. Even a downsizing Big Three will have to hire 213,000 fresh bodies over the next six years because of the unnatural rate at which its UAW work force is aging. Ironically, second only to job security, the biggest issue in the Dayton strike was the strenuous pace of work. Playing cost catch-up with its rivals means General Motors has to work its graybeards harder and longer.

By the union's own reckoning, the average age of its auto workers is 49. Half are five years or less from a pension under the "30-years-and-out" provision, negotiated after the last big strike in 1970. In the next few years, tens of thousands of autoworkers will be retiring at 50-60% of full pay, many while still in their early 50s. Necessarily, the UAW's tactics have been shaped to the agenda of these older workers, which is to defend their endgame benefits at all costs.

Outsourcing was the issue in the Lordstown strike four years ago, when again a handful of UAW old-timers exploited their

strategic position in a parts factory to shut down some of GM's best-selling lines. The outcome was basically the same. GM got its way on outsourcing but promised to save 240 jobs so the union could dole them out on the basis of seniority. In Dayton, GM was allowed to transfer work to a nonunion supplier in South Carolina. Others jobs will be found for the existing UAW staff, and each will also get \$1,700 for unspecified "grievances." With 3,000 workers at Local 696, the agreement was ratified by a 99% vote of only 739.

Now, working in an auto plant is nobody's idea of day at the beach, and it would be churlish to begrudge some grizzled veteran a few more years in the job that is putting his kids through college and, in another year or two, the pension that will deliver him to a secure retirement. But depending on whether GM or the UAW is doing the talking, the number of jobs saved in Dayton was 128 or 290. This, at a cost of perhaps \$1 billion in forgone profits at GM, layoffs of 178,000 workers, and untold pain to hundreds of companies that do business with General Motors. The Commerce Department estimates that the cost of the strike was approaching \$5 billion. With all due sympathy for the grizzled veteran, the price for his "job security" is pretty steep.

For most Americans, the way to economic security has to come through an upgrading of their skills, not the threat of wreaking financial havoc on their employers and the economy. And part of the deal is that, sometimes, you have to take your lumps as companies are downsized, folded or leave town. The victims aren't happy, of

course, but most people accept that a job ultimately has to pay its way in a competitive economy. And a job that doesn't is going to be a precarious proposition at best.

GM's North American operations lost a stupendous \$12 billion in the early 1990s, and we have the benchmark of Chrysler and Ford, whose per-car cost is \$2,000 lower than GM's because they outsource more work. We also have the Hondas, Toyotas and Nissans who have set up factories here, and the Mercedes and BMWs, who are in the process of doing so. Thanks to the productivity of American workers, our infrastructure, and our domestic market, the U.S. is the place to assemble cars these days—as long as you're not saddled with a UAW work force.

Those jobs that GM slotted to phase out in Dayton are devoted to turning out a technologically outmoded brake at a labor cost three times higher than the braking systems made by workers at the Bosch plant in South Carolina. In any of the industries that have popped up in the last 30 years to dominate the economy, this would have been an open and shut case. But for GM, it meant betting the company. And yet the UAW's half-nelson on the auto business is an accident of history, a creature of New Deal labor legislation, the essence of which was to teach unionized workers to depend on the strike rather than on their skills and productivity to justify their jobs and wages.

The Wagner Act was passed in 1935. Within 18 months the UAW was born and concluded its first collective bargaining agreement with General Motors. Less than 17 years later, private sector unionism had peaked and has been a disappearing force in America ever since. The UAW itself has survived at the price of

gradually surrendering the auto industry to Japanese transplants and nonunion parts suppliers. All the while, an ever-smaller, ever-grayer cadre of UAW members has been retreating into a high-wage redoubt within the Big Three.

If there's a lesson here, it may be that the only thing worse than no job security

is the wrong kind of job security. The right of workers to assemble and speak collectively is guaranteed in the Constitution. But the closed shop and the legal obligation of an employer to bargain "in good faith" with a labor union, whether or not the employer wants to, and the

whole panoply of administrative law that enforces this obligation, is something else. And at best, this has been a gilded cage even for the supposed beneficiaries.

"Freedom of contract," after all, is more than just a libertarian fetish: It's a powerful incentive for workers to seek the skills that will allow them to remain viable in the marketplace. This is why Congress excluded supervisory personnel from coverage of the Wagner Act. When the law was being amended in 1947, one supporter said, "It seems wrong, and it is wrong, to subject people who have demonstrated their initiative, their ambition and their ability to go ahead, to the levelling process of . . . unionism." Inevitably, the granting of special rights to a group of people just because they call themselves a labor union has only served to trap them.

If you would know why tens of thousands of the nation's grandfathers are still busting their bunnions on an auto assembly line, and holding the rest of us hostage while they huff and puff their way to their pensions, the simple answer is that the labor laws made it that way.

If there's a lesson here, it may be that the only thing worse than no job security is the wrong kind of job security.



Stephen Yokich

MAR 14 1996 05:15 PM  
TUT JONATHON JONES

DEMOCRATIC GOVS ASSN

NO. 844 P. 2/3



WR-Repubs.

STATE OF NEVADA  
EXECUTIVE CHAMBER

Capitol Complex  
Carson City, Nevada 89710

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BOB MILLER  
Governor

March 14, 1996

FOR IMMEDIATE RELEASE

Contact: Jim Mulhall, Gov. Bob Miller's Office, Nevada, 702-687-5670  
Charlie Salem, Gov. Lawton Chiles' Office, Florida, 904-488-2272  
Jim Carpenter, Gov. Roy Romer's Office, Colorado, 303-866-2471

Republican Governors 'Jump the Gun'

**\* \* Democratic Governors Reaffirm Bipartisan Support for Medicaid and Welfare \* \***

The three Democratic members of the National Governors' Association Medicaid Task Force were disappointed and concerned today by the announcement of their Republican colleagues and Speaker of the House Newt Gingrich that an agreement has been reached on substantive and procedural issues for handling Medicaid and welfare reform.

"They're getting a little ahead of themselves. We still have serious substantive concerns as well as procedural concerns on the Medicaid proposal," said Nevada Gov. Bob Miller, NGA vice-chair. "We have been working in good faith and today's announcement was unfortunate and extremely premature. Recent history should tell us one important lesson — if we want to get things done, we need to work together — Democrats and Republicans both in the Governors' mansions and on Capitol Hill."

"We still want to work together, but there must be bi-partisan participation at every step of the way, not just when it seems to suit one party," said Gov. Miller. "We have not given up the possibility of working out the differences on substance and procedure. These programs are too important to the states and the people they help."

"Bi-partisan means two parties, not Republican governors and Republican legislators deciding things. The outline of the agreement was forged in bi-partisan spirit. The Republicans' recent actions threaten that very bi-partisanship," said Gov. Lawton Chiles (D-Fla.). "Bi-partisanship means Democratic and Republican governors and Democratic and Republican members of Congress working together with the White House to pass a bill we can all support."

"Passage of Medicaid reform legislation this year will not be successful unless it is drafted, sponsored and passed in a bi-partisan way. There is more work to be done," said Gov. Roy Romer (D-Colo.).

-MORE-

**MEDICAID**

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"We have yet to agree to a final draft of the legislation, including specific language on a host of issues," said Gov. Chiles. "No Democratic governor, no Democratic member of Congress nor the President have seen the so-called 'Governors' Bill' in a final form."

"We are very disappointed the Republican leadership in Congress and the Republican governors chose a partisan setting today to comment on the 'work-in-progress' that is the NGA Medicaid proposal," said Gov. Romer. "Moreover, Democratic and Republican governors have not yet agreed that the passage of welfare and Medicaid should be linked."

"The nations governors were rightly praised when we agreed on an outline for Medicaid and welfare reform in February. It would be a shame if that praise turned to criticism because of a failure to work together," said Gov. Chiles.

Over the past several months, a task force of six governors have come together to negotiate on behalf of all the nation's governors with the Federal government on the issues of Medicaid and welfare reform. Those governors include Tommy Thompson (R-Wisc.), John Engler (R-Mich.), Michael Leavitt (R-Utah), Miller, Romer, and Chiles. The governors met as recently as last Tuesday in Chicago to iron out differences and talk about legislative strategy.

## RNC WELFARE AD IS WRONG

WR - Repubs.

The Republican National Committee is running a television advertisement on the issue of welfare reform in four markets. The RNC's ad is outstanding -- in its utter disregard for reality. President Clinton's 1996 Balanced Budget plan (Fiscal Year 1997) included comprehensive welfare reform legislation.

*RNC Statement:* "[President] Clinton, what he says and what he does are two different things. Case in Point. We have to end welfare as we know it. (President Clinton)' But he offered no plan, or legislation." (Emphasis added)

### THE FACTS:

#### 1996: President's Welfare Reform Plan.

President Clinton's 1996 Balanced Budget plan (Fiscal Year 1997) included comprehensive welfare reform legislation. Turn to page 69 of the President's Balanced Budget Plan (Fiscal Year 1997 Budget). The section is titled "Making Work Pay." The President's plan is outlined in these pages -- the legislation includes: tough work requirements; more funding for child care; incentives to reward States for placing people in jobs; strict time limits (a two year time limit on benefits and a five year lifetime limit); makes deadbeat parents pay child support; and other child protections (maintains the school lunch program, safeguards Medicaid coverage for poor children, and protects disabled children). [FY97 Budget Report]

#### 1994: Earlier Plan -- Work and Responsibility Act - 103rd Congress.

In 1994, President Clinton's Work and Responsibility Act was introduced both in the House and Senate (H.R. 4605 and S. 2224). Congress did not finish work on the legislation before the end of the 103rd. However, the child support enforcement provisions in the current Republican welfare reform plan were taken from the President's 1994 Work and Responsibility Act.

Throughout the 104th Congress, President Clinton and the Administration have been working closely with Democrats and Republicans to produce bipartisan welfare reform legislation.

#### 1993-1996: Executive Action: Accomplishing More Reform Than Congress.

At the beginning of President Clinton's Administration, he told the National Governors Association: "[W]e need to encourage experimentation in the states. I will say again what you know so well: There are many promising initiatives right now at the state and local level, and we will work with you to encourage that kind of experimentation." [2/2/93]

And the President has done exactly that. Over the past three years, the President has given 37 states the flexibility to initiate welfare reforms on their own -- more than any other Administration in history.

*RNC Statement:* "In fact, [President Clinton] vetoed welfare reform not once but twice."

### THE FACTS:

#### The GOP Welfare Plan is Not Strong Enough.

President Clinton vetoed the Republican welfare bills for a good reason. They did too little to move people from welfare to work and too little to protect children.

On Dec. 6, 1995, President Clinton vetoed Republican welfare reform which they also included in *their* budget plan (H.R. 2491). And on January 9, 1996, the President vetoed the GOP's Personal Responsibility Act (H.R. 4).

- **President Clinton Was Clear About Why H.R. 2491 Was Wrong:** *"Americans know we have to reform the broken welfare system, but cutting child care that helps mothers move from welfare to work, cutting help for abused and disabled children, cutting school lunch, that's not welfare reform. Real welfare reform should be tough on work and tough on responsibility, but not tough on children or tough on parents who are responsible and who want to work. We shouldn't lose this historic chance to end welfare as we know it by using the words 'welfare reform' as just another cover to violate our values."* [Remarks by President Clinton on His Veto of the Republican Reconciliation Bill, 12/6/95]
- **...And Again Stated Why Their Welfare Reform Conference Bill (H.R.4) Was Wrong:** President Clinton again stated his objections plainly: *"The current welfare system is broken and must be replaced, for the sake of the taxpayers who pay for it and the people who are trapped by it. But H.R. 4 does too little to move people from welfare to work. It is burdened with deep budget cuts and structural changes that fall short of real reform. I urge the Congress to work with me in good faith to produce a bipartisan welfare reform agreement that is tough on work and responsibility, but not tough on children and on parents who are responsible and who want to work."* [President's Letter to the House of Representatives Re: Veto of H.R. 4, 1/9/96]
- **Some Republicans Agreed With The President, Voted Against GOP Plan.** Some Republicans agreed with the President. Representatives Bunn (R-OR), Diaz-Balart (R-FL), Campbell (R-CA) and Rox-Lehtinen (R-FL) in the House and Senators Campbell (R-CO) and Hatfield (R-OR) voted against the GOP conference report.
- **All 50 Governors Said GOP Welfare Bill President Vetoed Needed Changes.** All of the nation's governors gathered in Washington in February 1996. And the one thing they agreed on? The GOP's welfare reform bill -- the one President Clinton vetoed -- needed to be improved.

**RNC Statement:** *"Clinton is blocking efforts to replace welfare with work ... and is preserving a system that rewards illegitimacy and dependency."*

## THE FACTS:

### President Clinton's Record.

- **WELFARE CASELOADS DOWN** -- Because he is working with the states while strengthening the economy, the President's actions have reduced welfare caseloads by 10 percent -- from 14.4 million to 12.9 million recipients.
- **FOOD STAMP ROLLS DOWN** -- Participation in the food stamp program has dropped by one million people (from October 1994 to October 1995) -- a savings of over \$800 million to taxpayers.
- **REQUIRING WORK** -- 9.9 million welfare recipients are now in households in which the parents are required to work or take more responsibility for their children and themselves.

*WR Republicans*

WELFARE REFORM  
RESPONSE TO REPUBLICANS

Suggested response to Republican critique of administration on welfare reform:

The President's Work and Responsibility Act is the smartest, most comprehensive plan ever drafted to change the nature of the welfare system:

**A comprehensive strategy to attack teen pregnancy**

- Grants to 1,000 schools and communities with high teen pregnancy rates to start teen pregnancy prevention programs
- A national campaign against teen pregnancy led by the President and supported by all sectors of society
- Requiring teen mothers on welfare to live at home, go to school and prepare for work to support their children

The Republican proposal to end all welfare for people under 21 is merely punitive and fails to work to address the underlying need to prevent teen pregnancies in the first place.

**The toughest child support enforcement program ever**

- Universal paternity establishment
- Strict enforcement of orders including wage withholding and suspension of licenses
- Simple, regular updating of child support awards
- *Requiring those who don't pay CS to work off what they owe*

The Republican proposal is neither as comprehensive or as tough.

**Real Work, Not Workfare**

- The administration proposes a program in which after two years people on welfare get jobs where they get paid for the hours they work

The Republican plan would have recipients continuing to get their welfare checks, requiring elaborate sanctioning processes to actually reduce benefits for those who do not work.

**Support for low-income hard-working Americans central to the Administration's welfare reform plan**

- The dramatic expansion of the Earned Income Tax Credit in 1993 ~~passed without a single Republican vote.~~ *will cut taxes for 15 million Amer and help thousands of people earn more from welfare to work.*
- The administration has been fighting for health insurance for all working Americans.

The Republican plan makes no effort to reward hard-working families who play by the rules but can't get ahead.

~~\*\*\*\*~~  
*Every single Republican in the House + Senate voted against the Admin's tax cut for working families.*

Answers to Republican charges:

**The Work and Responsibility Act is designed to reduce illegitimacy, not punish young single mothers**

- The Act funds school and community based teen pregnancy programs
- It funds programs to require parents to work to support their children and to provide them with the training and services to get that work
- Minor mothers can no longer establish their own households to get benefits (except in cases of abuse)
- States can limit welfare benefits for children born into families on welfare

[ The Republicans, in contrast, would simply punish young single mothers by denying them assistance.

*create more probs than they solve*  
The Clinton plan contains a real end to welfare

- Continued assistance under the Clinton plan is available to people who work hard and play by the rules and are willing to take available jobs. States are allowed to limit participation for those who live in areas where there are jobs that match their skills or who have been uncooperative with the requirements of the program.

The Republican plan would cut off families who work hard and play by the rules but live in areas where there are no jobs to match their skills.

*Dem. Record*

- \* *W*ivers
- \* EITC
- \* HC

*GOP had 12 yrs. It took BC to propose 2-yr time limit*

*Repubs.*  
*WR*

**PRESS CONFERENCE ON REPUBLICAN WELFARE REFORM**

Thursday, January 27, 1994 at 11:30am

Senators: Dole, Brown, D'Amato, Burns, and Hutchison

Dole: We want to get our plan out there, let the American people know we have one. Too many people need welfare. We agree with Sen. Moynihan, there is a crisis.

Brown: Generations have been blocked in poverty. This bill is to change the focus of welfare, help to get people out of poverty.  
Some provisions: repeals ineligibility of taking vacant jobs, makes clear illegal aliens are not eligible for welfare benefits, changes exemptions from work of those on welfare from 60% to 30%.  
Similarities w/ Clinton ideas: both have interest in upping the work requirement, both want to improve the enforcement of child support across state boundaries.  
Difference: The WH talks of a subsidy program to work for jobs. Our program allows one to take a voucher for food stamps and trade that for a job. The employer must pay the recipient at least double the value of the voucher. This benefits everyone. The employer gets a new employee to train. The employee gets a job as well as at least double the amount from the voucher. The government would have to spend the money on the vouchers anyway, but they also get the income from the taxes on the salary provided.

The House Bill has 162 cosponsors. We have 16 cosponsors on the Senate side. There are several additional provisions being worked on now, one is to increase the work requirement, another one is to deal with overall caps.

We haven't a cost estimate yet. CBO assigns a cost for every person who takes a job. Therefore, it costs more when it is more successful. If that is how CBO counts, we will have offsets.

D'Amato: I hope we can have a bipartisan effort. If not this exact bill, then atleast key components of it. I am going to look to enlist Sen. Moynihan.

D'Amato on the resignation of Heymann at the Justice Department:

I am not surprised that a man of Heymann's qualifications is resigning from working for someone who is only qualified for the original amateur hour. (mentions examples of Reno's performance in Waco, the appointment of special counsel, and Crown Heights). I don't have any confidence and I think the American people are losing confidence in this Justice Department. It should not be politicized but it has and that is why I'm not surprised someone like Heymann has resigned.

**The Cultural Policy Studies Project**

December 17, 1993

*WR -  
Republicans*

**PRESIDENT CLINTON'S COMMITMENT  
TO WELFARE REFORM:  
THE DISTURBING RECORD SO FAR**

**INTRODUCTION**

President Bill Clinton has promised to "end welfare as we know it," and his Administration is drawing up proposals for Congress which, the White House claims, will deliver on that promise. In making this bold commitment, the President acknowledges that the War on Poverty has failed. America today is spending seven times as much in constant dollars on means-tested welfare as it was when the War on Poverty started in 1965. Overall the U.S. taxpayers have spent \$5 trillion on welfare since Lyndon Johnson launched his "war," an amount greater than the cost of defeating Germany and Japan in World War II.

President Johnson declared his "war" would be a great investment which would return its cost to society manyfold, and the average American household has already "invested" around \$50,000 in taxes in fighting the War on Poverty. But in many respects the fate of lower-income Americans has become worse, not better, in the last quarter-century.

A key reason is that welfare has caused a collapse of the low-income family. Today, one child in eight is being raised on welfare through the Aid to Families with Dependent Children (AFDC) program. When the War on Poverty began, roughly one black child in four in the United States was born out of wedlock. Today two out of three black children are born out of wedlock. Rapid increases in illegitimacy are occurring among low-income whites as well; the illegitimate birth rate among low-income white high school drop outs is 48 percent. Overall 30 percent of children in the U.S. are now born to single mothers.

One reason why this trend is so destructive is that single-parent homes dependent on welfare are poor environments for raising children. Children brought up in such circumstances have limited prospects for succeeding in mainstream society. They are far more likely to fail in school. They are more likely to get caught up in crime. And they are more likely to end up on welfare themselves as adults. June O'Neill of Baruch College, in New

*Note: Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.*

tual ability by one-third when compared with nearly identical low-income children not on welfare.<sup>1</sup>

Single-parent families also impose staggering social costs on the communities around them. Young black men raised without fathers on average commit twice as much crime as young black men raised in similar low-income families with both a father and mother present.<sup>2</sup> The threat of violence that makes most Americans afraid to walk at night in major U.S. cities is a direct result of family disintegration engendered by the welfare state.

It is indeed, as the President maintains, vital to end welfare as we know it. The centerpiece of President Clinton's reform proposal does give the appearance of changing the system, at least in part. The President proposes to require those parents in the AFDC program who have received welfare for over two years to perform community service work (workfare) in exchange for continued AFDC benefits. However, despite the conservative rhetoric, the actions of the Clinton Administration during its first year in office have gone in exactly the opposite direction. The Clinton Administration has in fact sought to expand conventional welfare programs and to undermine existing work requirements for welfare recipients.

Specifically, the Clinton Administration thus far has:

**Proposed a huge increase in conventional welfare spending.** After promising to end welfare, the Clinton Administration in its first budget proposal asked for \$110 billion over five years in expanded spending for existing welfare programs, such as Food Stamps, the Women, Infants and Children Food Program (WIC), public housing, and energy assistance.

**Ignored funding for workfare.** Despite its pleas for an additional \$110 billion for conventional welfare spending, Clinton's proposed budget did not seek one extra dime for expanding workfare programs. But all experts agree that if the government is to require welfare recipients to work in exchange for benefits, extra funds must be provided to administer such work programs.<sup>3</sup>

**Postponed long-term work requirements.** By avoiding any real commitment to expanding workfare up to the present time, the Clinton Administration has ensured that its efforts to "end welfare as we know it" cannot even commence until fiscal year 1995. This very late start makes it unlikely that more than four or five percent of all parents enrolled in the AFDC program actually will be required to work in exchange for welfare benefits by the time President Clinton seeks re-election in 1996.

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- 1 M. Anne Hill and June O'Neill, "The Transmission of Cognitive Achievement Across Three Generations," paper prepared for the RAND Conference on Economic and Demographic Aspects of Intergenerational Relations, Santa Monica California, March 1992.
  - 2 M. Anne Hill and June O'Neill, *Underclass Behaviors in the United States: Measurement and Analysis of Determinants*, August 1993, research funded by Grant No. 88ASPE201A, U.S. Department of Health and Human Services
  - 3 Requiring large numbers of welfare recipients to perform community service work may reduce total welfare costs by encouraging welfare recipients to leave the rolls. However, even if this occurs, the amount of money specifically devoted to operating the work programs must be increased.

**Attempted to reduce current work requirements.** Far from promoting workfare programs, the Clinton Administration has spent most of 1993 seeking to undermine the few work requirements in existing law. It has even gone so far as to advise states to violate the current law in order to reduce the amount of work that welfare recipients would be required to perform.

The history of welfare is littered with the rhetoric of politicians who have claimed they were overhauling the system while little or nothing was changed. The Clinton Administration is perfectly poised to join in this venerable tradition. Even worse, despite passing references in a few speeches, Clinton seems determined to avoid serious policies dealing with the core welfare problem: how to reduce illegitimacy and encourage marriage.

## **LESSONS FROM THE PAST: THE LEGACY OF BOGUS REFORM**

The history of the U.S. welfare system is marked by a complete disconnect between political rhetoric and public policy reality. For instance, in launching the War on Poverty, President Lyndon Johnson confidently declared “the days of the dole are numbered.” But then he greatly expanded the number of welfare programs and the number of Americans receiving welfare.

Just five years ago, Americans were told that the welfare system had been dramatically overhauled with the passage of the Family Support Act of 1988. The public was told that most welfare recipients would be required to work in exchange for benefits. Senator Patrick Moynihan (D-NY) declared of the reforms, which he championed, “For 50 years the welfare system has been a maintenance program. It has now become a jobs program.”<sup>4</sup> Welfare spending, supporters said, would be dramatically trimmed as child support payments from absent fathers replaced government-funded welfare benefits for most single mothers. The claim was eerily similar to today’s declarations.

The 1988 reforms, it was alleged, would require millions of welfare mothers with young children to work. This claim had ramifications in other areas of public policy; over the next two years, it gave a major impetus to efforts to fund a national government day care system through the Act for Better Childcare. Proponents of this legislation argued that the 1988 welfare reforms demonstrated that the idea of mothers in general caring for children in the home was passé. Thus, a new government day care infrastructure would be required not only for the children of welfare mothers who would allegedly be sent to work, but also for children of the general population.

But in the five years since the 1988 “welfare overhaul,” the only noticeable change in the welfare system has been a dramatic surge in spending. Welfare spending by federal, state, and local governments in 1988 was \$217 billion—by 1992, spending had surged to \$305 billion (both figures are in constant 1992 dollars).

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<sup>4</sup> Bureau of National Affairs, Inc. *Daily Labor Report*, March 21, 1988.

Table 1

**Percentage of Adult AFDC Recipients Participating in  
Mandatory Job Search, Community Service Work, or Training: FY1992**

Alabama	7.2%	Montana	15.1%
Alaska	3.8%	Nebraska	31.5%
Arizona	2.8%	Nevada	9.0%
Arkansas	9.6%	New Hampshire	9.8%
California*	4.8%	New Jersey	8.9%
Colorado	11.1%	New Mexico	7.6%
Connecticut	14.6%	New York	6.8%
Delaware	8.0%	North Carolina	5.1%
District of Columbia	6.0%	North Dakota	13.0%
Florida	3.8%	Ohio	9.6%
Georgia	4.7%	Oklahoma	24.6%
Hawaii	0.7%	Oregon	10.4%
Idaho	8.4%	Pennsylvania	5.9%
Illinois	6.6%	Rhode Island	10.9%
Indiana*	1.2%	South Carolina	5.4%
Iowa	3.8%	South Dakota	8.6%
Kansas	9.2%	Tennessee	4.2%
Kentucky	5.1%	Texas	5.2%
Louisiana	4.0%	Utah	30.0%
Maine	5.2%	Vermont	7.4%
Maryland	4.6%	Virginia	6.7%
Massachusetts	16.5%	Washington	11.2%
Michigan*	6.9%	West Virginia	6.9%
Minnesota	5.1%	Wisconsin	18.1%
Mississippi	2.5%	Wyoming	11.7%
Missouri	3.8%	<b>Nationwide Average</b>	<b>6.9%</b>

**Source:** Office of Family Assistance, Department of Health and Human Services. All data are monthly averages of recipients who participated in programs more than 20 hours per week.

\*—data represent participants as percentage of full AFDC caseload for 1991.

While Americans were told that the 1988 reforms required most welfare recipients to work for benefits, by 1992 only one percent of all AFDC parents were actually required to perform community service work (workfare) in exchange for welfare assistance.<sup>5</sup> A slightly greater number were required to search for a job or undertake training. Overall, as table 1 shows, during the average month in 1992, only 6.9 percent of AFDC parents were required to work, search for a job, or participate in education and training for more than 20 hours per week.

When pressed to explain the dismal results of the 1988 legislation, the conventional excuse is a shortage of funding for the Job Opportunities and Basic Skills (JOBS) program contained in the Act. Under the provisions of the legislation, this program operates workfare, job search, and training activities for welfare recipients. This convenient explanation is misleading, however. The real problem of the 1988 reforms was that very few AFDC recipients were in fact required to participate in any JOBS activity. Since the Act required only six percent of the AFDC caseload to participate in job search, training, or community service work, most states met these requirements using only part of the allocated federal JOBS funds.<sup>6</sup> There was a shortage of requirements, not a shortage of money.

Significantly, Congress poured billions of dollars into expanding the coverage of conventional welfare programs after passing the Family Support Act.<sup>7</sup> Since 1988, expansions in Medicaid and housing programs alone would have been far more than sufficient to fund work programs for all AFDC parents. The simple fact is that Congress, after telling the American public that it was going to require welfare recipients to work for their benefits, did everything but that. What Congress actually did was to limit workfare programs while expanding conventional welfare dramatically.

Congress has followed the traditional pattern in welfare policy over the last five years. Lawmakers talk tough about workfare, but Congress keeps the actual number of recipients who are required to work as low as possible, and expands spending on conventional welfare programs. Unfortunately, during its first year in office, the Clinton Administration has shown every indication that it intends to follow this well-worn path.

### **Clinton's Reform Rhetoric**

As candidate and as President, Bill Clinton has spoken often about the need to reform welfare. At times his rhetoric has been stirring; in *Putting People First: How We Can All Change America*, Clinton pledged to "honor and reward people who work hard and play by the rules." Welfare reform, and more specifically his pledge to "end welfare as we know it" was invoked often and with great effect during the campaign, and played a key role in Clinton's strategy of portraying himself as a "New Democrat."

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- 5 These figures represent the total number of AFDC recipients who were required to work in a given month, not merely the additional number who were required to work as a result of the 1988 act.
  - 6 There is a specific cap for federal JOBS funding for each state; below this cap, federal funds equal a percentage of the state's spending on JOBS.
  - 7 Part of the apparent shortage of state funding after 1988 was due to the vast amounts of state money required to pay for the expansions in Medicaid coverage mandated by the federal government.

The centerpiece of President Clinton's reform proposal is to end welfare as a long-term one-way hand-out. Adult welfare recipients in the AFDC program would receive normal welfare for only two years. If they remained on welfare for over two years they would be required to perform community service work in exchange for benefits. In *Putting People First*, which laid the foundation for recent policy pronouncements, Clinton states the government should:

After two years, require those who can work to go to work, either in the private sector or in community service: [the government should] provide placement assistance to help everyone find a job, and give the people who can't find one a dignified and meaningful community service job.<sup>8</sup>

With this statement, Clinton adopted rhetorically the workfare policy advocated by Ronald Reagan and other conservatives for over twenty years, but opposed by liberal majorities in Congress.

Yet Clinton's proposal was not limited to creating new responsibilities for welfare recipients. In addition to the "stick" of required work, he proposed new "carrots" or incentives to "honor and reward those who work hard and play by the rules." These incentives include an expansion of the Earned Income Tax Credit (EITC) and government-funded health care for low-income working parents.

Earlier this year, in an address to the National Governors Association, Clinton repeated his "carrots and sticks" theme of welfare reform. "We must provide people on welfare with more opportunities for job training," he declared, "with the assurance that they will receive the health care and child care they need when they go to work, and with all the opportunities they need to become self-sufficient. But then we have to ask them to make the most of these opportunities and to take a job."<sup>9</sup>

While Clinton's rhetorical commitment to requiring welfare recipients to work and to rewarding families who strive to be self-sufficient is commendable, it is also strangely limited. Despite having an entire chapter devoted to children and another to the family, *Putting People First* never mentions illegitimacy or marriage.<sup>10</sup> By ignoring the need to reduce illegitimacy and to promote marriage Clinton evades the core problem of the welfare state and the root of many of America's social problems.<sup>11</sup> Insisting that welfare

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8 Governor Bill Clinton and Senator Al Gore, *Putting People First: How We Can All Change America* (USA: Times Books, 1992), p. 165.

9 William J. Clinton, "Remarks to the National Governors Association," February 2, 1993, *Weekly Compilation of Presidential Documents*, Monday February 8, 1993, Volume 29-Number 5, pp. 125-128.

10 In a speech on November 13, 1993, in Memphis, Tennessee, President Clinton finally did acknowledge that family disintegration was a major cause of crime in the inner city. However, the President made no linkage between illegitimacy and welfare, and his speech, while containing many policy proposals, contained none to reduce illegitimacy or promote marriage.

11 One surprising side effect of serious work requirements for single AFDC mothers is that the policy would, perhaps unintentionally, reduce the number of illegitimate births. Welfare serves as an alternative to work and marriage; placing work requirements on single mothers on AFDC reduces the economic utility of welfare. Thus serious work requirements would encourage women to sidestep the trap of welfare dependence by avoiding having children out of wedlock in the first place. Work requirements would also increase the marriage rate of those on welfare. However, work requirements are not a sufficient strategy for reducing illegitimacy. And it is clear that the Clinton Administration has not developed its workfare

mothers work at community service jobs will do little to reduce welfare costs or to improve society as long as the illegitimate birth rate remains at 30 percent and rising.

## **THE CLINTON RECORD TO DATE**

As disturbing as the lack of commitment to tackling illegitimacy is the widening chasm between Clinton's welfare reform rhetoric and his actions. The record thus far suggests that Bill Clinton intends to deliver on all of the "carrots" of welfare reform, such as expanding the Earned Income Tax Credit, and providing government-funded health care to millions of Americans, but deliver on few or none of the "sticks," such as work and personal accountability.

### **A Disturbing Appointment**

In his first concrete action on the welfare reform front, President Clinton appointed Donna Shalala as head of the Department of Health and Human Services (HHS). The choice was odd because Shalala had served for years on the Board of Directors of the Children's Defense Fund, a Washington-based organization which has taken the lead in opposing work requirements for welfare recipients. Shalala actually served at the Children's Defense Fund during a period when the organization opposed the minuscule work and job search requirements in the 1988 Family Support Act. In her lengthy confirmation testimony Shalala mentioned welfare reform in only one vague sentence. Upbraided by Senator Moynihan for her lack of interest in reform, Shalala promised merely to create yet another task force to look into reform.

### **Revealing Budget Proposals**

An even greater disappointment to those who trusted in Clinton's promise to "end welfare" was the President's proposed budget submitted in the spring of 1993. The President's budget asked for \$110 billion in expanded welfare spending over the next five years. Welfare spending was already projected to grow at a baseline rate of roughly 50 percent over five years, before the proposed spending increases. Thus Clinton was proposing \$110 billion in new spending above an already rapidly expanding baseline.

True, some \$26 billion of this new welfare spending was to expand the Earned Income Tax Credit. By supplementing the earnings of low-wage working parents, the EITC does help to "make work pay" relative to welfare. It is one of Clinton's "carrots" to reward constructive behavior and should be considered part of his welfare reform package. But the other spending increases sought by Clinton were largely for conventional welfare programs invented in the earlier years of the War on Poverty: Food Stamps, public housing, energy aid, community development grants, and Head Start, among others. A complete list of Clinton's proposed welfare spending increases is included in the Appendix.

Some might attempt to justify this expansion of conventional welfare programs on the grounds that welfare was cut back during the Reagan and Bush years. In reality, federal, state, and local welfare spending (measured in constant 1992 dollars) grew by more than 50 percent in the Reagan-Bush period, rising from \$195 billion in 1980 to \$305 billion in

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proposals with this objective in mind.

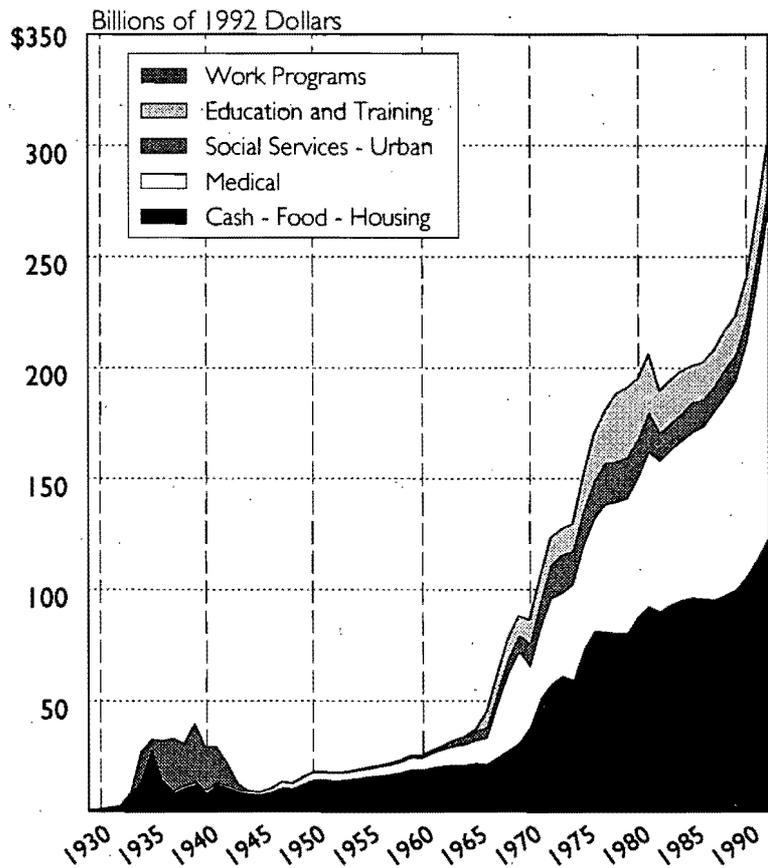
1992. And as a percentage of GNP, welfare spending climbed from 4.2 percent when Ronald Reagan took office to 5.2 percent when George Bush left. So the claimed "reduction" of funding during this period cannot justify Clinton's proposed increases.

### No Workfare Funding

Still, the dramatic spending increases for conventional welfare proposed by Clinton are only part of the picture. The most devastating fact about Clinton's budget is that the \$110 billion in proposed new welfare spending did not contain one thin dime for expanding workfare. If large numbers of welfare recipients are to be required to work, total welfare costs may fall as recipients leave the rolls, but the amount of money specifically devoted to operating work programs must be greatly increased. The funds for administering workfare for welfare recipients are currently included under the JOBS program created by the Family Support Act of 1988. In his address to the National Governors Association in February, Clinton said that the JOBS program had been highly successful but had been hampered by a lack of funds. However, his budget released a few weeks later contained no increase in JOBS/workfare funding.

Some might argue that Clinton could not increase workfare funding until all the details of his welfare reform could be worked out. But when Clinton ultimately unveils his reform, it will contain work programs similar to the workfare program (Community Work Experience program) which exists in current law and is already operated on a small scale as part of JOBS. If the intent is to "end welfare as we know it" the Clinton Administration should have begun by vastly increasing as soon as possible the number of recipients required to participate in existing workfare programs. It was not necessary to wait until every detail of its final workfare plan had been developed. It is also worth noting that the

## U.S. Welfare Spending: 1929-1992



Source: Heritage calculations based on U.S. government data.

Heritage DataChart

Clinton budget contained emergency funding requests for other initiatives such as National Service, even though the details of those programs had not been worked out.

If the Clinton Administration was serious in its plan to require workfare, it would have asked for supplemental appropriations for workfare in 1993 and, say, a quadrupling of JOBS funding for 1994. Instead Clinton sought aggressively to expand conventional welfare not workfare. The money for the proposed expansion of the Food Stamp program alone could have quadrupled future funding for JOBS/workfare.<sup>12</sup> By procrastinating on its commitment to workfare, the Clinton Administration ensured that its campaign to end welfare would not even begin until Fiscal Year 1995.

While not all the President's spending initiatives were approved by Congress, the proposed budget presents a dramatic statement of presidential priorities. The message is clear. The President has promised a welfare reform of both carrots (positive incentives for constructive behavior) *and* sticks (sanctions or limits on negative behavior). Following the pattern which has become almost habitual, the carrots have appeared promptly but the stick is nowhere in sight.

The Administration's budget story has a final hypocritical twist. A few months after Clinton proposed \$110 billion in increased spending, mainly for conventional welfare programs, Clinton political appointees at HHS began suggesting that it might be necessary to scale back Clinton's welfare reform plan because the government lacked funds to pay for it.<sup>13</sup> Thus Clinton appointees sought to build a case for reneging on Clinton's workfare policy by citing a lack of funds at the same time the Administration was proposing vast increases in conventional welfare spending.

### **The War Against Workfare**

The Clinton Administration has not merely ignored its commitment to workfare; it has actually spent most of 1993 attempting to roll back existing work requirements.

Under the 1988 Family Support Act, only one group of welfare recipients was actually required to work in exchange for benefits. That group was fathers in two-parent families receiving benefits from the Aid to Families with Dependent Children-Unemployed Parent (AFDC-UP) program. According to the Family Support Act, fathers in AFDC-UP families would be required to work in community service programs for sixteen hours per week. Congress limited this requirement to only 40 percent of AFDC-UP fathers and postponed the effective date of the work requirement until FY 1994. Note the minimal nature of this requirement: two-parent AFDC-UP families are 9 percent of the AFDC caseload, so 40 percent of 9 percent means only 3.6 percent of the total AFDC caseload faced a real work requirement. Even that requirement to work for a few hours per week was delayed until FY 1994, six years after the Act's passage.

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<sup>12</sup> Federal JOBS funding in future years is capped at roughly one billion per annum under current law. Clinton's proposed expansions to the Food Stamp program were \$2 billion in FY1995 and \$3 billion in each subsequent year. JOBS funding totals are from Congressional Budget Office, *August 1993 Baseline*, p. 290. Figures on the proposed Food Stamp expansion are provided in Executive Office of the President, *A Vision of Change for America*, February 17, 1993, p.137.

<sup>13</sup> Jason DeParle, "Clinton Aides See Problem with Vow to Limit Welfare," *The New York Times*, June 21, 1993, p. A1.

The Clinton Administration's actions with regard to this minimal work requirement have been unequivocal—it has repeatedly attacked it. During the debate on the Omnibus Budget Reconciliation Act, the Clinton Administration sought to postpone the AFDC-UP work requirement effective date from FY 1994 to FY 1996.<sup>14</sup> Since all the work provisions of the AFDC program undoubtedly will be completely rewritten before 1996, the Clinton Administration effectively was proposing to kill the only real work provision in existing law.<sup>15</sup> The Administration claimed lamely that it was trying to postpone work requirements on AFDC-UP fathers because there were no funds to operate such workfare programs. Even assuming this dubious argument is correct, there were no funds to implement these workfare programs in FY 1994 precisely because the Clinton Administration requested none.

While the House of Representatives went along with Clinton's plan to roll back the AFDC-UP work requirements during the congressional debate on the budget, the Senate rebelled at this effort to gut the only work requirement in existing law. Led by Senator Moynihan, the Senate rejected the Clinton plan. The Senate then prevailed over the House in conference and the modest AFDC-UP work requirements were maintained unchanged.

After the Clinton Administration failed in its legislative efforts to eliminate work requirements for AFDC-UP fathers, it adopted a back-door strategy: If it could not wipe out the law, the Administration proposed to neuter it by permitting and encouraging an open violation of the law by state governments. This September, a few days before the AFDC work requirements were to take effect, Clinton's HHS issued a new regulation which greatly weakened the requirements.<sup>16</sup> Whereas the law requires participating AFDC-UP fathers to perform community service work at least sixteen hours per week, the Clinton regulations cut this to only eight hours per week.<sup>17</sup>

Since these proposed regulations deliberately and clearly violated the law, they drew a firestorm of protest. Among the critics, Senator Alfonse D'Amato (R-NY) declared, "Now that they can't delay any longer, the Administration is trying to water down these requirements. It is clear that this Administration is evading welfare reform."<sup>18</sup> Faced

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14 David E. Rosenbaum, "Delay Sought in Law Meant to Trim Welfare Rolls," *The New York Times*, May 5, 1993, p. B9.

15 The Clinton Administration has attempted to justify its attempts to weaken the AFDC-UP work requirement by arguing that the number of AFDC-UP parents who were required to work was technically a subset of the total number of welfare parents (both AFDC and AFDC-UP) who were required to participate in the JOBS program. Thus even if the AFDC-UP work requirements were abolished, the combined total of AFDC and AFDC-UP parents who would be required to participate in the JOBS program would not be affected. But the JOBS program is not a work program; state governments have the option to put JOBS participants in less demanding training and "job search" activities. As a result few participants in JOBS actually work for benefits. By contrast the AFDC-UP work program, which the Clinton administration sought to abolish, actually requires, for the first time, a definite number welfare parents to work for their benefits. By "postponing" the AFDC-UP work requirement, the Clinton administration would have permitted states to put recipients in much less demanding "job search" programs rather than real work programs. The bottom line is simple: the Clinton administration sought to do away with the only provision in current law that makes even a tiny number of welfare recipients actually work.

16 The AFDC-UP work requirements were scheduled to take effect at the beginning of fiscal year 1994, which commenced October 1, 1993.

17 "Clinton Backs Away from Plan to Weaken Welfare Work Rules," *The Wall Street Journal*, September 27, 1993.

with vocal opposition in the Senate and press articles calling attention to the contradiction between Clinton's rhetoric and policy, HHS quickly rescinded its regulations.

### State Experimentation and Waivers

The only area of the Clinton record that suggests even the slightest momentum toward genuine reform has been waivers granted to state governments. In keeping with his "New Democrat" theme, President Clinton has acknowledged that all wisdom may not reside in Washington, D.C. He has thus proposed to foster state experimentation in welfare policy by granting state governments waivers from federal law in operating some welfare programs.<sup>19</sup>

In addressing the National Governors Association, President Clinton repeated his campaign pledge to promote state experimentation:

We need to encourage experimentation in the states...I do not want the Federal Government, in pushing welfare reforms based on [my] general principles, to rob [state governors] of the ability to do more, to do different things.... My view is that we ought to give you more elbow room to experiment.<sup>20</sup>

Clinton explained that serious support for experimentation must permit the states to undertake initiatives which go beyond federal reform policies and do things which he, the President, might not personally approve of. In order to foster experimentation, he pledged to "approve waivers of experiments that I did not necessarily agree with....If we didn't disagree on anything, what would be the need for experiments? That is the nature of the experiment, is that one person has an idea different from another person."<sup>21</sup>

However, to date, few of the waiver requests submitted to the Clinton Administration have proposed significant reforms. The key exception was the waiver request submitted by Wisconsin Governor Tommy Thompson for an experiment in two counties. In those counties, the Governor planned to convert the AFDC program into a program of temporary aid. AFDC recipients could receive benefits for two years, after which their AFDC benefits would be terminated. In contrast to President Clinton's national reform proposal, Thompson's experimental plan did not guarantee community service jobs to those who stayed on welfare over two years.

The response of Clinton's HHS was predictable. Despite the President's explicit pledge to grant waivers for policies he did not fully agree with, HHS attempted to crush the Wisconsin waiver request. HHS demanded that the Governor eviscerate his proposal by guaranteeing all AFDC recipients who remained on AFDC over two years the right to

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18 *Ibid.*

19 Contrary to common conceptions the U.S. welfare system is almost totally federal, consisting of over 75 federal programs. State governments merely contribute funds to these federal programs and operate them subject to federal law and regulation. At the request of a state government, the federal government may "waive" federal law and regulation governing a particular welfare program within the state in order to permit policy experimentation.

20 Clinton, *op. cit.*

21 *Ibid.*

community service jobs. This would have converted the Thompson proposal from a unique experiment into a mere clone of what Clinton was proposing to do nationally.

Governor Thompson refused to yield to HHS pressure. HHS then sought to cripple the proposal by requiring the Wisconsin government to entangle itself in thousands of dollars of "due process" litigation each time an AFDC case was actually terminated. Despite months of resistance, it was HHS rather than Thompson that finally buckled, and the waiver request was granted without crippling modifications.

The Wisconsin waiver will initiate a bold experiment, but its scope is limited. The experiment is restricted to only two counties and does not begin until January 1995. Welfare benefits will not be terminated for any recipients until two years later, in January 1997.

Reviewing the overall record of the Administration, the lesson is plain. The Clinton record on workfare has been a disaster. After campaigning on the theme of "ending welfare" and requiring welfare recipients to work, Clinton has expanded conventional welfare spending, requested no funds for workfare, and sought to abolish the only real work requirement in existing law. This is scarcely an auspicious start for "ending welfare as we know it."

## **PRINCIPLES OF REAL REFORM**

The welfare system desperately needs reform. Real reform would convert welfare from a one way hand-out into a system of mutual responsibility in which welfare recipients would be given aid but would be expected to contribute something back to society for assistance given. A reformed system also must strongly discourage dependency and irresponsible behavior and encourage constructive behavior. It must firmly control soaring welfare costs, which are slowly bankrupting the nation. Finally, and most important, welfare reform must seek to reduce the illegitimate birth rate in the U.S. and promote the formation of stable two-parent families. Any "reform" which does not dramatically reduce the illegitimate birth rate will not save money and will fail to truly help America's children and society.

With these objectives in mind, real reform must be based on the following eight principles:

### **1) Establish serious workfare requirements.**

The key to successful workfare is the number of welfare recipients who are required to participate. Following the pattern of the 1988 reforms, it is likely that the Clinton plan will be quite complex, appearing to require large numbers of recipients to perform community service work when in reality few are. Real reform would require all fathers in the AFDC-UP program to perform community service work forty hours per week in 1994. It would also require able-bodied single persons in the Food Stamp program to work. And it should require half of all single mothers on AFDC to perform community work service for benefits by 1996.

## **2) Establish sensible workfare priorities.**

Workfare programs should be efficient and low-cost. Workfare should be established first for those persons who have the least justification for being out of the labor force. Therefore workfare requirements should be imposed initially on able-bodied, non-elderly single persons on welfare, followed by fathers in two-parent families on welfare and absent fathers who fail to pay child support. After workfare has been put in operation for these groups, those single mothers on AFDC who do *not* have pre-school children should be required to work.<sup>22</sup>

High day care expenses mean that putting a single mother with a young child to work in a community service work program costs roughly two to three times as much as requiring a mother with older child to work. Because work programs inevitably operate within fixed budgets, an emphasis on workfare participation by mothers with younger children leads to a sharp reduction in the total number of persons who will be required to work. One little-understood aspect of the workfare debate is that liberals often attempt to focus workfare programs on mothers with very young children precisely because they understand this will quickly soak up available funds and thereby limit the number of recipients required to participate. Liberal welfare advocates also would like to undermine the general concept of workfare by showing that all workfare programs cost more than they save—so they promote the least cost-effective workfare programs (namely, those with a heavy emphasis on mothers with young children).

About half of AFDC single mothers do not have any pre-school children under age five. Workfare should be imposed on single mothers with younger children under five only after most mothers with older children have been required to work. However, if an AFDC mother gave birth to an additional child after her initial enrollment in AFDC, that child should not exempt her from work requirements. (This rule is needed to prevent mothers from having additional children to escape the work requirement.)

## **3) Limit welfare given to unwed teen mothers.**

By paying young women to have children out of wedlock, the current welfare system encourages them in a course of action that, in the long term, proves self-defeating to the mothers and harmful to both the children and society. Placing millions of single mothers in work and training programs will have little positive effect for society as long as the illegitimate birth rate remains over 30 percent.

Congress must go to the heart of the dependency problem by seeking to reduce the number of illegitimate births. It has been a tragic mistake for the government to pay money to fourteen-year-old girls on the condition that they have children out of wedlock. The government should begin to address the illegitimacy problem by ending the disastrous present policy of giving AFDC cash payments to unmarried teen mothers.

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<sup>22</sup> There should be no blanket two-year exemption from work requirements. Work requirements which are imposed when a recipient first enrolls in welfare are likely to have the strongest possible effect in reducing welfare rolls because they dissuade individuals from enrolling in welfare in the first place. Thus serious work requirements mandated at the time of initial welfare enrollment are likely to be the most cost-effective workfare programs.

As *Washington Post* journalist Leon Dash has shown in his book *When Children Want Children*, most unmarried teen mothers both conceive and deliver their babies deliberately rather than accidentally.<sup>23</sup> While young women do not bear unwanted children in order to gain a welfare income, they are very much aware of the role which welfare will play in supporting them once a child is born. Thus, the availability of welfare bolsters the decision to become pregnant. Refusing to pay young unwed mothers direct cash benefits would certainly result in a sharp and substantial drop in teen illegitimacy.<sup>24</sup>

Those federal AFDC funds, which currently are given directly to unwed mothers under age 21 should be converted into block grants to the states. State governments could use the funds to develop innovative new policies for assisting those teenagers who continue to have children out of wedlock. Such policies could include supporting the mothers in tightly supervised group homes or promoting adoption. But federal funds could no longer be used to simply give cash welfare to teen mothers.

#### **4) Do not provide increased AFDC and Food Stamp benefits to mothers who bear additional children while already enrolled in the AFDC program.**

Under the current system, if a mother enrolled in AFDC bears additional children she receives an automatic increase in her AFDC and Food Stamp benefits. No other family in U.S. society receives an automatic increase in its family income if it has more children. There is no reason to provide expanded welfare benefits to single mothers who have additional illegitimate children after they are already dependent on welfare.

A limitation of this sort has already been put in effect in the state of New Jersey by black Democratic Assemblyman Wayne Bryant. Although available evidence is limited, early data suggest that the policy will significantly reduce the number of out-of-wedlock births. State officials call attention to a 16 percent drop in births among welfare recipients in the first two months following the change in policy.<sup>25</sup>

#### **5) Require paternity establishment for children receiving AFDC.**

Current law requires that an AFDC mother must make a "good faith" effort to identify the father of the child in order to receive AFDC. This law is routinely ignored. The government should require, for children born after January 1994, that the mother

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23 Leon Dash, *When Children Want Children: An Inside Look at the Crisis of Teenage Parenthood*, Penguin Books, 1989.

24 There is clear evidence that welfare affects the illegitimate birth rate. For example, Dr. June O'Neill found the dollar value of monthly welfare benefits in a state has a dramatic affect on whether women will have children out of wedlock. Holding constant a wide range of other variables such as income, parental education, and urban and neighborhood setting, O'Neill found that a 50 percent increase in the monthly value of AFDC and Food Stamp benefits led to a 43 percent increase in the number of out of wedlock births over the study period. The study also found that higher welfare benefits increased the number of women who left the labor force and enrolled in welfare. A 50 percent increase in monthly AFDC and Food Stamp benefit levels led to a 75 percent increase both in the number of women enrolling in AFDC and in the number of years spent on AFDC. In other words increases in benefits' value will cause dramatic expansion in welfare caseloads. Source: M. Anne Hill and June O'Neill, *Underclass Behaviors in the United States: Measurement and Analysis of Determinants*, August 1993, research funded by Grant No. 88ASPE201A, U.S. Department of Health and Human Services.

25 Kimberly J. McLarin, "Trenton Welfare Changes Being Felt," *The New York Times*, December 5, 1993 pp. 49,56.

identify the father of the child in order to receive AFDC, public housing, or Food Stamps.<sup>26</sup> Exceptions to this rule in a few hardship cases could be given but the exceptions should not exceed 10 percent.

Modern DNA testing permits government officials to determine the child's real father with absolute confidence. Once the mother has identified the father and paternity has been established, the father can be required to pay child support to offset welfare costs. If the child support paid does not equal half the cost of the AFDC and Food Stamps received by the mother and child, the remainder should become a debt which the father must repay at a future point.

If the father claims he cannot pay any child support because he cannot find a job, the government should require community service work from him to fulfill his obligation. Experiments with this approach in Wisconsin have led to surprising improvements in the ability of absent fathers to locate private sector employment and pay child support. Moreover, the definite expectation among young men that they will be identified as fathers and required to pay child support for their children may put an end to the ethos in some communities where young men assert their masculinity by fathering children they have no intention to support.

#### **6) Reduce welfare's marriage penalty.**

The current welfare system heavily penalizes marriage between a mother and a working man. This marriage penalty should be reduced by creating a tax credit for lower-income parents who are married and who are working rather than living on welfare.

#### **7) Provide increased funding for abstinence education.**

Scientific experiments have shown that strong sexual abstinence curricula substantially change teenagers' attitudes toward early sexual activity. Among girls taking abstinence courses, pregnancy rates have been reduced by over 40 percent when compared with girls who have not taken the sex abstinence classes.<sup>27</sup> By contrast, programs promoting contraception may increase pregnancy rates.

#### **8) Cap the growth of welfare spending.**

No matter how frequently official Washington proposes to "end welfare," the costs of welfare continue to rise. Welfare absorbed about 1.5 percent of GNP when Lyndon Johnson launched the War on Poverty in 1965; it had risen to over 5 percent by 1992. With a \$305 billion price tag, welfare spending now amounts to \$8,300 for each poor person in the U.S. Worse still, Congressional Budget Office figures project total welfare costs to rise to half a trillion dollars, or about 6 percent of GNP, by 1998.<sup>28</sup> Pre-

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<sup>26</sup> For children born years ago it often is impossible to locate the father. The paternity establishment rule should therefore be applied prospectively: the mother should be required to establish paternity in order to receive welfare for children born in 1994 and after.

<sup>27</sup> U.S. Department of Health and Human Services, Office of Adolescent Pregnancy Programs, *Final Report O.A.P.P. #000816-05, 1985-1990*, p. 8.

<sup>28</sup> These figures represent estimated federal, state and local spending on means-tested welfare programs and aid to

dictably, the Clinton Administration maintains that half a trillion dollars is not enough; "ending welfare" for the Clinton Administration means adding on even more spending.

The long history of bogus welfare reforms, all of which were promised to save money but did not, leads to one obvious conclusion. The only way to limit the growth of welfare spending is to do just that: limit the growth of welfare spending. The welfare system must be put on a diet. The future growth of federal means-tested welfare spending should be capped at, say, 3.5 percent per annum.<sup>29</sup> Individual programs would be permitted to grow at greater than or less than 3.5 percent according to congressional priorities, provided aggregate spending fell within the 3.5 percent ceiling. By slowing the outpour from the federal welfare spigot, the cap gradually would reduce the subsidization of dysfunctional behavior: dependency, non-work, and illegitimacy. The cap also would send a warning signal to state welfare bureaucracies. Cushioned by a steady and increasing flow of federal funds in the past, most bureaucracies have found no need to grapple with the tough and controversial policies needed to really reduce illegitimacy and dependency. With a cap on future federal funds, state governments would, for the first time, be forced to adopt innovative and aggressive policies which would reduce the welfare rolls.

## CONCLUSION: THE COMING BOGUS REFORM

Clinton's promise to "end welfare as we know it" was a focal point of his 1992 election campaign. Clinton aides admit that welfare reform is pivotal to Clinton's effort to define himself as a "New Democrat." By claiming that he will require welfare recipients to work for the benefits they get, Clinton has seized a very popular issue; nearly 90 percent of the public believe that able-bodied welfare recipients should be required to "do work for their welfare checks."<sup>30</sup>

But Clinton's actions in his first year in office indicate strongly that he intends to expand rather than end welfare. While Clinton no doubt will boldly embrace the symbols of reform, there is very little indication that he will actually seek substantial changes in the current system. All the evidence suggests that Clinton will duplicate the meaningless welfare reform debate of 1988. As in 1988, the public again will be told that America has achieved a revolutionary change in welfare when in fact little or nothing has been altered.

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economically disadvantaged communities. The Congressional Budget Office estimates only future federal spending. Future state and local spending figures were estimated separately by assuming that the ratio of federal spending to state and local spending on specific programs would remain unchanged. This is a reasonable assumption since the required state contribution to most federal welfare programs is legislatively established at a fixed percentage of federal spending on that program. These percentages change little over time.

<sup>29</sup> Medicaid could be exempted from the cap.

<sup>30</sup> For example, a Gallup poll conducted between March 30 and April 5, 1992 found that 88 percent of adults polled favored "a law requiring all able-bodied people on welfare, including women with pre-school children to do work for their welfare checks." Many polls by other organizations show almost identical results.

Using the 1988 reform and the first year Clinton record as prognosticators, it seems likely that President Clinton will propose a new round of bogus reform which will have the following features:

- ✓ Any proposed legislation will have tough language about requiring work, but the actual work provisions will be technical and complex. Few on Capitol Hill will read and understand them.
- ✓ While the Administration will claim that vast numbers of welfare recipients will be required to perform community service work under its proposed legislation, few will actually be required to work. The percentage of AFDC recipients who are actually required to perform community work service work will probably be under 10 percent in 1996.
- ✓ The workfare programs established will be inefficient and unnecessarily expensive. The costs of operating these programs will exceed any savings they achieve by encouraging welfare recipients to leave the rolls. The Clinton Administration will claim vaguely that the programs will save money "in the long run."
- ✓ The Clinton Administration will call for a heavy new investment in education and training programs for welfare recipients despite the compelling evidence that such programs are ineffective in raising the wage rates of welfare recipients.
- ✓ The false notion that huge numbers of welfare mothers have been required to work will be used to justify creating a federal day care system for middle class families.
- ✓ The central problem of high illegitimacy rates will rarely be mentioned; no effective policies to reduce illegitimacy and promote marriage will be adopted.
- ✓ Means-tested welfare spending will continue to soar after the "reforms" and will almost certainly top \$500 billion by 1998.
- ✓ The entire Clinton reform will be swaddled in tough, conservative rhetoric.

The bogus welfare reform of 1988 simply perpetuated a social disaster. By creating a facade of illusory change, the 1988 Family Support Act stalled serious reform efforts for a half decade. Accumulating evidence indicates the 1988 process is about to be repeated.

But American society cannot afford another round of bogus welfare reform. The welfare state is out of control and growing rapidly. Insidiously, welfare creates its own clientele; by undermining work ethic and family structure, the welfare state generates a growing population in "need of aid." This is why welfare spending has risen from 1.5 percent of GNP when Lyndon Johnson launched the War on Poverty in 1965 to 5 percent today. Spending will rise to 6 percent of GNP within few years, and there is no end in sight. Moreover, by promoting illegitimacy and family disintegration, welfare is a leading cause of crime and other social problems.

The only way to end this expensive and destructive pattern is to enact true reform—reform that controls costs, reduces dependency, and above all, reduces illegitimacy.

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David Kuo assisted in preparing this study.

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# APPENDIX

## Proposed Expansions for Welfare Programs from "A Vision for Change for America" The Clinton Administration Budget Proposal, FY 1994

The following is a list of spending increases in means-tested welfare programs and related programs for low-income persons and communities proposed by the Clinton Administration in its initial budget submitted to Congress on February 17th of this year. While not all of these spending increases were enacted by Congress, the list does give a clear indication of the priorities of the Clinton Administration.

All figures are taken directly from the Appendix to the President's budget summary, *A Vision of Change for America*.<sup>31</sup> Most figures represent proposed spending increases over a five-year period from fiscal year 1994 through fiscal year 1998. However, "Summer of Opportunity" figures generally represent short-term spending initiatives of one or two years. Some programs are listed more than once in the budget, receiving multiple increases from separate initiatives. For example, the Clinton Administration proposed to increase WIC funding as part of the "Summer of Opportunity" and again as part of "Life-long Learning." In these cases, the total proposed increase for the program is the sum of all the increases listed separately in the budget.

### Proposed Increases in the FY 1994 Budget Request

#### "Summer of Opportunity"

WIC Supplemental Feeding Program: Expand food benefits to women and children.	<b>Cost: \$75 million</b>
Emergency Food Assistance Program: Provide added federal money to purchase food for food banks.	<b>Cost: \$23 million</b>
Chapter 1, Summer School Program: Expand funding for summer school programs for children in poor neighborhoods.	<b>Cost: \$500 million</b>
Chapter 1, Census Supplemental: Expand education funding for schools in disadvantaged areas.	<b>Cost: \$235 million</b>
Head Start Summer Program: Expand Head Start through the summer months.	<b>Cost: \$500 million</b>

<sup>31</sup> Executive Office of the President, Office of Management and Budget, *A Vision of Change for America* (Washington D.C.: U.S. Government Printing Office, February 17, 1993).

<b>HHS/Head Start Childcare Feeding:</b>	
Pay for meals of children attending the expanded Head Start summer program.	<b>Cost: \$56 million</b>
<b>Immunization:</b>	
Buy vaccines for low-income children.	<b>Cost: \$300 million</b>
<b>Summer Youth Employment:</b>	
Finance more than 700,000 summer jobs for low-income youths.	<b>Cost: \$1,000 million</b>
<b>Worker Profiling:</b>	
Provide funds to identify workers that need job placement help.	<b>Cost: \$29 million</b>
<b>Community Service Employment for Older Americans:</b>	
Provide added funds to expand participation of senior citizens in community service projects.	<b>Cost: \$26 million</b>
<b>Extend Unemployment Compensation:</b>	<b>Cost: \$4,000 million</b>
<b>National Service Program:</b>	
Pay "volunteers" to perform community service.	<b>Cost: \$15 million</b>

### **Urban Development and Housing Initiative**

<b>Accelerate Public Housing Modernization:</b>	
Accelerate a "backlog" of funding for improving public housing.	<b>5-year cost: \$1,035 million</b>
<b>Community Development Block Grants:</b>	
Funding for previously unfunded projects like street and bridge work, building rehabilitation, painting and resurfacing, and other "public service projects" in disadvantaged areas.	<b>5-year cost: \$2,536 million</b>
<b>Supportive Housing:</b>	
Expand funding for homeless shelters.	<b>5-year cost: \$423 million</b>

### **Environment/Energy**

<b>Increase Weatherization Grants:</b>	
Expand grants to encourage state weatherization programs for low-income people.	<b>5-year cost: \$47 million</b>

### **Rebuild America—Infrastructure**

<b>Business and Community Initiative:</b>	
Provide federal assistance to low-income rural residents to raise their standard of living.	<b>5-year cost: \$1699 million</b>
<b>Increase Weatherization Grants:</b>	
Provide more federal money for low-income people to insulate their homes.	<b>5-year cost: \$375 million</b>

Community Development Block Grant: Provide more funds for low- and moderate-income residents to improve their communities.	<b>5-year cost: \$430 million</b>
Enterprise Zones (tax incentive): Invest in "enterprise zones" in poor areas.	<b>5-year cost: \$4,119 million</b>
Community Development Banks: Create banks that would provide government loans for business and housing purposes in low- and moderate-income areas.	<b>5-year cost: \$468 million</b>
Housing Vouchers: Expand housing subsidies to more Americans.	<b>5-year cost: \$1,370 million</b>
Preservation and Restoration of Assisted Housing: Provide funds to upgrade government rental housing.	<b>5-year cost: \$1,377 million</b>
Supportive Housing Program: Increase funds for homeless.	<b>5-year cost: \$424 million</b>
Distressed Public Housing: Increase funds to repair and restore public housing.	<b>5-year cost: \$373 million</b>
HOPE Youthbuild: Provide added spending on young people.	<b>5-year cost: \$106 million</b>
<b>Lifelong Learning</b>	
WIC (Special supplemental food program for women, infants, and children): Expand food aid to families with young children.	<b>5-year cost: \$3,634 million</b>
Parenting and Family Support: Provide funds to government programs to teach low- and moderate-income parents how to raise children.	<b>5-year cost: \$1,450 million</b>
Head Start: Increase Head Start funding.	<b>5-year cost: \$13,846 million</b>
National Service: Employ "volunteers" for community service.	<b>5-year cost: \$9,430 million</b>
Worker Training Initiatives: Add to funding for training low-income workers.	<b>5-year cost: \$14,910 million</b>
<b>Rewarding Work</b>	
EITC: Expand refundable tax credits to low-income working families with children.	<b>5-year cost: \$26,787 million</b>
Unemployment Extension:	<b>5-year cost: \$2,400 million</b>

**Health Care**

**Food Stamps:**

Provide funds to expand the Food Stamp program. **5-year cost: \$12,000 million**

**Low-income Home Energy Assistance Program:**

Increase funding to pay utilities bills for low- and moderate-income families. **5-year cost: \$2,945 million**



# F.Y.I.

December 23, 1993

WR  
Republicans

## THE FACTS ABOUT AMERICA'S POOR

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Each year, the U.S. Census Bureau reports the number of Americans who are "living in poverty." According to the Bureau, in 1992 there were 37 million poor Americans. But a close look at the actual material living standards of persons defined as "poor" demonstrates that the Census Bureau's official poverty report is highly misleading. For most Americans the word "poverty" means destitution, an inability to provide a family with nutritious food, clothing, and reasonable shelter. Only a small number of the 37 million persons classified as "poor" by the Census Bureau fit such a description.

In fact, numerous government reports indicate that most "poor" Americans today are better housed, better fed, and own more personal property than average Americans throughout most of the century. As Chart 1 shows, in 1991, the per capita expenditures of the lowest income one-fifth of the U.S. population exceeded the per capita income of the average American household in 1960, after adjusting for inflation.<sup>1</sup>

### Actual Living Standards

The following are facts about persons defined as "poor" by the Census Bureau. Data are taken from various government reports:

- ✓ In 1991 nearly 40 percent of all "poor" households actually owned their own homes. The average home owned by persons classified as "poor" by the Census Bureau is a three-bedroom house with a garage and porch or patio.<sup>2</sup>
- ✓ Over three-quarters of a million "poor" persons own homes worth over \$100,000; 71,000 "poor" persons own homes worth over \$300,000.<sup>3</sup>

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- 1 U.S. Department of Labor, Bureau of Labor Statistics, *Consumer Expenditures in 1991*, Report 835, December 1992, p. 4. U.S. Department of Commerce, Bureau of the Census, *Historical Statistics of the United States, Part I* (Washington, D.C.: U.S. Bureau of the Census), 1975, pp. 297 and 301.
  - 2 U.S. Department of Housing and Urban Development, and U.S. Department of Commerce, Bureau of the Census, *American Housing Survey for the United States in 1991*, Current Housing Reports H150/91 (Washington D.C.: U.S. Government Printing Office, April 1993), pp. 38, 90, 94, 102.
  - 3 *Ibid.*, p. 120.

- ✓ Only 8 percent of “poor” households are overcrowded. Nearly 60 percent have more than two rooms per person.<sup>4</sup>
- ✓ As Chart 2 shows, the average “poor” American has twice as much living space as the average Japanese and four times as much living space as the average Russian. (Note: These comparisons are to the *average* citizens in Russia and Japan, not to those classified as poor.)<sup>5</sup>
- ✓ Nearly 60 percent of “poor” households have air conditioning.<sup>6</sup> By contrast, just twenty years ago only 36 percent of the entire U.S. population enjoyed air conditioning.
- ✓ Sixty-four percent of “poor” households own a car; 14 percent own two or more cars.<sup>7</sup>
- ✓ Fifty-six percent own microwave ovens.<sup>8</sup>
- ✓ Close to a quarter have an automatic dishwasher;<sup>9</sup> nearly one-third own a separate, stand-alone freezer in addition to their refrigerator.<sup>10</sup>
- ✓ Ninety-one percent have a color television. Twenty-nine percent own two or more color televisions.<sup>11</sup>
- ✓ “Poor” Americans live in larger houses or apartments, eat more meat, and are more likely to own cars and dishwashers than is the general population in Western Europe.<sup>12</sup>
- ✓ The “poor” are far from being chronically hungry and malnourished. In fact, poor persons are more likely to be overweight than are the middle-class persons.<sup>13</sup>
- ✓ Poor children actually consume more meat than do higher-income children and have average protein intakes 100 percent above recommended levels.<sup>14</sup>

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4 Only 7.5 percent of poor households have one room per person or less. *Ibid.*, p. 42.

5 Robert Rector, “How the Poor Really Live: Lessons for Welfare Reform” Heritage Foundation *Backgrounder* No. 875, January 31 1992, pp. 12, 13.

6 *American Housing Survey for the United States in 1991*, p. 50.

7 *Ibid.*, p. 50.

8 U.S. Department of Energy, Energy Information Administration, *Housing Characteristics 1990* (Washington, D.C., Department of Energy, May 1992). *Ibid.*, p. 112.

9 *American Housing Survey, op. cit.*, p. 44.

10 *Housing Characteristics, op. cit.*, p. 114.

11 U.S. Department of Energy, Energy Information Administration, *Housing Characteristics 1990* (Washington D.C., Department of Energy, May 1992), p. 115.

12 Robert Rector, Kate Walsh O’Beirne, Michael McLaughlin, “How Poor Are America’s Poor?” Heritage Foundation *Backgrounder* No. 791, September 21, 1990.

13 Robert Rector, “Food Fight: How Hungry Are America’s Children?” *Policy Review*, Fall 1991.

14 U.S. Department of Agriculture, Human Nutrition Information Service, Nutrition Monitoring Division, *Low Income Women 19-50 Years and Their Children 1-5 Years, 4 Days, Nationwide Food Consumption Survey of Food Intakes by Individuals*, NFCS CSFII Report No. 85-5 (Washington, D.C.: U.S. Department of Agriculture, March 1988), pp. 14, 72-73. U.S. Department of Agriculture, Human Nutrition Information Service, Nutrition Monitoring Division, *Women 19-50 Years and Their Children 1-5 Years, 4 Days, Nationwide Food Consumption Survey of Food Intakes by Individuals*, NFCS CSFII Report No. 85-4 (Washington, D.C.: U.S. Department of Agriculture, August 1987), pp. 16, 64-65.

✓ As Table 1 shows, the average consumption of protein, vitamins, and minerals is virtually the same for poor and middle-class children, and in most cases is well above recommended norms.<sup>15</sup> Poor children today are in fact super-nourished, growing up to be on average one inch taller and ten pounds heavier than the GIs who stormed the beaches of Normandy in World War II.<sup>16</sup>

### Comparing Spending with Income

The Census Bureau counts as poor any household with a cash income less than the official poverty threshold, which was \$14,343 for a family of four in 1992. But the simple fact is that the Census Bureau dramatically undercounts the incomes of less affluent Americans. Other government surveys consistently show that spending by low-income U.S. households greatly exceeds the income which Census claims these households have.

As Chart 3 shows, in 1991 Census claimed that the lowest income fifth (or quintile) of U.S. households had an average "income" of \$7,263. In the same year, the Consumer Expenditure Survey of the Department of Labor showed that the average household in the same lowest income quintile spent \$13,464. The Labor Department and the Census Bureau data directly contradict each other. The Labor Department survey shows \$1.85 in spending for every \$1.00 of income Census claims these same households possess. This is no fluke; a similar wide gap between spending and alleged "income" occurred throughout the 1980s.

But the picture is still incomplete. When counting household expenditures, the Labor Department's Consumer Expenditure Survey excludes public housing subsidies and health care subsidies provided through Medicaid, Medicare, and other government medical programs. If housing and medical subsidies are included, the total expenditures of the average household in the bottom income quintile rise to \$17,804.<sup>17</sup> This means less-affluent households spend \$2.45 for every \$1.00 of "income" reported by Census.

**Table 1**  
Average Per-Capita Consumption of Nutriments as a Percentage of Recommended Daily Allowances for Children Under Age 6 in 1985

	Family Income Below 75% of Poverty Threshold	Family Income Above 300% of Poverty Threshold
Protein	211	213
Vitamin B-12	211	164
Thiamin	192	152
Vitamin A	186	230
Vitamin C	179	164
Riboflavin	181	182
Folacin	149	158
Niacin	138	145
Phosphorous	120	127
Vitamin B-6	113	133
Vitamin E	113	102
Magnesium	105	126
Calcium	94	99
Zinc	76	73

Source: See footnote 15.

15 *Low Income Women 19-50 Years and Their Children 1-5 Years, 4 Days, op.cit.*, pp. 72-73. *Women 19-50 Years and Their Children 1-5 Years, 4 Days, op.cit.*, pp.64-65.

16 Based on a comparison of males in their late-teens. Bernard D. Karpinos, *Height and Weight of Military Youths* (Medical Statistics Division, Office of the Surgeon General, Department of the Army, 1960), pp. 336-351. Information on the current height and weight of youths provided by the National Center for Health Statistics of the U.S. Department of Health and Human Services based on the National Health and Nutrition Examination survey.

17 This calculation assumes that the bottom income quintile received the following share of government outlays: 75 percent of means-tested housing subsidies; 60 percent of means-tested medical subsidies to non-institutionalized persons, and 30 percent of Medicare outlays. The share of outlays going to the bottom quintile was estimated using data provided in the American Housing Survey, the Current Population Survey, and the Survey of Income and Program Participation.

## Errors in the Census Bureau's Poverty Measurement

The above facts make it clear that something is radically wrong with the annual Census Bureau poverty report. In reality, the Census report dramatically underestimates the economic resources available to less affluent American households and dramatically overstates the number of poor Americans. There are three sources of error in the annual Census poverty report.

- 1) **The Census Bureau fails to count most welfare benefits as income.** As noted, the Census Bureau counts as poor any household whose "income" falls below specified thresholds. However, in determining family's income, the Census Bureau deliberately ignores all non-cash welfare benefits received by the family. For example, if a family received \$4,000 in Food Stamps and \$5,000 in housing aid over a year, these benefits would be treated as having zero income value by Census.

In 1992, federal, state, and local governments spent \$305 billion on welfare programs providing cash, food, housing, medical aid and social services to low-income Americans. This was roughly three times the amount of money needed to raise the incomes of all poor Americans, as identified by the Census Bureau, above the poverty income thresholds. But the Census Bureau, in counting incomes, ignores most of this welfare aid. According to the official government figures, Medicaid, Food Stamps, the Women, Infants and Children (WIC) food program, public housing, and most other welfare programs, have no effect on the living standards of the poor.

In 1992, welfare benefits and services which were provided to low-income Americans, but not counted as income by the Census Bureau, equalled \$183 billion, or 3.1 percent of the total U.S. economy. Overall, the missing or non-counted funds amounted to \$11,470 for every "poor" household. While not every poor household received that level of non-cash aid, it clear that Census vastly undercounts the level of government assistance provided to most low income households.

- 2) **The Census poverty report also undercounts household income because it fails to count the enormous "underground economy" in the U.S.** The underground economy consists primarily of persons who perform legitimate work "off the books" in order to avoid government taxes and regulation. Most of the individuals with "off the books" earnings are low-income persons, particularly those who are self-employed or work in small businesses. Estimates put the total value of the unreported earnings at around \$300 billion or 5 percent of the gross national product.<sup>18</sup> While Americans do report more income to the Census Bureau than to the Internal Revenue Service, much of the informal economy is still not reported to the Census Bureau and thus not included in the Census count of household income.<sup>19</sup>
- 3) **The Census Bureau ignores household assets.** In determining whether a household is "poor" the Census Bureau counts only the household's income in the current year. It ignores all assets accumulated in prior years. Thus a businessman, who has suffered losses and, as a result, has a zero or negative income for the current year, will be officially counted as "poor" even if he owns a home and has several million dollars in the bank.

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18 These figures include only unreported wages and self-employment earnings from lawful activities. U.S. Department of Labor, *The Underground Economy in the United States*, Occasional Paper No. 2, September 1992, p. 24. See also Carol S. Carson, "The Underground Economy: An Introduction," *Survey of Current Business*, May 1984, pp. 21-37.

19 U.S. Department of the Treasury, Internal Revenue Service, *Estimates of Income Unreported on Individual Income Tax Returns*, Publication 1104 (9-79), pp. 118-132.

## War on Poverty Not a Success

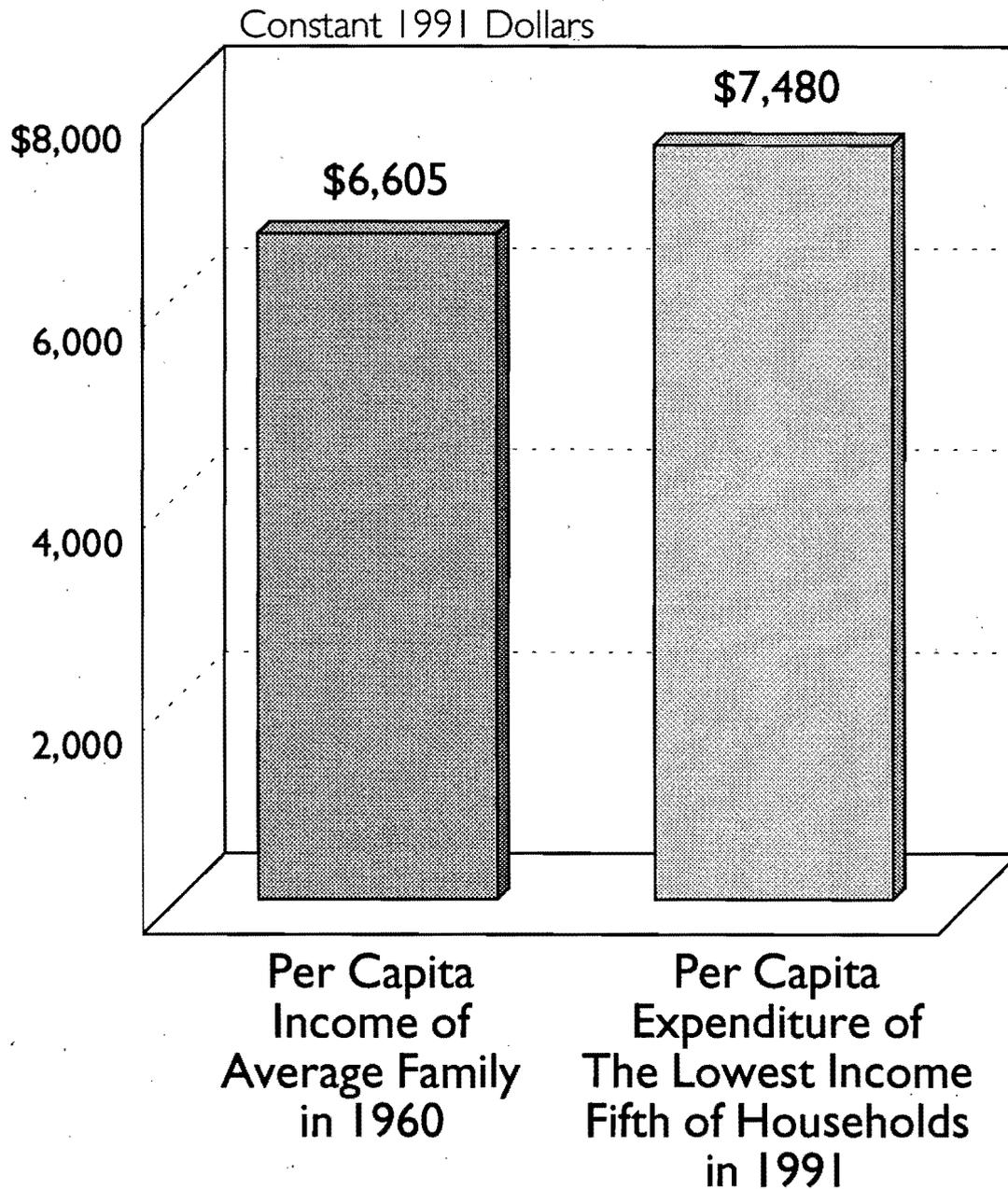
If poverty is defined as: an individual who lacks adequate nutritious food for his family, lacks clothing, lacks a reasonably warm, dry apartment to live in, or who needs a car to get to work and does not have one—then there are very few poor persons remaining in the U.S. Certainly, only a small fraction of the 37 million persons classified as “poor” by Census would be poor by the preceding criteria.

But the low level of actual material poverty in the U.S. should not be regarded as victory for the War on Poverty. Studies reveal that the biggest effect of current welfare spending is not to raise income, but merely to replace self-sufficiency with dependence. A second consequence of welfare has been the destruction of families. In 1959, 28 percent of poor families with children were headed by women. By 1991, 61 percent of poor families with children were headed by single mothers. In the 1960s when the War on Poverty was beginning, the black illegitimate birth rate was about 25 percent; today more than two out of three black children are born out of wedlock. Similar increases in illegitimacy are occurring among low-income whites; the illegitimate birth rate among white high school dropouts is now 48 percent.

The Census Bureau poverty figures lack even a tenuous link to social and economic realities in the U.S. Even worse, the Census Bureau, by creating a false picture of widespread chronic material poverty, distracts attention from the real problems crippling low-income communities: crime, prolonged welfare dependence, illegitimacy and family breakup, eroded work ethic, and moribund, failing public school systems. It thus makes solving these real problems all the more difficult.

Chart 1

## Living Standards of Low-Income Households Today Exceed Average Household in 1960

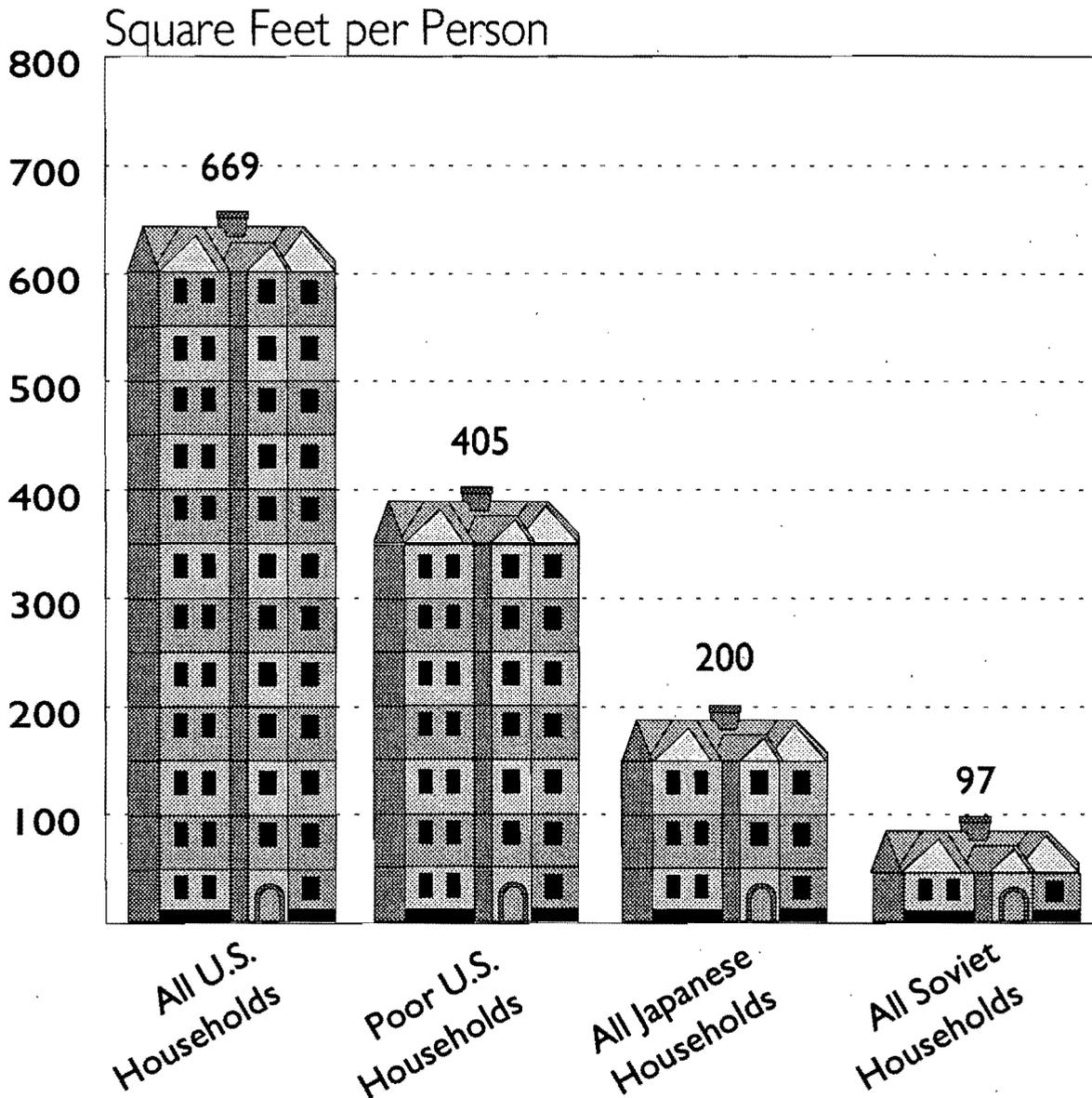


Source: See text.

Heritage DataChart

Chart 2

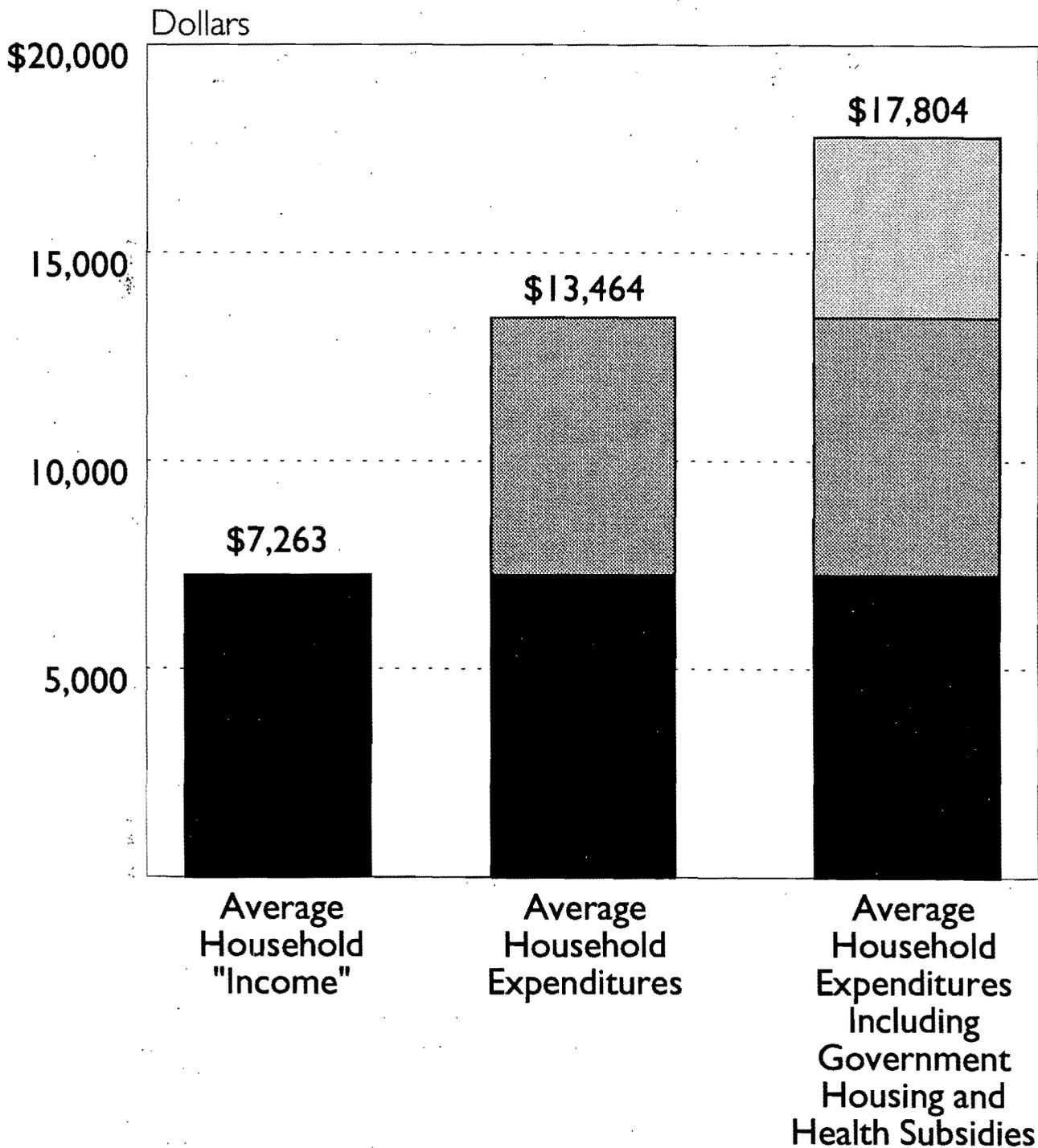
## Housing Space: Poor American Households Have Twice the Area of All Japanese Households, And Four Times That of All Soviet Households



Source: U.S. Department of Energy, Energy Information Administration, *Housing Characteristics 1987*; A.S. Zaychenko, "United States-USSR: Individual Consumption (Some Comparisons)," *World Affairs*, Summer 1990; "The Affluent Japanese Household," *Business America*, March 23, 1981.

Chart 3

## Low-Income Households in 1991: Spending Compared to "Official Income"



**Note:** Figures are for households in the lowest income quintile.

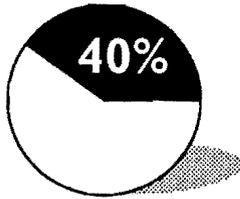
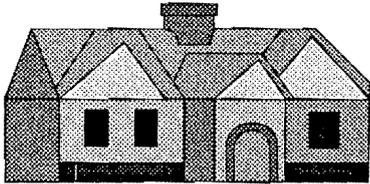
**Sources:** "Income:" Census Bureau; Expenditures: Department of Labor.

Heritage DataChart

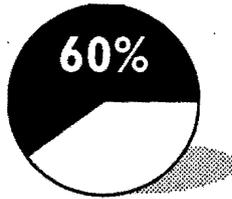
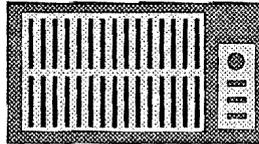
Chart 4

# Living Standards of "Poor" Households

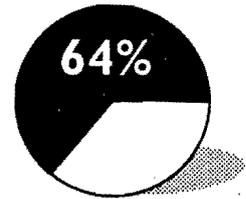
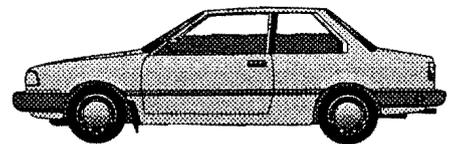
**Own Home**



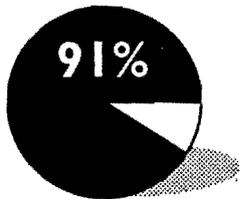
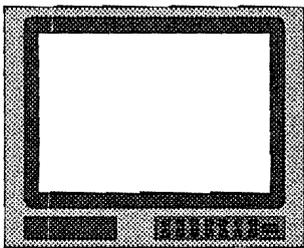
**Have Air Conditioning**



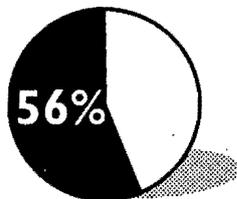
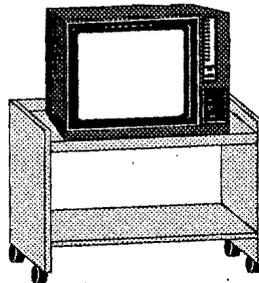
**Own Car**



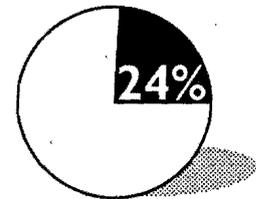
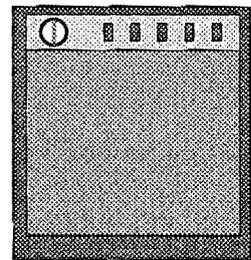
**Own Color TV**



**Own Microwave**



**Have Dishwasher**

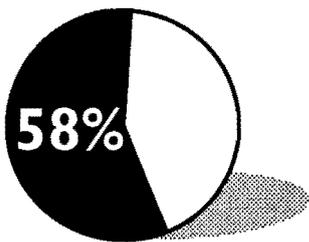
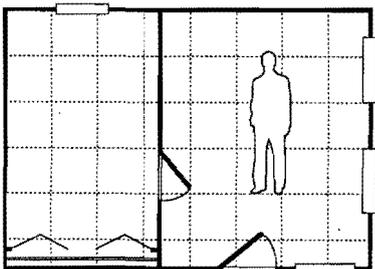


Source: See text.

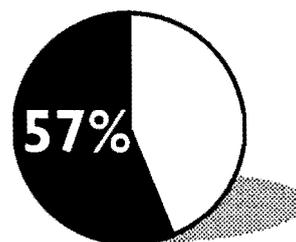
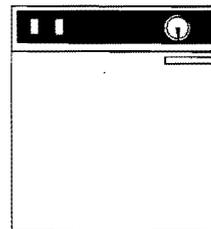
Heritage DataChart

# Living Standards of "Poor" Households

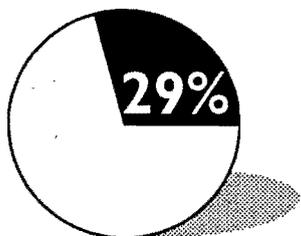
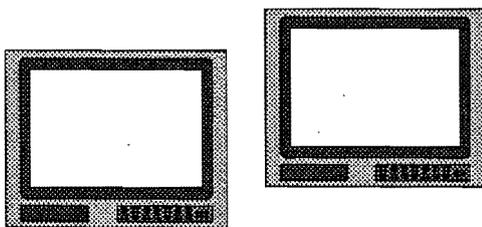
**Two or More Rooms per Person**



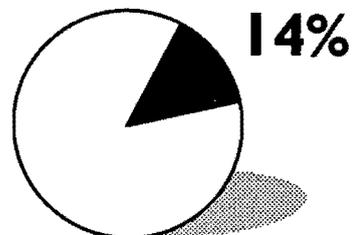
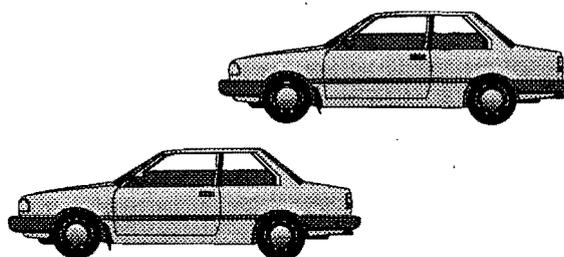
**Own Clotheswashing Machine**



**Own Two or More Color TVs**



**Own Two or More Cars**



Source: See text.

Heritage DataChart

WR-Republicans

## HUMAN SERVICES

# GOP's Two-Year Welfare Limit Sends Message to Clinton

House Republicans, seeking a leading role in overhauling the nation's welfare system, unveiled a proposal Nov. 10 to impose stiff penalties on recipients who refuse to work within two years of receiving benefits.

The legislation (HR 3490), sponsored by Minority Leader Robert H. Michel, R-Ill., also would sanction welfare beneficiaries who do not establish paternity for their children. It would deny any benefits from the government's major welfare program, Aid to Families with Dependent Children (AFDC), to most non-citizens. And it would combine 10 food programs into one block grant and cut costs by 5 percent.

Leaders of the effort said net savings from the bill would be \$19.5 billion over five years.

Although the bill is cosponsored by 160 of the 175 House Republicans, it has little chance of passage in the Democrat-controlled House.

The main legislative vehicle for welfare revisions will be President Clinton's plan, which he expects to send to Congress early next year. Clinton pledged during the 1992 presidential campaign to "end welfare as we know it" and to require recipients to work within two years of receiving benefits. (*Weekly Report*, pp. 2321, 2265, 1813, 1420, 458)

But the GOP bill lays down an early marker for Clinton. Because some liberal Democrats may balk at imposing a two-year limit on welfare benefits, Clinton probably will need bipartisan support for his plan.

"No Democrat can pass a meaningful welfare reform without the assistance, the votes and the work of Republicans," said E. Clay Shaw Jr., R-Fla., a member of House Ways and Means Human Resources Subcommittee, the starting point for welfare revisions.

Subcommittee Chairman Harold E. Ford, D-Tenn., criticized the GOP effort. "The problem is not that wel-



R. MICHAEL JENKINS

At a Nov. 10 news conference, Rep. Nancy L. Johnson said welfare mothers should name fathers to ensure that they share in parental responsibilities.

fare recipients choose not to work but that welfare recipients do not have the job skills to get jobs that will support their children," he said.

Clinton's chief welfare advisers said they welcomed the Republican initiative, but expressed concern about such elements as across-the-board cuts in nutrition programs.

Clinton's plan probably will include less severe penalties for welfare recipients who do not work and more social services to help them enter the job market. The Democratic view on denying benefits to foreigners is less clear.

But the House voted Oct. 15 to restrict recent legal immigrants' ability to collect Supplemental Security Income (SSI) payments, which go to poor people who also are aged, blind or disabled. (*Weekly Report*, p. 2816)

## The Two-Year Plan

At a Nov. 10 news conference, Republicans were unflinching in their criticism of the existing welfare system.

Rep. Gary A. Franks, R-Conn., who said that he has relatives on welfare, added, "I see parallels between slavery and generation after generation of welfare-dependent people."

The GOP bill would enable recipients to collect AFDC for two years — or less at states' option — while participating in education and training programs. The two-year limit would be cumulative throughout one's lifetime.

Recipients who could not find a private sector job within two years would be required to participate in a community service assignment or a government-subsidized private sector job to earn their benefits.

The first time that participants failed to meet the training and work criteria, the combined value of the family's AFDC and food stamp benefits would be reduced 25 percent. By the third violation, the parents and children would lose AFDC benefits, though they still would be eligible for food stamps and Medicaid, which provides health insurance for the poor.

Short-term exemptions from these sanctions would be granted when a child was born and if recipients were deemed incapacitated.

The bill would provide about \$10 billion to assist states in providing mothers with jobs, including aid for child care. States could drop AFDC benefits to anyone who had participated in a work program for three years and had not found a private sector job.

To promote parental responsibility, the bill would require mothers who apply for welfare to identify the child's father in order to receive benefits. Mothers would receive a reduced AFDC benefit until paternity was legally established.

Rep. Nancy L. Johnson, R-Conn., stressed the importance of compelling welfare mothers to make fathers take partial responsibility for a child. Under the bill, Johnson said, "you will not have the right — nor will you be supported in the irresponsible action — of not naming the father."

In addition, states would be required to stop increasing welfare checks when recipients have more children and to stop paying welfare benefits to parents under 18 years old.

All welfare benefits — other than emergency Medicaid assistance — would be eliminated for non-citizens, except for refugees and certain permanent resident aliens.

The bill would combine 10 food and nutrition programs — including food stamps and the program for Women, Infants and Children (WIC) — into a single block grant to states.

To further control anti-poverty costs, the bill also would cap the annual outlay growth at 2 percent plus inflation for the following programs: AFDC, SSI, public housing and subsidized private housing, food stamps and the earned-income tax credit, which provides tax rebates for the working poor.

By Jeffrey L. Katz

BOB INGLIS  
4TH DISTRICT  
SOUTH CAROLINA



COMMITTEES:  
BUDGET  
JUDICIARY

CONGRESS OF THE UNITED STATES  
HOUSE OF REPRESENTATIVES  
WASHINGTON, D.C. 20515  
November 4, 1993

Mr. William A. Galston  
Deputy Assistant to the President for Domestic Policy  
The White House  
Washington, D.C. 20500

Dear Bill:

Thank you so much for taking the time to meet with me and Vin Weber recently to discuss welfare reform. Having heard a great deal about you, and having seen some of your work, it was a pleasure to meet you in person.

I am excited about working to eliminate the poverty trap in this country, and I look forward to a continuing dialogue as we work together on this critical need.

As you requested, I am enclosing: (1) A press release which I issued during the campaign on this subject and (2) A summary of Vin Weber's work on the subject.

If I may, I will give you a call in the next couple of weeks to see about setting up a meeting with several additional Members and with whomever you might choose from the Administration.

Once again, thank you so much for taking the time to meet with me and Vin Weber.

Very truly yours,

A handwritten signature in cursive script that reads "Bob".

Bob Inglis  
Member of Congress

cc: Vin Weber  
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1776 Eye Street, N.W.  
Suite 890  
Washington, D.C. 20006  
202/452-8200

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FAX (803) 429-8879

# Inglis

## RECLAIM CONGRESS

Inglis for Congress Committee • Post Office Box 361 • Greenville, South Carolina 29602

### PRESS RELEASE

FOR IMMEDIATE RELEASE ON TUESDAY, APRIL 28, 1992

#### **Inglis Supports Workfare; Joins in National Press Conference**

Congressional candidate Bob Inglis announced today his support of a sweeping welfare reform proposal at a press conference at Greenville County Republican Headquarters. The proposed legislation requires welfare recipients to work for their benefits. The legislation is also designed to overcome what Inglis described as "disincentives to work."

"The Work and Family Responsibility Plan allows recipients to begin working without a reduction in benefits. That extension eliminates a crippling disincentive. Under the lousy welfare system we've got now, you get worse off when you take a job," Inglis explained.

"This workfare plan has the right approach to welfare reform. It's got a carrot and a stick. The carrot--the incentive--is the extension of benefits and the elimination of the penalty for taking a job. The stick--the thing that will get the less motivated moving--is simple to understand: you don't work, you don't get welfare benefits," Inglis continued.

Inglis announced his commitment to workfare as part of a nationwide press conference held simultaneously by more than fifty Republican challenger candidates in twenty-five states, each of whom pledged to support the workfare plan as part of a "one hundred-day agenda" Republicans will push through Congress next Spring. The nationwide announcement was organized by Republican Congressmen Newt Gingrich, Vin Weber and Clay Shaw, and Senator Hank Brown, who led a kickoff press conference at the National Press Club in Washington to describe the plan.

-- more --

Spartanburg • Greenville • Union

Authorized and paid for by Inglis for Congress Committee.  
Contributions are not tax deductible.

\*\*\*. PAGE TWO \*\*\*

Likening welfare reform to the need for reform in Congress itself, Inglis said, "The tragedy in the welfare area is that so few are committed to change. While the professional politicians fiddle with their re-election campaigns, more and more of our citizens fall into the poverty trap. They become enslaved to programs that create incentives for family breakup and which penalize work. That's got to stop."

"My hope is that this year we can have real change in Congress," Inglis said. "I could be a member of the largest freshman class in the history of our Congress. With that kind of change in Congress and with the cooperation among challengers you have witnessed here today, we can fix welfare. And we can be about recreating the Opportunity Society in America."

FOR FURTHER INFORMATION, CONTACT: Bob Inglis 242-6440 (work)  
233-4281 (home)  
420-9571 (mobile)  
Jeff Parker 281-0876

ATTACHMENT: OPENING STATEMENT (3 pages)

##

OPENING STATEMENT  
PRESS CONFERENCE ON TUESDAY, APRIL 28, 1992  
BOB INGLIS

OPPORTUNITY AMERICA: WORKFARE

Today represents a change of gears for my campaign for Congress. Up until now, I've been talking about reform in Congress, and I will continue to talk about reform in Congress because that is the issue of this <sup>Congress</sup> race.

But it's important that I go beyond simply talking about reform in Congress and talk about the substantive issues on my agenda. So over the next several months, I will be describing a positive agenda aimed at reforming Congress and addressing--head on--the challenges that we face as a nation. Unlike the professional politicians who run Washington, I intend to state that agenda, state it clearly and state it boldly. I also intend to answer your questions, directly and succinctly.

On our campaign videotape, I talk about recreating the Opportunity Society. And I say on the tape that in social programs that means making sure that the incentives flow the right way to encourage work and self-reliance. Today, I am excited to add specificity to that statement by joining with challengers across the country in support of the Work and Family Responsibility Plan.

That plan is designed to break the cycle of dependency and despair that are the hallmarks of the bureaucratic welfare state.

The Work and Family Responsibility Plan involves both "carrots" (incentives for bettering oneself) and "sticks" (consequences for missing those opportunities). Specifically, the Work

and Family Responsibility Plan provides for the following:

Carrots

- Extends benefits after recipient takes job so as to avoid the current disincentive of a reduced standard of living after taking a job;
- Rewards marriage by continuing benefits rather than reducing benefits after marriage (would continue for two years provided family's income is below 150 percent of the poverty level).

Sticks

- Moves recipients into an AFDC Transition Program after one year of benefits;
- Requires all recipients in the transition program to work or go to school (*2* *exempt* single parents of children under three years of age would be exempt but women who have children while in the transition program would have to return to work two months following birth);
- Establishes a four year lifetime cap on benefits.

You've heard me say over the past several months that the real tragedy of the House banking scandal is that it shows that there are so few in Congress that are committed to reform. The fact is only seven first-year Republican Congressmen were willing to take on the House Bank.

The tragedy in the welfare area is, again, that so few are committed to change. While the professional politicians fiddle with their re-election campaigns, more and more of our citizens fall into the poverty trap. They become enslaved to lousy

programs that create incentives for family breakup and which penalize work. That's got to stop.

My hope is that this year we can have real change in Congress. I could be a member of the largest freshman class in the history of <sup>the United States</sup> our Congress. With that kind of change in Congress and with the cooperation among challengers you have witnessed here today, we can fix welfare. And we can be about recreating the Opportunity Society in America.

Now I would be happy to answer any questions that you have.

**SUMMARY OF LEGISLATION RECOMMENDED BY THE  
REPUBLICAN TASK FORCE ON WELFARE REFORM  
OCTOBER, 1993**

**I. ATTACKS THE TWO FUNDAMENTAL CAUSES OF WELFARE**

***CAUSE 1: NONWORK***

- Less than 10% of welfare mothers work
- Although many mothers leave welfare within 2 years, many stay for 8 years more; today there are more than 3 million mothers on AFDC who will remain on welfare for 8 years or more

***THE SOLUTION: MANDATORY WORK***

- When fully implemented, the bill requires 63% of mothers who have been on AFDC for at least 2 years to work 35 hours per week for their benefits
- Mothers must use the first 2 years on AFDC (less at state option) to participate in education, training, work experience, and job search to prepare for a position in the private economy; if they do not find a job, they must work in order to continue receiving benefits after 2 years
- One adult in two-parent families on welfare must work 32 hours per week and search for a job 8 hours per week starting the first day they receive welfare
- Mothers applying for welfare must participate in a job search program while their application is being processed
- Mothers who refuse to work have their benefits reduced and then terminated; states failing to ensure that parents work suffer serious financial penalties

***CAUSE 2: ILLEGITIMACY***

- Illegitimacy has risen wildly in recent years; now 2 of every 3 black children and 1 of every 5 white children are born out of wedlock -- and the rates are still rising
- Of illegitimate babies born to teen mothers, a shocking 80% will be on welfare within 5 years
- Teen mothers are the most likely to stay on welfare for many years without working
- Most of the increase in poverty and welfare in recent years is caused, not by a poor economy or reduced government spending (both are up), but by increased illegitimacy

***THE SOLUTION: ESTABLISH PATERNITY, RESTRICT WELFARE, CRACK DOWN ON DEADBEAT DADS***

- All mothers applying for welfare must identify the father or they will not receive benefits
- Mothers receive a reduced benefit until paternity is legally established
- Adolescent mothers must live at home, thus preventing them from using an illegitimate birth to establish their own household
- States must increase their paternity establishment rates, over a period of years, to 90% or suffer stiff penalties
- States are required to stop increasing welfare checks when families on welfare have additional children; states can avoid this requirement only if they pass a law exempting themselves
- States are required to stop paying welfare benefits to parents under 18 years of age; states can avoid this requirement only if they pass a law exempting themselves
- Deadbeat dads with children on welfare are required to pay child support or work

## **II. SLASHES WELFARE FOR NONCITIZENS**

### ***THE PROBLEM: TOO MUCH WELFARE FOR TOO MANY IMMIGRANTS***

- Hundreds of thousands of immigrants come to the United States to collect welfare
- A recent study by the Social Security Administration shows that more than 11% of all recipients and 20% of elderly recipients of Supplemental Security Income are noncitizens
- Noncitizens also qualify for Aid to Families with Dependent Children, Food Stamps, Medicaid, housing, and other welfare benefits

### ***THE SOLUTION: STOP WELFARE FOR NONCITIZENS***

- Simply end welfare for most noncitizens
- Allow refugees to receive welfare for only a fixed number of years unless they become citizens
- Allow noncitizens over 70 to receive welfare
- Continue the benefits of current noncitizens receiving welfare for 1 year

## **III. EMPHASIZES PARENTAL RESPONSIBILITY**

- Requires unmarried adolescent mothers to live at home
- Requires states to stop welfare payments to unmarried parents under age 18
- Encourages states to reduce the welfare benefits of parents who do not assure that their children are immunized and attend school regularly
- Allows states to require AFDC parents to participate in parenting classes and classes on money management
- Allows states to discourage parents from moving to a new school district during the school year
- Requires adults applying for welfare to engage in job search before their benefits start
- Requires addicted recipients of welfare to participate in treatment programs or lose their benefits

## **IV. ATTACKS SEVERAL ADDITIONAL WELFARE PROBLEMS:**

- Allows states to convert their Aid to Families with Dependent Children program into a block grant at 103% of the state's 1992 funding level
- Converts 10 major food programs into a block grant that provides states with almost complete discretion over spending; funding for the programs is reduced by 5%
- Provides states with much greater control over 75 welfare programs so they can coordinate and streamline welfare spending
- Encourages states to provide financial incentives to induce mothers on welfare to work and marry
- Allows states to let welfare recipients accumulate assets to start a business, buy a home, or attend college

## **V. ACCOMPLISHES ALL THE ABOVE IN A BILL THAT REDUCES THE DEFICIT BY \$20 BILLION OVER 5 YEARS**

- The training and mandatory work provisions of the bill cost nearly \$12 billion over 5 years
- The paternity establishment, job search, parental responsibility, block grant, and immigration provisions of the bill save about \$31 billion over 5 years.
- Thus, the net impact of the bill is to reduce the budget deficit by almost \$20 billion over 5 years.

Republican Welfare Reform Bill  
 Summary of Preliminary CBO Estimates  
 September, 1993

Provision	94	95	96	97	98	Total
<b>A. <u>Savings</u></b>						
Immigration						
Food Stamps	-	0.4	0.8	0.8	0.8	2.8
AFDC	-	0.1	0.3	0.3	0.3	1.0
SSI	-	1.2	2.5	2.7	3.0	9.4
Medicaid	-	0.9	2.1	2.4	2.7	8.1
Paternity Establishment	0.1	0.2	0.4	0.4	0.4	1.6
Food Block Grant	2.2	2.0	1.4	1.4	1.3	8.3
Subtotal	2.3	4.8	7.5	8.0	8.5	31.1
<b>B. <u>Spending</u></b>						
State Option*	-0.1	-0.3	-0.3	-0.3	-0.3	-1.3
Work Programs	-	-	-1.0	-1.5	-2.7	-5.2
Day Care	-	-	-0.7	-1.4	-3.0	-5.1
Subtotal	-0.1	-0.3	-2.0	-3.2	-6.0	-11.6
<b>TOTAL</b>	<b>2.2</b>	<b>4.5</b>	<b>5.5</b>	<b>4.8</b>	<b>2.5</b>	<b>19.5</b>

Note. Rows and columns may not add up to totals due to rounding.

\*Assuming half the state participate in each option.



THE HOUSE WEDNESDAY GROUP  
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# Moving Ahead

Initiatives for Expanding Opportunity in America

October 22, 1991

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Source: Bureau of Labor Statistics and Economic Report of the President, 1990, in Kusters, M., "The Measure of Measures," The American Enterprise, January/February 1991, pp. 58-65.

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Source: Burtless, G., Testimony before the House Budget Committee, July 17, 1991.



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## *Executive Summary*

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Is America afflicted by unparalleled social problems? Yes, according to many, who argue that unfair tax policies and severe cuts in social programs are the culprits. The evidence, however, does not appear to support such a conclusion. National data indicate neither that social problems are as acute as often reported, nor that federal tax policies and spending cuts are the reasons for enduring poverty. Programs to help the poor will have to take these facts into account, otherwise they will not be directed at genuine problems.

Careful study of available data on the nation's domestic problems leads us to the following conclusions:

- Until the recession year of 1990, poverty declined and average real wages increased every year after 1983;
- Most government social programs have enjoyed increased funding during the Reagan-Bush years, and they continue to be effective at transferring money and in-kind benefits to the nation's poor and near-poor;
- Not only are federal tax receipts far above the levels of a decade ago, but also the federal income-tax system is more progressive than it was at the beginning of the 1980s;
- Choices made by individuals, especially regarding marriage and work, are a major contributing factor to poverty rates and the desultory growth of income in the bottom of the income distribution.

We do not use this mixed picture to endorse the status quo. Rather, we use it to clarify the problems we believe are the major causes of poverty:

- Dramatic increases in single-parent, female-headed families: The number of female-headed families has doubled since 1970. Such families are highly vulnerable to poverty and often have difficulty rearing their children;
- Low commitment to work among the poor: Poor families seldom have a full-time, year-round worker. Few families, however, remain in poverty when there is a full-time, year-round worker;
- Stagnant or declining wages: Despite the overall increase in family and per capita income, wages at the bottom of the income distribution are a problem. Low-income families with children have not enjoyed the income gains enjoyed by other families, and, in many cases, have experienced actual declines.

Our program to help the chronically poor is grounded in a new social covenant in which all those in a position to help the poor agree to meet new responsibilities. The covenant requires specific groups of citizens -- government, national and local community leaders, parents, and the poor themselves -- to change their rhetoric, as well as their actions and behavior:

- Governments at all levels must design innovative programs to help the poor escape dependency and must direct appropriate levels of resources to these initiatives; in some cases, the federal government must remove regulatory barriers that stand in the way of new approaches -- we recommend a series of demonstrations to see what works; and, the federal government must also enforce all existing civil rights laws;

- Teenagers and young adults must be accountable for the decisions they make about education, work, pregnancy, and marriage;
- National and community leaders must stop offering excuses for behavior that causes or strengthens the grip of poverty and must instead promote self-improvement;
- Parents and local organizations must renew their commitment to providing youngsters with opportunities for moral development, emotional security, learning, and recreation.

Members of the Wednesday Group suggest that the Congress fulfill its part of the new social covenant in the following ways:

#### Families

- Congress must oversee the 1988 Family Support Act both to ensure it is competently implemented and to monitor the effects of the EITC expansion.
- Congress should consider demonstration programs that would place statutory limits on the length of time a welfare family may receive full benefits and would test child support assurance programs.
- Congress must use the welfare system to hold AFDC parents accountable for the preventive health care of their children.
- Congress should fund a demonstration program to convert the three funding streams for foster care and adoption into a single entitlement with greater state flexibility.

#### Young Males

- Congress must continue to pass legislation to help state and local officials deal effectively with crime and its aftermath.
- Congress should consider demonstration programs to: make young males eligible for the EITC; provide financial rewards for high school graduation; evaluate the effectiveness of providing education and job-training to low-income junior and senior high schoolers in residential facilities; and expand programs that foster entrepreneurial activity.

#### Housing

- Congress should establish a variable-rate housing voucher demonstration program that would complement existing policy and should recruit states to try it.

#### Health

- Congress should consider legislation introduced by Wednesday Group members Nancy Johnson and Rod Chandler to help the nearly two-thirds of the uninsured who are in families with a full-time worker.
- Congress should seek changes in state regulations that limit insurance coverage.
- Congress should permit a state to convert Medicaid to an allowance-based system to help with the purchase of health insurance; the Wednesday Group is developing a proposal.

#### Education

- Congress and the President should use the "bully pulpit" to promote parental choice in schools, though education remains primarily a state and local responsibility.
- Congress should expand the National Assessment of Educational Progress.

#### Decategorized Services

- Congress should allow greater state flexibility in spending social welfare dollars.

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## INTRODUCTION

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### Moving Ahead: Initiatives for Expanding Opportunity in America

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Opportunity abounds in America. Even so, Americans are constantly under a barrage of information to the effect that the country is falling apart while the government stands by helplessly, rendered impotent by the budget deficit. The effect of this message is to entice Americans into believing that social problems are growing out of control and that only new government programs can help. But the message is misleading. In fact, both tax collections and government spending on social programs have increased substantially over the past decade, and social indicators demonstrate that a number of the nation's leading social problems are actually in decline.

Our intent in preparing this report is not to minimize national problems. The 1990-1991 recession has aggravated all the social problems we address here. Recent reports from the Census Bureau, for example, show that for the first time since 1983, poverty increased and family income declined last year. Nonetheless, our most important social problems are perennial; they may intensify during recessions, but, as recent experience shows, they remain formidable, even during economic expansions. In our view, an accurate portrayal of the nation's economic and social conditions permits some optimism, and a sustained, patient attack on our perennial social problems is possible.

Poverty is perhaps the most frequently cited statistic to summarize the nation's social problems. Official government statistics show that until 1990, poverty had been in decline since 1983. The optimism induced by falling poverty rates, however, is tempered by the realization that even in 1989, poverty was still far above the levels reached in the 1970s. Why didn't poverty decline more during the economic expansion that began in 1983?

A review of government expenditures on a wide range of social programs, including those aimed specifically at children and families, shows that government spending is not a major part of the answer. Indeed, government social spending has increased dramatically in recent years. These increases indicate that the federal government maintains a strong commitment to action aimed at reducing poverty and ameliorating its effects. Moreover, an extensive examination of federal income-tax policy reveals increasing progressivity during the 1980s.

Rejecting reduced federal spending and regressive tax policies as explanations of poverty, we turn our attention to three problems that, in our view, are the critical determinants of poverty in America: the rise of single-parent families, the low commitment to work among many of the poor, and declining wages. Defining the problem in this way leads us to propose a new social covenant. If we as a nation are to effectively address the problems of our poorest and most troubled citizens, we must find ways to change both the rhetoric and actions of several groups of citizens, including policymakers at all levels of government, national and community leaders, and the poor themselves.

Although the federal government is only part of the solution to poverty, our major purpose in this paper and a series of legislative proposals that will follow is to uphold the federal portion of the new social covenant. In particular, we have identified a host of ideas for social policy initiatives that hold promise for striking at the roots of poverty.

While calling attention to the impressive commitment the federal government has already made to helping the poor, we also find that some programs are misguided and may actually aggravate the problems they were intended to solve. We propose both to change these programs and to initiate new ones.

In the broad area of welfare policy, an emerging strategy of federal and state action is coming into focus. The distinguishing feature of this strategy is creating programs that encourage initiative and reward work and family responsibility. Our recommendations for welfare, or as we prefer "nonwelfare", policies seem capable of producing moderate progress. For other economic and social problems -- the employment and income of young adults entering the work force, the services given to children and families entering the child welfare system, financing of the nation's health care programs, education, and housing -- improvement has been slow. Given the current level of knowledge about these issues, it would be premature to enact policies for the entire nation. In these cases, we recommend large-scale experiments that will improve our understanding of both the problems and their potential solutions.

Washington is the repository of several tons of reports on the nation's social problems. A few created a temporary flash in the media, but most disappeared without a trace. The major reason is that reports are wonderful devices for diagnosing problems and, somewhat less often, for proposing solutions. But proposing, enacting, and implementing social policies are separated by chasms that are seldom crossed.

Unlike the authors of previous reports on social problems, the Wednesday Group is not limited to proposing. Our members are in position to play a major part in enacting our recommendations. Thus, our report is but the first in a series of activities that will, we hope, lead to changes in current programs, to new programs, and perhaps most important in the long run, to the implementation of large-scale demonstrations designed to test new ideas about solving the nation's most serious social problems.

We have formed a series of work groups that, using this report as a starting point, will develop legislative proposals that will be introduced during the 102nd Congress. We expect that some of the work groups will enjoy bipartisan participation and that some of the proposals stand a good chance of passage. In any case, we intend to keep the dust off this report for several years.

The following Wednesday Group members have endorsed this policy statement:

Bill Clinger	Bill Green	Jim Kolbe	Ralph Regula
Larry Coughlin	Paul Henry	Bob Livingston	Clay Shaw
Tom DeLay	David Hobson	Sid Morrison	Lamar Smith
Bill Gradison	Amo Houghton	Tim Petri	Craig Thomas
Fred Grandy	Andy Ireland	Carl Pursell	Fred Upton
	Nancy Johnson	Jim Ramstad	Vin Weber

Leaders of Wednesday Group work groups:

Bill Gradison, Health-Care Work Group  
Paul Henry, Education Work Group  
Nancy Johnson, Work Group on Families at Risk of Abuse or Neglect  
Jim Kolbe, Housing Work Group  
Carl Pursell, Comprehensive-Services Work Group  
Clay Shaw, Welfare-Reform Work Group

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## SECTION I

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### The Economy and Family Well-Being

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*Over the past several years there has been a deluge of studies, books, and media stories purporting to show that America is afflicted by unparalleled domestic problems, including high rates of poverty, crime and drug use. The culprits, according to these works, are declining family income, increased unfairness in the tax code, and a tattered "safety net" for the poorest Americans. Careful review of the evidence, however, shows that family income and human resource spending by the federal government have increased during the past decade, while the federal income tax system has become more progressive. Falling wages, family dissolution, and nonwork are, we find, better explanations for high poverty rates and stagnating family income.*

We begin, as must all authors of social policy, with the American economy. In 1990, the nation's gross national product increased for the eighth consecutive year and passed \$5.5 trillion. This level of national productivity translated to nearly \$16,000 in disposable personal income for every person in America, up nearly 20 percent in constant dollars since the beginning of the Reagan Administration.

In the face of this economic success story, many critics and the national media have focused attention on what might be called the soft underbelly of economic growth. In particular, they have emphasized poverty rates, slow wage growth, unequal sharing in economic growth, and declining progressivity of the federal tax system. These criticisms contain some truth. But only some. In order to create a framework for the domestic initiatives proposed below, we want to present data that illuminate what in our view are the nation's most important underlying economic and social problems.

To do so, we briefly examine both the claims and the evidence on poverty, federal social spending, income distribution, federal taxation, family formation and dissolution, and work effort by low-income Americans. By being clear about the causes of low income and poverty, our intent is to move beyond political point making and, instead, focus attention and resources on underlying problems. We conclude that the three most serious causes of poverty and low income are the decline in wages for workers with a high school education or less, the increase in single-parent families, and the decrease in labor force participation by young families in general and young male workers in particular. Detailed examination of these problems leads inexorably to consideration of the underclass.

#### Poverty: How Large a Problem?

After reaching its historic low of almost 11 percent in the mid-1970s, the poverty rate for all persons began to increase in the late 1970s, reaching a peak of 15.2 percent by 1983. The rate has, however, declined every year since 1983, reaching a level of 12.8 percent in 1989 (see Table 1, Column 1). If the poverty rate in 1989 had been the same as that in 1983, there would have been about 6 million more poor people in 1989 than there actually were. A rising tide may not lift all boats, but it lifts many.

Table 1: Poverty Rates Computed by Various Definitions and Inflation Indices and for Various Demographic Groups, 1970-1989.

Year	Official Def. (All) (1)	Using CPI-U-X1 (All) (2)	Including Noncash Benefits (All) (3)	Children* (4)	Families with Children		
					All (5)	Married Couple (6)	Female Headed (7)
1970	12.6	-	-	14.9	11.6	-	43.8
1971	12.5	-	-	15.1	12.0	-	44.9
1972	11.9	-	-	14.9	11.8	-	44.5
1973	11.1	-	-	14.2	11.4	-	43.2
1974	11.2	10.5	-	15.1	12.1	6.0	43.7
1975	12.3	11.5	-	16.8	13.3	7.2	44.0
1976	11.8	11.0	-	15.8	12.9	6.4	44.1
1977	11.6	10.7	-	16.0	12.9	6.3	41.8
1978	11.4	10.4	-	15.7	12.8	5.9	42.2
1979	11.7	10.5	7.0 <sup>a</sup>	16.0	12.6	6.1	39.6
1980	13.0	11.5	8.1 <sup>a</sup>	17.9	14.7	7.7	42.9
1981	14.0	12.2	9.3 <sup>a</sup>	19.5	15.9	8.7	44.3
1982	15.0	13.2	10.3 <sup>a</sup>	21.3	17.5	9.8	47.8
1983	15.2	13.7	10.6 <sup>a</sup>	21.8	17.9	10.1	47.1
1984	14.4	12.8	9.8 <sup>a</sup>	21.0	17.2	9.4	45.7
1985	14.0	12.5	9.3 <sup>a</sup>	20.1	16.7	8.9	45.4
1986	13.6	12.2	9.0 <sup>a</sup>	19.8	16.3	8.0	46.0
1987	13.4	12.0	9.4 <sup>b</sup>	19.7	16.1	7.7	45.5
1988	13.0	11.7	9.2 <sup>b</sup>	19.0	15.7	7.2	44.7
1989	12.8	11.4	8.9 <sup>b</sup>	19.0	15.5	7.3	42.8

\* Related children in families.

<sup>a</sup>Takes into account the value of food, housing, and medical benefits using the Census Bureau's market value approach.

<sup>b</sup>Takes into account even more benefits than the figures above; the two sets of measures denoted by <sup>a</sup> and <sup>b</sup> are not directly comparable.

Sources: U. S. Bureau of the Census. Money Income and Poverty Status in the United States, 1989. Current Population Reports, Series P-60, No. 168, September 1990, Tables 19, 20, & 21; U. S. Bureau of the Census. Measuring the Effect of Benefits and Taxes on Income and Poverty: 1989. Current Population Reports, Series P-60, No. 169-RD, Table E; U. S. Bureau of the Census. Estimates of Poverty Including the Value of Noncash Benefits: 1988. (Technical Paper 57), Washington, D. C.: U. S. Government Printing Office, 1987; U. S. Bureau of the Census. Measuring the Effect of Benefits and Taxes on Income and Poverty: 1986. Current Population Reports, 1988, series P-60, No. 16A-RD-1.

Progress in reducing poverty among children has been only moderate. Like poverty among all persons, the rate for children in families peaked in 1983 at 21.8 percent (see Column 4). Between 1983 and 1989, the rate declined to 19.0 percent. Although still too high, if the poverty rate had remained at its 1983 level, nearly 1.8 million more children would have been poor in 1989.

As Patricia Ruggles of the Urban Institute has noted in a recent extensive study of poverty measures, the official poverty index has been criticized as both too high and too low because of conceptual problems in its definition, because of numerous measurement issues, and because of

problems in accounting for inflation. We do not want to minimize the importance of claims that the official poverty index underestimates poverty, especially because the index adjusts over time only for inflation and does not take into account the growth in average family consumption. Nonetheless, we would like to emphasize two flaws in the current method of calculating poverty that seem likely to render the official index an over-estimate of the true poverty rate.

First, for many years the Census Bureau miscalculated the inflation index because expenditures on housing were weighted too heavily. Correcting for this problem, which the Census Bureau now does routinely in its publications on poverty, reduces the poverty rate by about 10 percent (compare columns 1 and 2 in Table 1). In 1989, for example, the corrected inflation index (called the CPI-U-X1 by the Bureau) reduces poverty by about 3.6 million people from 12.8 to 11.4 percent.

Second, the official poverty rate considers only cash government benefits, primarily Aid to Families with Dependent Children, Supplemental Security Income, Social Security, and Unemployment Compensation. As a result, billions of dollars in noncash government benefits are ignored when the poverty rate is calculated. To gain some idea of the scale of this omission, consider that in 1989 none of the \$14 billion in housing programs, \$17 billion in nutrition programs, \$20 billion in education, training, and social service programs, or \$138 billion in health programs were included in the poverty computation. Consider also that some of these programs, particularly the housing and health programs, grew rapidly during the 1970s and 1980s; none of this growth counted in the official definition of poverty.

Much to its credit, the Census Bureau has been experimenting for many years with ways to compute the effects of noncash benefits on poverty levels (for references, see Sources in Table 1). Column 3 in Table 1 provides an indication of the impact of taking noncash benefits into account. On average, over the years 1979 to 1989, the various methods of calculating the impact of noncash benefits reduced the official poverty index by around a third. In 1989, for example, taking noncash benefits into account would have reduced the number of people in poverty by nearly 10 million, from around 12.8 to 8.9 percent or from 32 million to 22 million people.

Despite the continuous declines in poverty between 1983 and 1989, and the possible overcounting of the poor by the official definition of poverty, we are greatly concerned about the current level of poverty in the United States. Whether the actual number is 32 million or 26 million, too many Americans are poor. Moreover, despite years of prosperity and falling unemployment, poverty rates are nowhere near their historical lows. For families with children the lowest rate ever recorded was 10.8 percent in 1969; for children it was 13.8 percent in 1969. The comparable figures for 1989 were 15.5 and 19.0. Why has the impressive economic progress of recent years failed to bring the nation's poverty rates closer to their historic lows?

#### Federal Spending: Trends During 1980s

One frequent answer to this question is that federal social programs sustained deep cuts during the Reagan era. The conventional wisdom is that social programs were gutted, leaving a tattered safety net and even a social deficit that must be addressed by new federal programs and increased spending. A widely-publicized 1989 report from the Ford Foundation, for example, recommended increased federal spending of about \$29 billion per year to address the social deficit.

When the actual budget numbers are consulted, however, the surprises begin immediately. First, in constant 1989 dollars, federal spending grew \$218 billion or over \$27 billion per year during the era of Reagan budget cutting. In the 10 years between 1980 and 1990, the federal government actually spent \$1.9 trillion dollars (adjusted for inflation) above the 1981 level of federal spending and borrowing, about \$1.1 trillion from revenue increases and \$.8 trillion from borrowing.

It is true that defense spending grew rapidly during the decade, but the growth in spending on social programs, which was much higher to begin with, was also substantial. The broadest

Table 2: Real Spending on Programs That Include Children and Families, 1981, 1989.

Spending Program	Year		Change	
	1981	1989	In \$	In %
AFDC	9,112	9,000	-112	-1
EITC	2,661	6,368	3,707	102
Child Support Enforcement	588	941	353	60
Supplemental Security Income	8,576	11,300	2,724	32
Social Security Dependents	15,410	11,000	-4,410	-29
Military Survivors	441	804	363	82
Worker's Compensation--Federal	840	988	148	18
Black Lung	2,144	1,400	-744	-35
<u>Income Support Subtotal</u>	<u>39,772</u>	<u>40,801</u>	<u>1,029</u>	<u>3</u>
Food Stamps	10,988	10,300	-688	-6
School Lunch	3,216	3,100	-116	-4
School Breakfast	430	510	80	19
Child Care Food	390	669	279	72
Commodity Assistance	847	530	-317	-37
Women, Infants, and Children	1,306	1,900	594	58
<u>Nutrition Subtotal</u>	<u>17,077</u>	<u>17,009</u>	<u>-68</u>	<u>0</u>
Social Services Block	4,020	2,700	-1,320	-33
Dependent Care Credit	1,260	3,500	2,240	178
Head Start	1,072	1,200	128	12
Foster Care	407	1,023	616	151
Community Services Block	705	381	-324	-46
<u>Social Service Subtotal</u>	<u>7,464</u>	<u>8,804</u>	<u>1,340</u>	<u>18</u>
Education of Disadvantaged	3,484	4,000	516	15
Education Block Grant	686	463	-223	-33
Handicapped Education	1,172	1,475	303	26
Vocational Education	820	826	6	1
Impact Aid	914	733	-181	-20
Defense Schools	512	821	309	60
Training Disadvantaged	2,814	1,800	-1,014	-36
Job Corps	752	742	-10	-1
Summer Youth Training	1,124	709	-415	-37
<u>Education/Training Subtotal</u>	<u>12,278</u>	<u>11,569</u>	<u>-709</u>	<u>-6</u>
Medicaid	5,494	7,700	2,206	40
Maternal and Child Block	519	554	35	7
Community Health Centers	434	415	-19	-4
Alcohol, Drug Abuse Block	695	806	111	16
Indian Health	925	1,081	156	2
Federal Employees	3,350	7,800	4,450	133
Military Health	7,638	12,700	5,062	66
<u>Health Subtotal</u>	<u>19,055</u>	<u>31,056</u>	<u>12,001</u>	<u>63</u>
Public Housing	3,216	3,200	-16	-1
Leased	4,154	9,800	5,646	136
Rental	891	626	-265	-30
<u>Housing Subtotal</u>	<u>8,261</u>	<u>13,626</u>	<u>5,365</u>	<u>65</u>
<b>Grand Total</b>	<b>103,907</b>	<b>122,865</b>	<b>18,958</b>	<b>18</b>

Note: Figures are in millions of constant 1989 dollars. Does not include unemployment compensation or Cuban/Haitian refugee assistance or programs with funding less than \$500 million.

Source: See S. L. House (Table 3, pp. 25-29) in References.

measure of federal social spending is the budget category called "Human Resources." Between 1980 and 1991, spending in this category increased from \$562 to \$692 billion in constant 1990 dollars, an increase of \$130 billion or nearly 25 percent in eleven years.

Of course, the Human Resources category contains hundreds of different programs. Cuts in some programs were masked by increases in other programs during the period. Perhaps the most important social programs are those that constitute the Safety Net for the poor. Although there is no widely agreed upon definition of the Safety Net, it seems reasonable to define it as the major programs designed to give cash, food, housing, and medical care to the poor. By this definition, in constant 1990 dollars, spending grew from \$54.9 billion in 1981 to \$64.3 billion in 1989, \$70.5 billion in 1990, and \$79.4 billion in 1991; these represent increases of 17 percent, 28 percent, and 15 percent respectively. Similarly, seven programs for children and families judged to be the most successful federal social programs by a recent report from a House select committee enjoyed a spending increase of \$4 billion, from \$39 billion to \$43 billion between 1981 and 1988.

The nonpartisan Congressional Research Service has recently published budget data on all federal programs that provide benefits for children or families. Table 2 shows the constant dollar spending for 1981 and 1989 on the major programs grouped by functional category into income support, nutrition, social services, education and training, health, and housing. This analysis demonstrates that only the education and training programs were cut substantially during the decade. Overall, funding for the 38 programs increased by 18 percent in real terms. In other words, over an 8-year period during which the U.S. population increased 8 percent and the number of people in poverty increased by less than 1 percent, the federal government increased its spending on programs that include children and families by 18 percent.

Nor has the spending on social programs been greatly slowed by the deficit crisis. Last fall, Congress enacted budget legislation that was touted as the biggest package of deficit reduction in U.S. history. Nonetheless, Congress was able to create new day care programs and substantial expansions of the Earned Income Tax Credit that will cost \$23 billion over the next five years. Combined with the \$91 billion expected to be spent on the EITC and the federal government's numerous day care programs, even before new legislation was passed, the federal government will now be spending over \$114 billion on day care, Head Start, and the Earned Income Tax Credit between 1991 and 1995.

It is one thing to respond, as we do in Table 2, to charges of reduced social spending with data showing that spending on most programs held constant or increased during the 1980s. But as the EITC and day care examples suggest, Congress and the Reagan Administration did more than simply maintain old programs; Congress also enacted statutory expansions of existing programs and created entirely new programs. Some of these major expansions of social policy are summarized in Table 3. Over the next five years, the federal government will spend a minimum of \$82.8 billion on social programs that did not exist in 1980 or on expansions of old programs that were mandated by statutory changes during the decade. In view of this vast amount of spending on new programs, we find it difficult to understand how anyone can maintain that the 1980s saw cuts in social spending.

If overall spending on these programs increased during the 1980s, it is unreasonable to claim that reduced government spending was a major cause of the slow progress against poverty, particularly since there were fewer poor families and nearly the same number of poor children in 1989 as in 1981. Moreover, there is every indication that federal spending on social programs will continue to increase in the years ahead. Federal spending, in short, is a bulwark against, rather than a cause of, poverty.

**Table 3: Estimated Five-Year Spending on Social Programs Created or Expanded During the 1980s.**

Program	Fiscal Year					Total 91-95
	1991	1992	1993	1994	1995	
	(billions of dollars)					
<b>AFDC:</b>						
JOBS	\$0.62	\$0.77	\$0.81	\$0.90	\$1.07	\$4.17
Child Care Transition	0.06	0.10	0.14	0.14	0.15	0.59
JOBS Child Care	0.21	0.23	0.27	0.30	0.34	1.35
<b>Medicaid</b>	2.67	3.46	4.47	5.02	5.66	21.28
<b>EITC:</b>						
Basic Credit	5.00	7.00	8.20	9.20	12.30	41.70
Health Credit	0.10	1.20	1.20	1.30	1.40	5.20
Young Child	0.00	0.20	0.20	0.20	0.20	0.80
<b>Day Care:</b>						
Develop. Block Grant	0.02	0.93	0.91	0.83	0.84	3.53
At-Risk Grant	0.10	0.20	0.24	0.29	0.30	1.13
Licensing Grants	0.01	0.01	0.01	0.02	0.02	0.07
<b>Homeless (McKinney)</b>	0.46	0.55	0.60	0.66	0.71	2.98
<b>Totals</b>	9.25	14.65	17.05	18.86	22.99	82.80

**Note:** Congress enacted major expansions of several drug programs in the 1980s. The Office of National Drug Control Policy estimates that drug spending increased from about \$1.5 billion in 1981 to about \$10.5 billion in 1991. None of the drug spending increases have been included above both because it is difficult to separate spending on new programs from increased spending on existing programs, and because no federal agency has yet made estimates for years beyond 1992. See: Office of the President. National Drug Control Strategy: Budget Summary. Washington, DC: Author, 1991, p. 219.

**Source:** All figures are from the Congressional Budget Office except the Medicaid estimates which are from the National Association of State Budget Officers.

### Distribution of Income: Wages, Taxes, Social Security

**Income and Wages.** Democratic members of the Ways and Means Committee recently published a report designed to show that, in part because of the putative inequity of taxes, low-income families are worse off while wealthy families are better off now than at the beginning of the current economic expansion. This claim is echoed in other recent reports from the Joint Economic Committee, the Ways and Means Committee, the Democratic Study Group, Citizens for Tax Justice, and several other sources, all of which hold that because of static wages, declining government benefits, and higher taxes, low-income families have lost ground to wealthy families.

These claims should be evaluated in light of several considerations. First, the inflation-adjusted cash income of families in all income groups, including the lowest, have increased every year since 1983. In fact, as shown in Table 4, all except the bottom 20 percent (quintile) of families have achieved their highest income ever. Even families in the lowest quintile of the income

**Table 4: Mean Pretax Family Income by Quintile in Constant 1989 Dollars, 1970-1989.**

Year	Income Quintile				
	Lowest	Second	Thrd	Fourth	Highest
1970	9,070	20,341	29,412	39,674	68,224
1971	9,103	20,047	29,331	39,723	68,419
1972	9,518	20,968	30,799	42,059	72,945
1973	9,783	21,351	31,370	42,872	73,557
1974	9,636	21,035	30,783	42,172	72,121
1975	9,291	20,235	30,153	41,288	70,541
1976	9,509	20,740	31,017	42,379	72,440
1977	9,361	20,817	31,394	43,325	74,276
1978	9,650	21,475	32,319	44,530	76,566
1979	9,801	21,623	32,657	44,970	77,922
1980	9,286	20,852	31,588	43,828	75,049
1981	8,906	20,144	30,916	43,411	74,419
1982	8,427	19,834	30,381	43,093	75,903
1983	8,409	19,869	30,634	43,668	76,823
1984	8,692	20,406	31,554	45,123	79,518
1985	8,808	20,677	31,985	45,845	82,510
1986	9,095	21,396	33,204	47,447	86,423
1987	9,248	21,734	33,749	48,301	88,271
1988	9,284	21,712	33,787	48,524	89,033
1989	9,431	22,018	34,206	49,213	92,663

Source: U. S. Bureau of the Census. Money Income and Poverty Status in the United States, 1989, Series P-60, No. 168. Washington, D. C.: U. S. Government Printing Office, 1990. p. 30.

distribution have seen their income rise nearly 12 percent over the period -- from \$8,409 to \$9,431 in constant dollars; those in the second lowest quintile have also enjoyed an increase of about 12 percent.

These increases in family income are supported by a recent report from the Congressional Budget Office. According to CBO, between 1970 and 1986 the constant dollar income of families increased 20 percent. But, as in the case of poverty, income growth was sharply different across family types. Most striking was the robust 26 percent growth among couples with children as contrasted with the modest 2 percent growth for single mothers with children. Single parents, particularly those who have children out of wedlock and those who do not work, do not experience the same dramatic increases in income as married-couple families.

We take comfort from the fact that family incomes have been rising for all income groups. However, like most of the analysts and policymakers who have looked into this issue, we are concerned that family incomes at the bottom of the distribution are not rising very quickly. We are especially disturbed that after six years of growth, incomes of families in the lowest 20 percent of earners have not yet reached the level reached nearly 20 years ago. Something is wrong here.

In consulting with numerous experts and policy advisors about the exceedingly complex issue of family income, we have reached only a few solid conclusions. Two undisputed conclusions, however, are that almost everyone has a favored theory on why incomes at the bottom of the distribution are growing so slowly and that political orientation usually dictates the theory. On this as on so many other important political and economic issues, where you stand depends on where you sit. We have labored to be fair in our analysis of this problem, notably by beginning with the flat statement that family incomes at the bottom of the distribution are a problem.

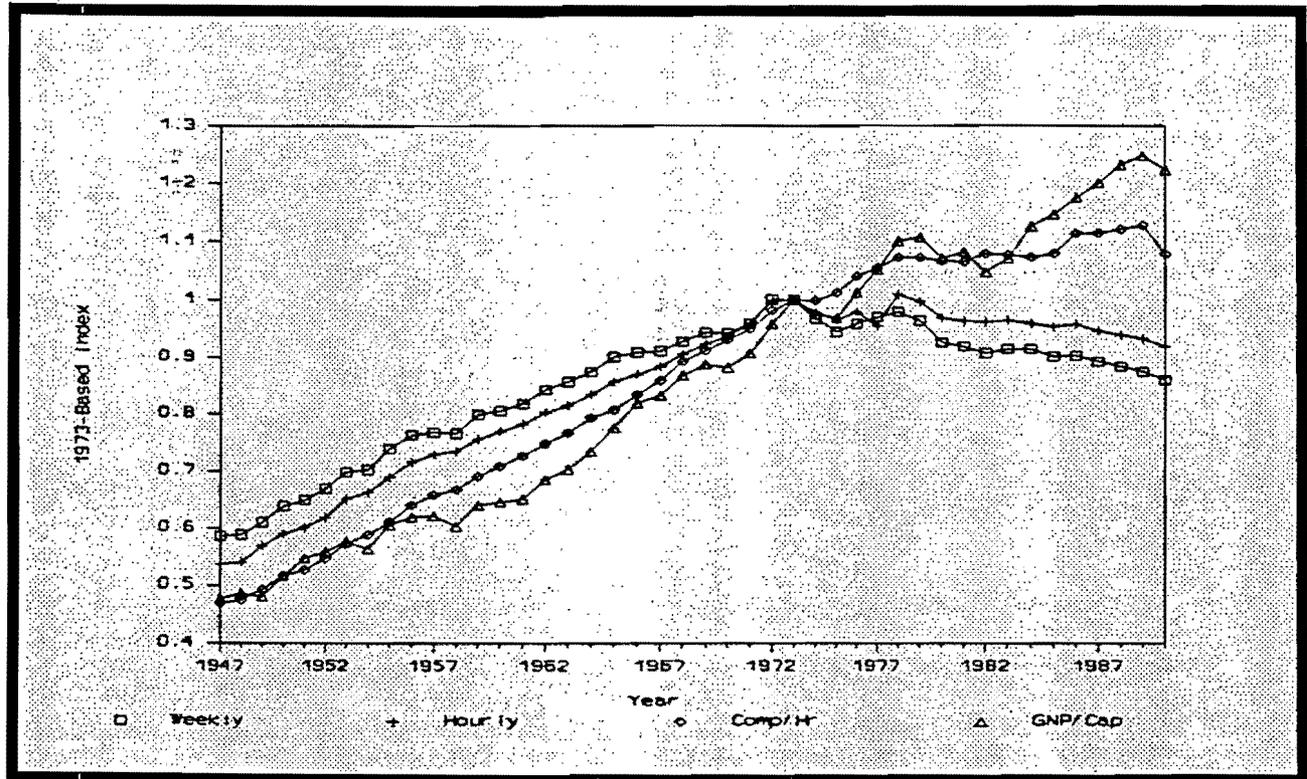
Surprisingly, we did find a few areas of agreement on the performance of the American economy and family income. The first is that the job growth generated by our economy is, as one analyst put it, the envy of the world. Over the past 20 years, while the U. S. economy was generating a net increase of 40 million jobs (15 million of them between 1983 and 1989), France, Italy, the Netherlands, Sweden, and West Germany added a combined total of about 3.5 million jobs and Japan added only about 9 million. While the unemployment rate in many European nations and England was growing to double digits, the U. S. declined from 7.5 to 5 percent between 1983 and 1989.

Critics such as Barry Bluestone of the University of Massachusetts and John Kasarda of the University of North Carolina, however, have argued that many of these jobs were, to use a somewhat technical term invented by Gary Burtless of the Brookings Institution, "lousy." They are lousy because they pay low wages. According to this view, America is turning from a nation of skilled manufacturing workers into a nation of parking lot attendants and hamburger flippers.

The arguments over wages and income, particularly at the bottom of the distribution, are difficult to penetrate. Complexity of analysis seems to unite with politically-tainted motives to render most renditions of the arguments confusing to noneconomists. One of the primary reasons for these difficulties is the great variety of income and wage measures from which polemicists can select. Consider the data in Figure 1, taken from the work of Marvin Kosters of the American Enterprise Institute. Here we see four different measures of economic well-being of workers between 1947 and 1989.

The broadest measure, GNP per capita, shows strong growth over the 40-year period interrupted only by major recessions. In historical perspective, the years between 1978 and 1982 constituted the worst period of stagnation and decline in the post-war period. But GNP per capita

Figure 1: Trends in Four Measures of Real Pay: Average Weekly Earnings, Average Hourly Earnings, Compensation per Hour, GNP per Capita, 1947-1990.



shows rapid improvement after 1982 comparable to other periods of growth since 1947. Unquestionably, GNP per capita makes the 1980s look like a superb period of economic expansion.

By contrast, average weekly earnings paint a miserable picture of the 1980s. After steady growth until the early 1970s, weekly earnings have fallen into a slump. Remarkably, even when the economy took off after 1982, weekly earnings continued to decline slightly.

The picture portrayed by average hourly earnings is only somewhat better. Like weekly earnings, hourly earnings increased steadily until the early 1970s, at which point they entered a period of stagnation and decline from which they have not yet recovered. The only difference between the two measures since the early 1970s is that hourly earnings have fallen less than weekly earnings relative to the index year (1973). This difference is caused primarily by the fact that the average length of the American work week has declined by almost a full hour since 1979.

By contrast with weekly and hourly earnings, and similar to GNP per capita, compensation per hour, a measure that includes employee benefits as well as earnings, shows growth in the period after the early 1970s and after the 1982 recession.

The four curves in Figure 1 pose an obvious question: how is it possible to explain the striking differences that underlie these representations of economic reality? Happily, two factors provide rather straightforward explanations of the differences. First, both GNP per capita and compensation per hour include almost all workers in the economy. On the other hand, both average weekly and hourly earnings include only production and nonsupervisory workers. In 1991, production and nonsupervisory workers comprised less than 65 percent of all workers. More to the point, the 35 percent left out are, on average, workers with higher incomes such as supervisors and executives. Not surprisingly, trend lines that exclude high wage earners (average weekly and hourly earnings) are not as satisfying as trend lines that do include high wage earners (GNP per capita and compensation per hour).

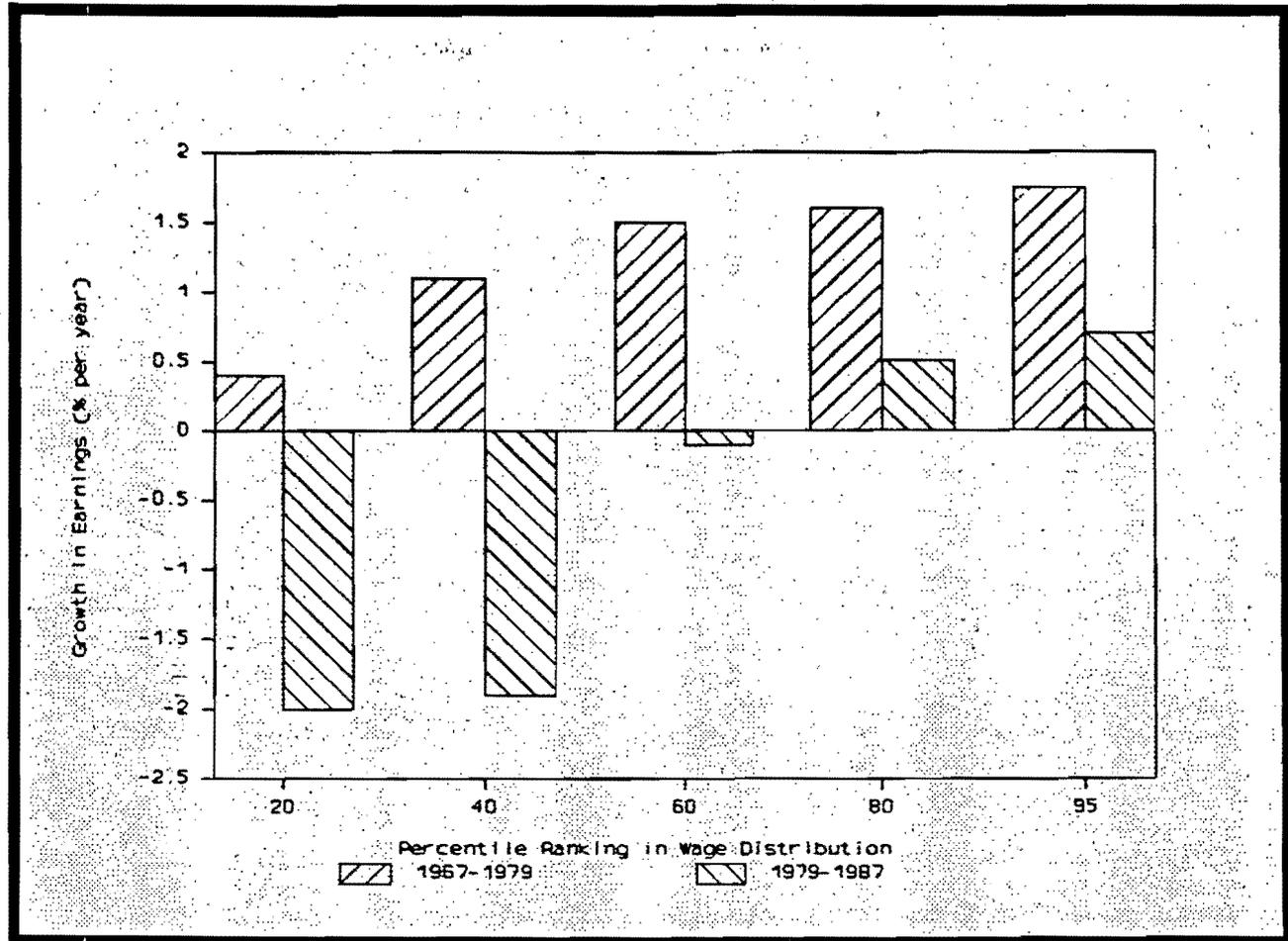
Second, average weekly and hourly earnings include only cash wages. Employee benefits, notably health insurance, pensions, and the employer's share of Social Security, are excluded. Data collected by the Department of Labor in its Employment Cost Index show clearly that employee benefits have been rising faster than wages since about 1980. Again trend lines that exclude some sources of income (average weekly and hourly earnings) are lower than trend lines that include more sources of income (GNP per capita and compensation per hour).

These various wage measures underline the importance of caution in interpreting wage data. Given that many analysts on both the left and right wield numbers like weapons, we quickly learned that picking particular wage measures and time periods could allow analysts to support almost any conclusion they favor. If analysts want to show low wages to draw the conclusion that the 1980s were unfair, they use wages of nonsupervisory workers and exclude fringe benefits. If analysts want to show increasing wages to draw the conclusion that the 1980s were good for all classes of workers, they include supervisory and other highly-compensated workers and select a measure that includes employee benefits.

We think it reasonable to recognize the economic achievements of the 1980s -- reduced inflation, rising exports, steady growth of GNP, explosion of jobs, and rising average incomes -- and conclude that on the whole the economic news was good to excellent. But there is an underside to this optimistic summary. None of the data presented above tell us anything about how workers at various points in the wage distribution progressed during the decade. Averages, after all, can mask big changes within a distribution.

Perhaps the most comprehensive picture of changes in wages along the entire income distribution has been presented by Gary Burtless. As shown by the Burtless data summarized in Figure 2, male earnings increased for every income quintile between 1967 and 1979. By contrast, between 1979 and 1987, average annual wages for the bottom two quintiles declined by about 1

**Figure 2: Comparison of Growth Rates in Real Wages for Males, by Various Income Groups in 1967-1979 and 1979-1987.**



percent and 2 percent respectively. Interestingly, wages for all five quintiles of women earners increased during both periods and wage growth for women was actually more rapid in the bottom quintile than any other quintile during the 1980s. Even so, the conclusion that male wages fell for the bottom 40 percent of workers during the 1980s seems inescapable.

The Burtless data does not suffer from the flaw of being confined to only production and nonsupervisory workers. On the contrary, by using Census data on a representative sample of the American work force, the wage information in Figure 2 represents perhaps 95 percent of all workers. On the other hand, employee benefits are not included in the Burtless data. If the compensation per hour measure used by Kusters were available by income quintile, we might find that, when employee benefits are taken into account, income in the bottom quintile is not quite as bad as portrayed by the Burtless data. Unfortunately, such data are not available.

Even if they were, our guess is that they would be unlikely to change the major conclusion to be drawn from the preponderance of evidence we have examined: income and wages at the bottom of the distribution are a problem. Our reason for examining wage data in the first place was to help understand the trends in family income summarized in Table 4. After extensive analysis, we have found that the best data on wages mirror family income data: the overall picture is good, but is nonetheless marred by problems at the bottom of the distribution.

Putting aside quibbles about whether wages for men at the bottom have increased slightly, stagnated, or declined, our major concern is finding an explanation of the wage and income growth problem for low-income workers and families. On this most critical issue, we find substantial agreement among the experts. As Burtless and others have shown, there is a striking contrast in the income of men and women with 12 or fewer years of schooling as compared with the income of those with 16 or more years of schooling. Since 1973 there has been a gradual decline in the inflation-adjusted hourly wages of men with a high school education or less. For women with a high school education or less, there are slight changes over time, but no clear trend. By contrast, while both males and females with high school educations were experiencing wage stagnation and decline, both males and females with college educations have been experiencing steady increases in hourly wages since 1980.

Here is a major explanation of stagnation at the bottom of the wage distribution, which in turn plays an important role in explaining stagnation in family income. As Gary Burtless puts it, the problem is not as much lousy jobs as it is poorly educated and untrained workers.

**Taxes.** The role of taxes is another consideration in determining winners and losers in the distribution of income. Judgments about the fairness of our tax system must take a broad variety of factors into account. According to Henry Aaron of the Brookings Institution, Americans pay among the lowest taxes of any industrial nation. Further, our tax system is more progressive than that of most industrial nations because other nations collect a larger share of their taxes from payroll and sales taxes than income taxes; the former tend to be more regressive than the latter.

The federal tax system, and especially the income tax system, is strikingly progressive. Even so, based on recent publications by the House Ways and Means Committee, many commentators are claiming that the tax system became less progressive under Presidents Reagan and Bush because the rich paid a lower percentage of their income in taxes. As shown in Table 5, families in the top quintile of income experienced a decline in total effective federal tax rates from 27.3 percent in 1980 to 25.8 percent in 1990. By contrast, the lowest quintile experienced an increase from 8.4 to 9.7 percent.

Table 5: Total Federal Tax Payments by Families as Percentages of Income and of Federal Tax Receipts, by Income Quintile, 1980 and 1990.

Income Quintile	As Percentage of Income		As Percentage of Federal Taxes	
	1980	1990	1980	1990
Highest	27.3	25.8	55.7	58.1
Fourth	23.0	22.5	22.2	21.0
Third	20.0	20.3	13.4	12.6
Second	15.7	16.7	7.0	6.6
Lowest	8.4	9.7	1.6	1.6
Top 1%	31.8	27.2	12.8	15.7
Top 5%	29.5	26.7	27.1	30.4

**Note:** Percentages are for total federal taxes including personal income, social insurance, corporate and excise.

**Source:** Committee on Ways and Means, 1990, pp. 1173-1180.

These estimates of effective tax rates for the top two quintiles are likely to be somewhat inflated because capital gains are not discounted for inflation by the CBO model used to make the calculations. But even more to the point, as noted in a recent editorial by Martin Cohen, Vice President of the Washington Post, the fixation on tax rates paid by families in the upper income brackets is unfortunate; a more "crucial" measure is the amount or share of federal taxes paid by the rich. Though families in the upper quintile paid a lower percentage of their income in taxes at the end than the beginning of the decade, their share of federal taxes nonetheless increased from 55.7 to 58.1 percent (see Table 5, last 2 columns). Lest it be thought that this is a minor change, it amounted to a gross sum of approximately \$25 billion additional dollars or about \$5,000 of additional taxes for every family in the top quintile.

It is our guess that many of those calling for greater taxes on the rich have little idea of the substantial share of taxes the rich now pay. This is especially true for federal income taxes. As shown in Table 6, which is based on actual income tax returns, in 1988 the upper 1 percent of earners paid 28 percent of federal income taxes, up from 18 percent at the beginning of the Reagan Administration in 1981. Similarly, the upper 5 percent of earners paid 46 percent of federal income taxes, up from 35 percent over the same period. Surprisingly, the bottom 50 percent of taxpayers carried just 6 percent of the federal income tax burden, down from the 8 percent they carried in 1981.

Perhaps the most interesting numbers in Table 6 are the burden ratios presented in the last column. This ratio is computed by dividing the average income tax payment for taxpayers in the upper 1 percent by the average income tax payment by taxpayers in the bottom 50 percent. As a measure of tax fairness, the burden ratio tells us how many tax dollars are paid by very wealthy citizens for every dollar paid by citizens in the bottom half of the income distribution. The burden ratio numbers in Table 6 show that, relative to lower-income taxpayers, the very rich experienced continuously increasing federal income taxes between 1981 and 1987. In fact, the burden ratio more than doubled during the 1980s, from \$118 to \$240.

What we have here, or course, are two entirely different ways of looking at tax changes during the 1980s: Effective tax rates on the rich declined while those on lower-income families

Table 6: Percentage of Federal Income Taxes Paid by Various Income Groups, 1981-88.

Year	Income Group				Burden Ratio
	Top 1%	Top 5%	51st-95th Percentile	Bottom 50%	
1981	18	35	57	8	\$118
1982	19	36	56	7	129
1983	20	37	56	7	142
1984	21	38	55	7	143
1985	22	39	54	7	152
1986	25	42	52	7	191
1987	25	43	51	6	202
1988	28	46	49	6	240

Note: Based on IRS tax return data; income data is for families.

\*Computed by dividing the average tax paid by families in the upper 1 percent by the average tax paid by families in the bottom 50 percent.

Source: Frenze, C. The Federal Income Tax Burden, 1981-1987: A Senate Staff Report. Washington, D.C.: Joint Economic Committee, Republican Staff, 1990.

increased; by contrast, the percentage of total federal taxes paid by the rich increased while the percentage paid by the middle class and the poor declined throughout the decade. How can these two views be reconciled?

The standard explanation is that incomes of the rich increased so rapidly that they could pay a lower percentage of their income in taxes and still pay more in absolute dollars than before the 1980s. On the other hand, the incomes of families in the bottom two or three quintiles stagnated or even declined. Thus, even though they paid a high percentage of their income in taxes, the absolute dollars paid did not keep up with the increased tax payments by the rich.

There is abundant evidence that incomes of the rich increased during the 1980s. Nonetheless, two considerations suggest that the increased income wealthy Americans reported to Census Bureau interviewers (see Table 4) and on tax returns may be at least somewhat overstated. First, as Larry Lindsey has argued in his book, The Growth Experiment, by reducing income tax rates the tax reforms implemented in the early 1980s made many wealthy Americans more willing to declare earnings rather than protect it in shelters or take it as stock options, life insurance, or other forms of tax-exempt income. Lindsey's analysis seems to show that if the tax rate on income is lowered, so is the motivation to take earnings in a form that minimizes taxes.

The major tax reform legislation passed in 1986 provides a second caveat to claims about dramatic increases in the income of wealthy Americans. In addition to lowering the rates again, the most fundamental idea of the 1986 reforms was to broaden the tax base by eliminating shelters, most notably the deduction of passive losses, in order to reduce tax rates for all Americans. Put succinctly, the idea was: broaden the base, lower the rates, maintain the revenues. If the express intent of the 1986 reforms was to increase the income base on which taxes were based, an unintended effect was to substantially increase income reported on tax forms, at least some of which had been income all along but which became visible only after the 1986 tax reforms were enacted.

The base broadening and rate reductions of the 1980s did exactly what they were designed to do -- maintain, even increase, the level of federal revenue from taxes while increasing tax fairness. Federal revenues are now at their all-time high. This year is the fifth consecutive year in which revenues will equal or exceed 19 percent of GNP, a level of sustained tax revenue never before experienced by the federal government. Moreover, taxes as a percent of GNP will continue to climb at least until 1994, at which time they will reach nearly 20 percent.

It is no surprise, then, that IRS tax return data for 1988, the latest available year, show that income tax payments were up \$55 billion or 15 percent in constant dollars as compared with 1980. It is, however, a surprise -- given the emphasis on effective tax rates by those claiming the 1980s was a decade of growing tax inequity -- that the income taxes paid by the upper 1 percent increased from \$66 billion in 1980 to \$106 billion in 1988, an increase of over 60 percent. The increase for the top 10 percent was from \$177 billion to \$237 billion, an increase of 34 percent. Meanwhile, the remaining 90 percent of taxpayers actually paid \$5 billion less in 1988 than in 1980.

A recent study by the Congressional Budget Office shows that the equity of effective tax rates was actually increased by the tax code changes enacted during the 1980s. CBO applied 1980 tax law and current tax law to projected 1992 incomes and then calculated the effective income tax rates for various income groups. If tax code changes during the 1980s had helped the rich at the expense of the poor and middle class as often claimed, we would expect to find that the poor and middle class have higher effective rates under today's tax law than 1980 law; the opposite would be true for the rich.

CBO's results, presented in Table 7, can be summarized in three statements. First, federal income tax rates for every income group are lower under today's tax law than under 1980 tax law. The average decline was about 40 percent. Changes in tax policy during the 1980s are good for everyone.

**Table 7: Effective Federal Income Tax Rates in 1992 Under 1980 and Current Tax Laws.**

Income Group	Effective Tax Rate		Percent Diff. 1980 and Curr.
	Under 1980 Tax Law	Under Current Tax Law	
Lowest Quintile	1.7	-2.8	-263.6
Second Quintile	7.3	2.6	-64.1
Middle Quintile	11.7	6.3	-46.3
Fourth Quintile	15.6	8.7	-44.2
Highest Quintile	25.2	16.3	-35.2
Top 1%	33.9	23.7	-30.2
Average	18.9	11.5	-39.5

**Note:** Incomes are projected for 1992 by the Congressional Budget Office tax model; families with zero or negative incomes are excluded from the bottom quintile.

**Source:** Congressional Budget Office.

Second, reductions in effective income tax rates are inversely related to income: the lower the income, the greater the tax rate reduction. Dividing families into five quintiles of equal size on the basis of income, the average reduction declines systematically from over 250 percent for the poorest group to about 35 percent for the richest group. Changes in tax policy during the 1980s are especially good for the poor.

Third, underlining the remarkable progressivity of tax code changes in the 1980s, the federal income tax burden actually turned negative for the bottom quintile of earners. Whereas their effective income tax rate using 1980 law would have been about 2 percent, their actual tax rate as a result of tax code changes of the 1980s will be a negative 3 percent (they will receive money from the government) -- primarily because the 1986 tax reform took about 6 million low-income families off the tax rolls and because the 1986 law and subsequent legislation expanded the earned income tax credit that provides cash to low-income working families with children. In 1992, about 11.5 million families will receive nearly \$9.5 billion from the EITC.

Tax legislation passed by Congress as part of last year's budget agreement promises to expand tax progressivity even more. According to a study done by the nonpartisan Joint Committee on Taxation at the request of Representative Bill Gradison, the 1990 tax changes increased the effective tax rates for most taxpayers with incomes over \$20,000 while decreasing effective rates for those with incomes under \$20,000. The increase in effective rate is around 2 percent for taxpayers with incomes between \$20,000 and \$200,000. Above \$200,000, the effective rate increases rapidly, reaching 8 percent for those above \$1 million. Thus, the tax code promises to become even more progressive in the years ahead as federal revenues continue to rise.

**Social Security.** Not every type of federal tax is as progressive as the income tax. The most regressive federal tax is the Social Security payroll tax. The issue here is that the system of Social Security benefits is financed by a flat tax applied to wages up to about \$53,000 (in 1991) for the old age, survivors, and disability benefits and \$125,000 for medicare benefits. Because the combined tax rate is flat and because lots of income above the wage caps goes untaxed, Social Security taxes are far less progressive than income taxes. Critics argue that because Social Security tax rate increases enacted in the late 1970s were actually implemented during the 1980s, the tax became even less progressive and added substantially to the overall regressivity of federal taxation.

But social security tax rates were not all that changed during the 1980s; the wage base was also increased by more than inflation in both 1981 and 1982. Then, in last year's budget agreement,

the wage base for the medicare portion of the tax was more than doubled to \$125,000. As a result of these wage base changes, the percentage of U. S. wages now subject to Social Security taxes is near its all-time high. According to a recent CBO analysis, the net effect of all these changes was to reduce slightly progressivity at the bottom of the income distribution but to increase substantially progressivity at the top.

Even more important, Social Security taxes are vastly different from most taxes. In exchange for paying this tax, workers get the following direct benefits:

- disability insurance, from which about 4.1 million American workers and their dependents now receive benefits;
- health insurance when they reach age 65, the value of which now averages about \$3,000 per year per recipient;
- generous retirement benefits, which now average around \$12,000 per year for a worker and spouse.

A worker retiring at age 65 in 1989 who had enjoyed average earnings throughout his life would have paid payroll taxes which, had the money been in a bank accumulating interest, would have amounted to \$52,302. The monthly retirement benefit for this worker would be \$720 (\$1,080 for worker and spouse). Within about six years, this worker would have recovered all the money (plus interest) he paid into the Social Security trust fund. The average male worker who retires at age 65 will live 15 years (for females, 19 years), thereby enjoying a substantial windfall from his payroll tax investment. Moreover, the benefit payment system is highly progressive; low-wage workers enjoy a much higher ratio of benefits-to-contributions than other workers.

Though Social Security benefits relative to investments will decline in the future, the Congressional Research Service projects that a minimum wage worker retiring in 2000 will still recover the total amount plus interest of the combined employer-employee contribution to Social Security within 7.4 years. Under all the projections, low and average wage workers take fewer years to recover the value of their contributions than high wage workers.

Even though the Social Security system is progressive when benefits as well as taxes are taken into account, the tax nonetheless falls heavily on low-income families. Long concerned about this problem, in 1975 Congress enacted something called the Earned Income Tax Credit. Expanded several times since 1975, the EITC provides a cash supplement to low-income workers with dependents. In 1990, the EITC equaled 14 percent of wages up to a maximum cash benefit of about \$1,000. The cash is taken either in the form of tax forgiveness or, for the millions of low-income workers who have no federal income tax liability, as a cash rebate. As shown by materials published by the Ways and Means Committee, over 10 million families received a total of nearly \$6 billion through the EITC in 1990. When this cash refund is taken into account, families in the lowest quintile actually paid negative federal income taxes in 1990. Even this level of payment will be reduced substantially by the EITC expansions passed by Congress in 1990. For some families in the lowest quintile, EITC subsidies will expand from the 1990 maximum of \$1,000 to nearly \$3,000 by 1994.

In short, Social Security appears to be a reasonable investment, especially for low-wage workers. From this perspective, critics emphasizing the regressive characteristics of the payroll tax might at least note that those paying the tax will receive benefits worth much more than the taxes they paid into the system, that taking benefits into account shows the system to be highly progressive, and that payments into the system by low-income families with children are often more than offset by the EITC. For millions of American families, the Social Security tax is a wise investment and their major source of wealth.

This overview of the federal tax system leads us to emphasize its considerable strengths and increasing fairness while at the same time acknowledging the substantial impact of Social Security taxes on low-income families. We also draw attention to the effects of the 1981 and 1986 tax reforms on progressivity, and the even more powerful progressivity effects of last year's EITC reforms. The federal tax system plays little or no role in the persistence of poverty. In fact, there is every reason to believe that federal taxes in general, and the EITC in particular, are increasingly important tools in fighting poverty and low income.

### The Explosion of Female-Headed Families

If we find the causes of poverty and the associated social ills examined thus far to be at best partial explanations of persistent poverty, we now turn to two causes that are compelling in their simplicity and empirical support. Poverty and its unwelcome companions are now sustained in large part by the explosion of female-headed families, the remarkable decline in work among low-income families, and as we have already seen, the stagnation of wages among low-income workers.

The poverty rate for female-headed families with children has averaged around 44 percent since 1970. By contrast, the poverty rate for married-couple families has hovered around 6 or 7 percent in most years. So the risk of being poor is increased by a factor of at least six for persons living in female-headed families. It follows that if relatively more families are headed by females, the poverty rate will increase.

Table 8: Divorces, Out-of-Wedlock Births, and Female-Headed Families, 1960-1988.

	Year				
	1960	1970	1980	1985	1988
<u>Divorces:</u>					
Number (thousands)	393	708	1,189	1,190	1,183
Rate	2.2	3.5	5.2	4.9	4.8
<u>Out-of-Wedlock Births:</u>					
Number (thousands):					
Whites	-	175	320	433	540
Blacks	-	215	326	366	427
All	-	399	666	828	1,005
Rates **					
White	-	5.7	11.0	14.5	17.7
Black	-	37.6	55.2	60.1	63.5
<u>Female-Headed Families:</u>					
Number (thousands)	-	2,858	5,445	6,006	6,273
As a Percent of All Families	-	9.9	17.6	19.3	19.7
* per 1,000 population.					
** as percentage of births within racial groups.					
Sources: U. S. Bureau of the Census. <u>Statistical Abstract of the United States, 1990</u> (110th Ed.). Washington, D. C.: U. S. Government Printing Office, 1990, Tables 67, 90, 126, 133. National Center for Health Statistics. <u>Monthly Vital Statistics Report</u> , 1990, August 15, 39(4), Supplement, whole issue.					

Unfortunately, in what constitutes one of the most remarkable -- and painful -- demographic developments in American history, the rate of formation of female-headed families in the last two decades has been astounding. Among families with children, between 1970 and 1988 the percentage headed by a female more than doubled, from less than 10 percent to almost 20 percent (Table 8). Even more alarming, the number of out-of-wedlock births increased from under 400,000 in 1970 to over 1 million in 1988. We now confront a situation in which nearly 65 percent of black children and 20 percent of white children start life in a household that does not contain both parents. Given the high percentage of single-parent families in inner-cities, it seems likely that in some neighborhoods up to 80 percent of the families are fatherless. Among other bad effects, divorce and out-of-wedlock births have gone a long way toward killing any chance that economic growth and worthwhile public policies would substantially reduce poverty. Moreover, as Charles Murray of the American Enterprise Institute has argued, households with so few adult males represent a kind of experiment in child rearing environments and raise the issue of whether it is possible to socialize children without the influence of adult males.

Nor are poverty and problematic socialization the only wretched companions of divorce and out-of-wedlock births. As Sara McLanahan of Princeton has recently shown, high quality research now makes it undeniably clear that being reared in a single-parent family is bad for children. On almost every outcome studied so far -- including delinquency and crime, school achievement, and college attendance, to name a few -- children raised without fathers are worse off than children raised with both parents. Moreover, these children perpetuate the very cause of their predicament because they have a higher probability of never marrying or ending their own marriages by divorce.

A recent study by Census Bureau researchers Gordon Green, Paul Ryscavage, and Edward Welniak dramatizes the impact of family dissolution on economic well-being. Using income data from the Current Population Survey for 1970 and 1989, they studied the impact of changes in age, race, education, household type, work experience, and type of job of household heads on changes in the distribution of income over the 20-year period. Along with the shift in employment from goods-producing to service-producing jobs, the most important factor in accounting for increased income inequity was the rise in incidence of female-headed families (over the 20-year period, the percentage of married-couple households dropped from 70 to 56 percent of all households). If married-couple households had been as prevalent in 1989 as in 1970, the average income of households would have risen to \$32,132 rather than the actual figure of \$28,900, the bottom quintile of families would have had 10 percent higher income than it actually had, the rise of income inequality would have been reduced by more than half, and the poverty rate would have fallen nearly 20 percent, from 12.2 to 10.1. These results show the enormous price American low-income families and children have paid for the parents' decision to create female-headed families.

The unfortunate nexus between single parenthood, poverty, and poor outcomes for children highlights the fundamental issue of American social policy in the late Twentieth Century. Government programs are important, but the behavior of individuals is crucial. Destroying the small civilization that is a family or denying a fundamental tenet of citizenship by having a child out of wedlock carries serious consequences for everyone involved, but especially the children. When enough individuals make the wrong choices, the fabric of American society is weakened and the most that can be expected of public policy is partial amelioration.

#### Work and Prosperity

In addition to single parenthood, an important underlying problem facing American social policy is nonwork. Though many analysts are in the habit of measuring the progress of social policy by the number of families removed from poverty by government transfer programs, perhaps a more fundamental measure of successful social policy is the number of families that escape or avoid poverty through their own efforts. The problem of "own efforts" brings us to the bedrock issues that define our current predicament. The timeless injunctions of parents to their children turn out to be the keys to economic success: stay out of trouble, don't have a baby before marriage, finish high

school, get some training or education beyond high school, get married and stay married, and get a job and keep it.

The linchpin of these interrelated prescriptions is work. For most Americans, without work a decent income is impossible; without a decent income, life tends to be brutish. The major exception proves the rule, and provides insight to why government social programs are at best only partially successful in helping the poor.

Consider the aged. Progress against poverty among the aged has been spectacular. Between 1970 and 1987, the percentage of the elderly below the poverty level fell from nearly 25 percent to under 12 percent. If in-kind benefits such as food and health care are included and if the imputed value of homes is taken into account, the poverty rate among the elderly is now around 6 percent. Nothing like this had been seen before. How did it happen?

Simple. Policymakers took the direct approach. Poverty being defined as the shortage of cash, the Social Security system was used to give more cash to the elderly and thereby reduce their poverty rates. Between 1965 and 1988, a period during which the Consumer Price Index increased 268 percent, Social Security benefits increased 349 percent. So generous was the system that the average retired worker saw her benefits increase more rapidly than the average active worker saw her wages increase. In constant dollars, the average recipient enjoyed about a 40 percent increase in benefits.

We could do the same thing for the nonelderly poor. If the government simply gives them enough cash, they will no longer be defined as poor. In fact, according to Up From Dependency, a 1986 report from the Office of the President, we already spend enough on social programs that we could convert them to cash, use the cash to bring every poor family in America above the poverty line, and have money left over.

The major reason we don't follow this course is that Americans think adults should provide for themselves and their families. Moreover, Medicare and Social Security, the major programs that help the aged, are based, in part, on insurance principles: recipients are owed the benefits because they have previously paid into the program through their Social Security taxes. By contrast, it seems unfair for taxpayers to indefinitely subsidize those living on welfare. Furthermore, most Americans (including many poor people) think such a policy would be detrimental to the poor themselves. Some economists even predict -- and they have an impressive amount of evidence on their side -- that giving money to those who don't work would induce lots of people to reduce their work effort.

The objective of social policy for the able-bodied is to help them become self-supporting. And yet, there are several indications that precisely the opposite is happening. As discussed above, a great deal has been made of the growing gap between families with the lowest and highest incomes. Census Bureau data show that the respective mean incomes of the lowest and highest quintiles of American households were \$9,431 and \$92,663 in 1989 (see Table 9). This large discrepancy is often cited as evidence of the unfairness of the American economy.

Simple computations performed on numbers contained in a 1988 Census Bureau report, however, reveal an interesting fact. Whereas the average household in the upper quintile had 1.2 year-round, full-time workers, the average household in the bottom quintile had less than .2 workers. In other words, on average only 1 of 5 households in the bottom quintile had a year-round, full-time worker.

Given this relationship between work and household income, it is not surprising that level of work also has a substantial impact on poverty. Table 9 shows the poverty rates for various demographic groups by the amount of work they perform. Consistent with previous tables, the risk of poverty is strikingly different for different demographic groups. Single mothers, in particular, are at the greatest risk of poverty no matter how much they work. Even more striking is the strong inverse relationship between amount of work and poverty for every demographic group. To take

**Table 9: Poverty Rates for Various Demographic Groups by Amount of Work, 1989.**

Demographic Group	Did Not Work	Worked		
		Part Year	Full Year	Full Year Full Time
All Persons	20.7	13.5	3.1	2.4
All Family Heads	23.4	19.0	3.5	2.9
Female Heads	53.7	43.6	10.3	7.1
Unrelated Individuals	35.1	28.0	4.6	2.5

**Notes:** Data are for people 15 and over.

**Source:** Mead, L. Poverty in the United States. Testimony before the Joint Economic Committee, 25 July, 1991, Table 2.

female heads as an example, the poverty rate for those who did not work at all was a startling 54 percent. Even working for only part of the year caused the poverty rate of female heads to decline by about a fifth to 44 percent. Working full year caused a dramatic decline to 10 percent; if the work was full time, the decline was to 7 percent. Although the numbers vary, the same pattern of more work, less poverty holds for every demographic group.

The same trend is evident if we examine information on the proportion of families that have full-time workers. Table 10 presents the average number of year-round, full-time workers in families with children in the bottom, middle, and top income quintiles for selected years. Consider the numbers for 1986. Here we see that the average family in the bottom quintile had only .27 year-round, full-time workers. In other words, roughly 3 of 4 families had no worker. By contrast,

**Table 10: Number of Full-Time, Year-Round Workers in Various Family Types by Income Quintile, 1970, 1980, and 1986.**

Family Type	Number of Workers/Family		
	1970	1980	1986
<b>Highest Quintile</b>			
All Families with Children	1.28	1.38	1.42
Married Couples	1.31	1.41	1.45
Single Mothers	.75	.93	.92
<b>Middle Three Quintiles</b>			
All Families with Children	.95	.99	1.06
Married Couples	.99	1.09	1.18
Single Mothers	.31	.39	.39
<b>Bottom Quintile</b>			
All Families with Children	.42	.28	.27
Married Couples	.63	.57	.61
Single Mothers	.05	.02	.03

**Source:** Congressional Budget Office. Trends in Family Income: 1970-1986. Washington, D. C.: U. S. Government Printing Office, 1988, Table A-15, pp. 84-85.

the average family in the middle and top quintiles had 1.06 workers and 1.42 workers respectively. Families in the top income quintile had well over five times as many year-round, full-time workers on average as families in the lowest quintile. The message here is a simple one: families with workers have money; families with lots of workers have lots of money; families without workers have little money.

A second conclusion supported by the table is that families headed by single mothers in each quintile are less likely to have workers than married-couple families. In part, the lower number of workers in female-headed families is attributable to the presence of fewer adults in these households. Additional adults can either work or provide child care while other adults work; either way, the presence of two adults raises the probability that at least one will work.

Perhaps the most arresting data in the table is that for the bottom quintile. Very few single mothers in the bottom income quintile work year-round, full-time; in 1986, the average number of families with a year-round, full-time worker was only .03. By contrast, the average number of married couple families with a year-round, full-time worker in the bottom quintile was .61. Notice also that the average number of families with a year-round, full-time worker in the bottom quintile declined from .42 to .27 between 1970 and 1986. Paradoxically, work levels declined little for either the married-couple or the single-mother families that together make up the lowest quintile. The explanation for this paradox is that there were relatively more single-mother families in the bottom quintile in 1986 than in 1970. As the composition of the bottom quintile shifted more and more to female-headed families with their exceptionally low number of workers, the average number of workers per family in the entire quintile declined substantially.

The connection between work and income is perhaps the strongest and most reliable finding produced by economic studies of family income and poverty. Of course, we would not expect anyone to be surprised by the finding. What could be more elemental than the claim that most people get money by working or that work is the single best insurance against poverty. It seems reasonable to expect that Americans would learn this basic law of economic life during childhood and arrive at adulthood ready to join the labor force on a full-time basis. Given the dramatic increase in the number of jobs generated by the American economy over the past two decades, and the basic understanding by Americans that work cures poverty, the prediction that more and more Americans would work consistently throughout their adulthood seems reasonable.

But the prediction is false. University of Chicago economists Chinhui Juhn, Kevin Murphy, and Robert Topel have provided illuminating data on the long-term trend toward nonwork among American males. Table 11 shows the remarkable trends in unemployment and dropping out of the

Table 11: Nonwork Among Adult Males During Selected Years, 1967-1988.

Year	Unemployed	Out of Labor Force	Total Nonwork
1967-69	2.14	4.03	6.18
1970-71	4.16	4.71	8.87
1972-73	3.74	4.84	8.58
1975-76	6.68	5.39	12.07
1977-78	4.83	5.72	10.55
1982-83	8.81	6.04	14.84
1987-88	4.66	6.31	10.97

**Note:** Data are the percentage of the year spent in each category by males who were out of school and had between one and thirty years of labor force experience.

**Source:** Juhn, Murphy and Topel.

labor force among male workers. If we compare the nonrecession years of 1969 and 1988, both the increases in unemployment and out-of-labor force are well over 2 percentage points. For unemployment, this increase represents more than a doubling of the rate; for out-of-labor-force, an increase of over 50 percent. Combining the two measures yields an overall increase in nonwork of a startling 80 percent.

Though the decline in work occurred among all demographic groups, the decline among blacks is especially notable. In 1940, about 83 percent of black 24-year-old men were in school, in the military, or working. By 1980 this figure had declined to 72 percent. The flip side of these figures is that in 1980, nearly 3 of 10 black 18 year olds, and more than 1 in 5 black 35-36 year old males was unemployed, out of the labor force, or in jail.

The decline in work among young black males is extremely troubling. Little comfort is to be found in more detailed examination of the problem. Among males aged 36-45, between 1970 and 1980 the dropoff in labor force participation ranged from 12 percent for those with 7 years or less education to 4 percent for those with 16 or more years; the average across all education groupings was 5.6 percent. The dropoff for black males aged 46-54 was even more precipitous, averaging nearly 10 percent. For both age groups and all levels of education, the declines for blacks were three or four times greater than those for whites.

Unfortunately, these trends have continued during the 1980s. Although unemployment declined for black males during the decade, particularly after 1982, the percentage in prison has increased by nearly 40 percent and the number dropping out of the labor force has increased by nearly 18 percent.

Many economists believe that the high demand for labor typical of tight labor markets would halt or reverse the trend toward dropping out of the labor force. Charles Murray of the American Enterprise Institute has examined this possibility using data on unemployment and dropping out of the labor force by young, out of school, black males with 12 years or less schooling. The distinguishing characteristic of Murray's analysis is that he studied labor force behavior as a response to varying levels of unemployment in major urban areas. He found that in cities with an unemployment rate under 4 percent, the proportion of young blacks out of the labor force fell from 28 to 21 percent. Although one might feel some disappointment in the inability of extremely low unemployment levels to make labor force nonparticipation fall below 20 percent, the finding of a 25 percent reduction in nonparticipation is encouraging. But the encouragement is short lived when we turn to cities with unemployment rates above 4 percent. In cities where the unemployment rate declined to the very respectable figure of 4 to 5 percent, labor force nonparticipation hardly dropped at all. Even worse, in cities with 5 to 6 percent unemployment, although unemployment among young blacks dropped by more than one-third, labor force absence actually rose. The conclusion? If only super-heated economies with unemployment levels of 4 percent or less are capable of pulling young black males back into the labor force, there is little prospect for a reversal of the historic pattern of increased labor force absence by these young men.

A word is in order about a well-known explanation for the growth of nonwork among young males in America's cities. Known as the spatial mismatch hypothesis, and presented in compelling detail by William Julius Wilson of the University of Chicago and John Kasarda of the University of North Carolina, the theory has two essential ingredients. First, in the old days a young man living in the nation's major cities with a high school degree or less could get a manufacturing job and earn enough money to join the middle class. Over the past two decades, however, these good manufacturing jobs have fled the inner-city for the suburbs, for small towns, or for foreign lands. Thus, we wind up with lots of young men in cities fighting for a shrinking number of high-paying manufacturing jobs. They do not work, in other words, because jobs are not available.

The second tenet of the spatial mismatch theory is that most of the high-paying jobs in cities require high levels of education or skill. As manufacturing jobs left the cities, new jobs were created in medical services, business services, finance, and similar fields. These new jobs, however, require much higher levels of education than the old-fashioned production line jobs. Again, inner-city residents with high school degrees or less are left out.

The spatial mismatch theory has a good deal of validity. On the other hand, as Larry Mead of New York University and Marvin Kosters of the American Enterprise Institute have argued, the evidence on the theory is not as persuasive as the reasoning. Three of the more important arguments that have been offered in opposition to the theory are: people have left the inner-city at a greater rate than jobs, thereby leaving a net increase in the jobs-to-population ratio; many cities -- such as New York and Washington, D.C. -- have never had a very big manufacturing base and yet suffer from the same high levels of nonwork as Detroit and Chicago, where manufacturing jobs used to be plentiful; and many cities -- again, New York and Washington, D.C. are examples -- have efficient transportation to the suburbs, where jobs are plentiful.

Even more compelling than these arguments, however, is information given to the Census Bureau by nonworking males themselves. About 22 percent of all men, 50 percent of poor men, and 65 percent of poor black men did not work at all in 1987. Census Bureau interviewers asked these nonworking men why they did not work. Only 5 percent of all nonworking men, 14 percent of nonworking poor men, and 16 percent of nonworking poor black men said the main reason they did not work was because they could not find a job.

Taken together, these considerations cause us to question the tenet of the spatial mismatch theory which emphasizes the unavailability of jobs in American cities. On the other hand, as we argued earlier in our discussion of wages, the importance of skills and education in the ability of young men to find high-paying jobs seems closely related to the mismatch theory's emphasis on the shortage of high-paying jobs for poorly educated and unskilled workers in the inner-city. Once again, the importance of skills and education in accounting for labor force problems is evident.

Marriage and work are the cornerstones of American society. Both have suffered greatly in the past several decades. The precipitous increases in divorce of the 1960s and 1970s appear to have leveled off, but out-of-wedlock births continue to increase and births to teenagers are once again on the rise. In short, the rates of family nonformation and dissolution, like the rates of nonwork, are unacceptably high. Even more to the point, both nonwork and illegitimate births have directly undermined progress against poverty, low income, and income inequality.

#### Summary

The evidence reviewed above leads us to five conclusions:

- Until the recession year of 1990, poverty declined and average real wages increased every year after 1983;
- Most government social programs have enjoyed increased funding during the Reagan-Bush years; in real dollars spending on social programs other than Social Security increased by 20 percent between 1981 and 1989 and spending on safety net programs increased by nearly 45 percent between 1981 and 1989; federal social programs continue to effectively transfer money and in-kind benefits to the nation's poor and near-poor;
- Not only are federal tax receipts far above the levels of a decade ago, but also the federal income-tax system is more progressive than it was at the beginning of the 1980s.
- Despite the overall increase in family and individual income, wages at the bottom of the income distribution are a problem and low-income families with children have not enjoyed the income gains enjoyed by other families;
- Individual choices, especially regarding marriage and work, are a major contributing factor to poverty rates and the desultory growth of income in the bottom of the income distribution.

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## SECTION II

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### The Underclass: Helpless and Hopeless?

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*Studies that follow families over a period of many years show that there is substantial movement within the income distribution, including into and out of poverty. Similarly, studies show that hundreds of thousands of families move onto and off the welfare rolls every year. Despite this movement, which in itself demonstrates the opportunities available in the American economy, there is nonetheless a substantial group of poor individuals and families who remain mired in poverty year after year. Even more important, members of this subgroup can be distinguished from the majority of poor citizens by their behavior: they drop out of school, have babies outside marriage, work less, remain on welfare longer, and engage in criminal behavior. These behavioral tendencies represent a serious, but not insurmountable, barrier to progress against poverty.*

Most of the discussion above has focused on averages -- average income, average taxes, average government benefits. But averages have the inherent problem of masking developments at the extremes of a distribution. We should take comfort from economic growth since 1983 because on average people have been better off each year. However, we should not be too comfortable until we have examined the impact of economic progress on those at the bottom of the great American job and income machine.

In recent years, the academic community, the media, and policymakers have become increasingly concerned about a group of Americans called the "underclass". Though a few scholars and advocates have dismissed this label as simply the latest version of blaming the victim, there seems to be widespread agreement that all the poor are not alike and that a particular subset of the poor is of special concern and should be a focus of social policy.

The essential characteristic of this subset of the poor is behavior that is inconsistent with the values accepted as fundamental by the rest of society (and ironically, perhaps by members of the underclass themselves). More specifically, the underclass is composed of poor Americans with multiple behavioral problems including school dropout, births outside marriage, dependence on welfare, drug use, and crime.

Seminal work on the underclass has been done by Isabel Sawhill of the Urban Institute in Washington, D.C. Sawhill's approach is to identify census tracts in which residents are characterized by high rates of school dropout, female-headed families, welfare dependency, and joblessness. She finds 880 tracts throughout the nation that have exceptionally high levels of these problems. About 2.5 million people live in these neighborhoods, of which somewhat less than half are poor, about one-third are children, nearly three-quarters are members of a minority group, and about two-thirds of the adults fail to graduate from high school. Perhaps the most disturbing finding from Sawhill's work is that the number of people living in these underclass neighborhoods grew from 752,000 in 1970 to 2.5 million in 1980.

Underlining the importance of Sawhill's findings is recent demographic work by Douglas Massey of the University of Chicago. Professor Massey shows that, due in large measure to housing segregation, American blacks are increasingly isolated in America's central cities. Higher and higher

percentages of the black population living in the nation's major cities reside in hypersegregated areas. Worse, increases in black poverty rates lead to a dramatic increase in the concentration of poverty when it occurs in these hypersegregated areas. As the concentration of poor, single-parent families increases, these neighborhoods become transformed into "physically deteriorated areas of high crime, poor schools, and excessive mortality." They become, in short, bad places to raise children.

Though the size of the underclass appears to be growing, a careful examination of the problem reveals several surprises. The picture of distress and hopelessness within our inner cities must be hung on a wall of national social statistics that leaves some room for optimism. All is not bleakness and despair. Even so, the underclass problem in many of the nation's central cities is serious and policies adopted thus far have not been very effective.

Begin with crime. Despite the media drumbeat about drug-related killings and rapidly escalating crime rates, the national pattern is more complex: increasing rates of crime until around 1980, followed by stabilization and decline until 1985, then another increase for some measures but not others. In 1973, after a decade of rapid increases, the victimization rate for crimes against persons and households stood at 124 per 1,000. The rate continued to increase at a somewhat moderated pace until it reached 131 in 1977. It then began an uneven but substantial decline, reaching 96 by 1986. After 1987, the rate began to increase again, reaching 100 in 1988. It then declined to 98 in 1989 and, though the final number is not yet available, declined again in 1990. Murder rates show a similar pattern. From 1960 to 1970, they nearly doubled; from 1970 to 1980 they increased by another 30 percent. But then between 1980 and 1985 they plummeted to their 1970 level. The rates then increased again, but in 1990 were still well below the 1980 level.

Although demographic factors, especially aging of the population, undoubtedly play some role in these trends, the high crime rates in some of the nation's major cities apparently do not extend to other sectors of society. Although crime remains a serious problem, for most types of crimes, the nation is better off now than it was in 1980.

Patterns of drug use are even more surprising. Since 1975, researchers at the University of Michigan have conducted an annual survey of a nationally-representative sample of high school seniors. The Michigan survey reveals that drug use among high school students peaked in 1981 when over 65 percent of seniors had tried one or more illicit drugs. Drug use has declined every year since then, and the 1989 level of 51 percent is the lowest recorded since the survey began. Similarly, a measure thought to represent use of more serious drugs (other than marijuana) has also declined; at 31 percent in 1989, it too is at its lowest level since the survey began in 1975. Use of cocaine is also in decline.

These felicitous developments, however, must be tempered by measures of drug -- particularly crack -- use in the inner city. The numerous reports of crack abuse by pregnant women and the high level of drug violence in many metropolitan areas demonstrate that drugs are still a major national problem. Given the stark contrast between the reliable results from the Michigan survey and the relentless headlines on drug killings, it seems possible that national declines mask actual increases among vulnerable subgroups -- the same pattern we observed in the case of crime. Even so, there does seem to be some decline in drug use in the inner city within the last year or two. Recent statistics show modest declines in both emergency room drug admissions and the percentage of male arrestees with cocaine in their urine. Not enough data is yet available to support strong conclusions, but a number of experts are claiming that drug-use in the inner-city has peaked.

Education presents a mixed picture. The most dramatic development is in high school completion rates. Between 1960 and 1987, the percentage of American youth failing to complete high school was cut in half, dropping from about 50 percent to about 25 percent. The rate among black Americans is even more impressive, dropping from over 80 percent to about 35 percent. Although dropout rates for Hispanics and inner-city schools remained high, during this period the median years of school completed by all students increased from 10.6 to 12.7; for blacks the increase

was from 9.8 to 12.4, leaving them only slightly behind whites. Turning to college enrollment of blacks, we find that although by some measures there has been a recent dip, there are still five times as many blacks enrolled in college as in 1960 and nearly twice as many as in 1970.

Years of schooling, of course, is not the only measure of educational progress. Equally important is what children are learning while in school. Since 1971, the National Assessment of Educational Progress has been tracking the school achievement of representative samples of 9, 13, and 17-year olds. The results on reading proficiency are typical. Between 1971 and 1988, white children in the three age groups showed virtually no change in scores. By contrast, all three age groups of black students showed substantial improvement. Children in the oldest group, for example, improved their scores by about 15 percent over the period. Although the black-white gap remained large, on average across the age levels, blacks closed the gap by well over 50 percent. The National Assessment also showed that the biggest gains were scored by disadvantaged urban children and children whose parents had not graduated from high school.

Scores on the scholastic Aptitude Test taken by high school seniors also demonstrate the pattern of stagnant or declining scores of whites and increasing scores by blacks and other minorities. Black scores on the verbal portion of the test increased by 20 points from 332 to 352 between 1976 and 1990 while scores for whites were declining from 451 to 442. On the mathematics portion of the test, blacks increased by 31 points from 354 to 385 while whites declined from 493 to 491. Without question, blacks headed for college, though still considerably lower than whites in SAT achievement, are improving their scores and simultaneously closing the gap with whites.

Another of the great myths of conventional wisdom is that the earnings of black Americans have fallen further and further behind the earnings of white Americans. By almost any measure of economic progress, blacks have made huge strides since the World War II era. In 1940, the \$5,000 (in 1987 dollars) mean annual wage of black men was only 43 percent of the average white male wage. But by 1980, the average black male earned \$20,500, about 75 percent of the average wage for white males. Moreover, this progress occurred at every point along the income distribution except the very bottom. If the wages of black and white males are arranged from highest to lowest and the raw amounts in 1950 are compared with those in 1980 at each point in the distributions, blacks reduced the wage gap at every point of comparison except the lowest 10 percent. Even more telling, the return to schooling (higher pay for more years of schooling completed) for blacks has nearly reached equity with the return to schooling for whites. Thus, as individual blacks aim at and achieve each additional step on the education ladder from high school graduation to graduate work or professional school, they can expect to reap the financial rewards attendant to their educational achievement.

Celebrating the great movement toward wage equality and equal returns to schooling between blacks and whites is not a way to endorse the status quo. Far from it. Capitalist economies are always dynamic. The skills needed on some production lines even a decade ago are now outmoded. Numerous private-sector and government reports of recent years have emphasized the need for a flexible workforce, one that can adapt to what are expected to be increased trajectories of technological change in the years ahead. We can expect a continuing and complex interplay between skills, skill development, and economic growth. A corollary to this conclusion is that even in the face of economic growth, workers who fail to adapt to new technologies, skill requirements, production processes, and working environments will be left behind.

And here we arrive at a problem that should attract great attention from policymakers in the years ahead. Many of the nation's high schools do a reasonable job of equipping their graduates to go to college or take a productive place in the American economy. But what about the thousands of inner-city schools that have a difficult time even maintaining order? If employers need workers capable of being trained to become productive, then the schools must provide them with young adults who have the reading, writing, speaking, and mathematics skills, as well as the level of personal responsibility, requisite to this task. The earnings of black Americans will probably never

reach parity with those of white Americans unless, among other thing, the quality of urban schools improves.

The problem of a significant portion of America's youth being unprepared to enter productive employment has already started. After the solid economic progress by minorities in the decades leading up to 1980, continued improvement during the economic expansion that began in 1983 might have been expected. But the opposite happened. From 1980 to 1985, the wage gap between black and white workers actually widened for those under age 35. Older black workers held the gains they had achieved earlier, but new entrants into the labor force did poorly.

As disturbing as these wage developments are, a balanced assessment of opportunity requires us to examine the economic progress of young adults who follow basic rules of citizenship such as completing school, avoiding parenthood before marriage, and working. Charles Murray has analyzed data from surveys conducted between 1970 and 1980 at the University of Michigan to show that white males who completed high school had about a 1 percent chance of living in poverty. Even more remarkable, given that the 1970s were a decade in which the black poverty rate never fell below 30 percent, married black males with a high school degree had less than a 5 percent chance of living below the poverty line.

More recent data from the same Michigan survey allow us to examine the economic consequences of following rules of citizenship in greater detail than ever before. Have the economic rewards for good behavior changed in the last 20 years? Consider three groups of young women reaching the age of 25: those who did so between 1967 and 1972, between 1973 and 1979, and between 1980 and 1985. Now divide each of these three age cohorts into two groups: those who followed the rules by completing high school and not having a baby out-of-wedlock and those who either dropped out of school or had an illegitimate child. Consistent with Murray's earlier study, following the rules allowed young females to be quite successful in avoiding poverty during all three time periods. For white females in all three cohorts, only around 3 percent of those who followed the rules were poor at age 25; for black females the figure was higher, around 13 percent, but still far below the average poverty figures for all blacks in each time period.

Now consider what happens to those who did not follow the rules. For those who quit school or had an illegitimate birth as a teenager, the consequences were severe and increased dramatically over the period. For white females, poverty increased from 6 percent in the earliest period to 22 percent in the five years ending in 1985; for black females, the increase was equally astounding -- from 25 percent to 48 percent. These numbers suggest that the American economy protects those who follow the rules and punishes those who don't, and that the retribution is more serious now than in the past.

We are greatly concerned about the dramatic increase in poverty among young adults who quit school or have babies out of wedlock, but many Americans would probably hasten to point out that the result is not altogether unexpected. However, even critics who emphasize the justice of rewarding those who follow rules and punishing those who don't are certain to be uncomfortable about additional information depicting the economic history of these cohorts of young women. We have seen that most of those who followed the rules during their teen years were able to avoid poverty, but several other economic measures show that the fortunes of even those who follow the rules declined substantially over the period. The data for black females are downright discouraging: in inflation-adjusted dollars, their average family incomes declined from over \$26,000 to under \$18,000, their probability of living in a family earning less than \$10,000 actually increased from 19 to 22 percent, and worst of all, their chances of joining the middle class by living in a family that earned over \$25,000 declined precipitously from 51 to 36 percent. Remember, these are young women who followed the rules.

At least most of the rules. The rule omitted from the University of Michigan data is: get married and stay married. Unfortunately, the Michigan data published thus far do not include information on whether women who remain married continued to do well economically. Abundant

information from other sources, some of which was reviewed above, indicates clearly that staying married is still an effective way not simply to avoid poverty but to achieve a substantial family income.

Unfortunately, the probability of being married declined during the 20-year period covered by the Michigan data. For whites, the percentage of women aged 25-29 who were living with a spouse declined from 83 percent in 1967-72 to 61 percent in 1986-88. For blacks, the decline might be compared to falling off a cliff -- from an already depressing 60 percent in 1967-72 to the astonishing level of 35 percent in 1986-88. To make matters worse, the percentage of black 25-29 year olds who had never been married rocketed from 19 to 50 percent.

Marriage, or lack of it, is a critical piece of the problem we are pursuing. If marriage is so important for avoiding poverty and gaining affluence, why don't more young women marry? The answer brings us full circle. In 1969, black men aged 25-34 without a high school degree earned \$14,000 (in 1984 dollars). In 1984, they earned \$6,500. Even those with a high school degree experienced a marked decline in earnings -- from \$16,000 to \$10,800. Note that black males with a high school degree in 1984 earned almost 25 percent less than black males without one in 1969. The point: black women have tightly constrained economic choices in looking for husbands.



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### SECTION III

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## A Social Covenant for the 1990s

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*The nation's most serious domestic problems are tied to three complex and stubborn trends: declining wages for low-income workers, increasing rates of family dissolution, and falling rates of work. The latter two problems in turn reflect a fundamental breakdown in the obligations of personal rectitude and citizenship. Reconstructing these values cannot be done by government programs alone. Rather, in addition to new and more successful government programs, we must call upon every group of citizens implicated in the poverty problem to modify their behavior. As there is plenty of blame to go around, so should responsibility for solving the problem be distributed. We propose a new social covenant that specifies the responsibilities of policy makers, teenagers and young adults themselves, parents, and national and local community leaders. Only the simultaneous efforts of all these actors will lead the nation toward serious progress against our most telling domestic problems.*

Surveying the evidence on poverty and the underclass leads us to conclude that the American economy continues to provide a firm basis for individual advancement, that government spending provides both a springboard for those who would achieve and a safety net for those who fall, and that millions of individuals have taken full advantage of these conditions. But too many are left behind. Again, most of our analyses show problems at the bottom of the income distribution -- higher crime, more drug use, wage stagnation, and lower economic rewards for good behavior. Rather than quibble about whether individuals, the American economy, or government programs are at fault, we should recognize that the nation has a problem of substantial dimension, that we have the resources and will to reduce the problem, and that all the major actors must change their behavior. What is needed now is a new social covenant with four provisions:

- State and federal legislators must protect and appropriately direct the resources going into human investment programs, particularly those that are shown to work. The federal government must also demand strict accountability to civil rights laws in education, hiring, and housing.
- Teenagers and young adults must make renewed efforts to follow the rules: don't break the law, don't have babies outside marriage, don't drop out of school, get married and stay married, get a job and keep it;
- National, state, and community leaders must stop offering excuses for unacceptable behavior; the rhetoric of poverty, as Dr. Louis Sullivan has argued so eloquently since becoming Secretary of the Department of Health and Human Services, should be self improvement rather than excuses or blaming others;
- Parents and community organizations, especially the schools and religious groups, must renew their commitment to helping youngsters have opportunities for moral development, learning, and recreation.

Naivete has had its day. Scholars, government officials, reporters, and pundits of all persuasions used to believe that a year-long preschool program would spur a child to overcome poverty, that additional federal money would significantly improve the school achievement of inner-city children, that a summer job program for high schoolers would bind them to the labor market, and that a little parent training would work wonders for children's development. Most of these hopes have been dashed by nearly three decades of government programs that have not always produced the positive outcomes expected. To be sure, some programs -- Head Start, the Special Supplemental Food Program for Women Infant and Children (WIC), Job Corps, prenatal care, immunizations -- have been moderately successful. But these exceptions should lead us to a new appreciation of the complexity of human behavior, and for the difficulty of inducing change. No less should they lead us to a new appreciation for the years of patient effort that will be required to find and implement effective anti-poverty policies.

During the course of the 102nd Congress the House Wednesday Group intends to work toward fulfillment of the Congressional portion of the four-part covenant outlined above. In doing so, we intend to form alliances with Democrats and advocacy groups whenever possible. Our purpose, as outlined in detail below, is to pursue a series of policy initiatives designed to test potential solutions to these problems by conducting large-scale demonstrations.

We are now in the process of organizing work groups that will fully develop legislative proposals in each of several areas and then lobby for passage of legislation during the 102nd Congress. In accord with the fiscal realities imposed by the 1990 budget agreement, each work group will be responsible for identifying potential sources of money (either revenue increases or redirection of current spending) to fund its recommendations.

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## SECTION IV

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### Policy Recommendations

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*In calling for a "New Social Covenant," we recognize the critical role Congress must play in solving poverty. To help fulfill the Congressional responsibility, members of the Wednesday Group are forming work groups to address key aspects of the poverty problem: welfare reform, young males, families at risk, housing, health, education, and decategorized services. Over the next two years, we will develop, introduce, and work for passage of legislation designed to attack these domestic problems.*

#### Poor Families

One of the major problems highlighted in this report is the growing number of female-headed families living in poverty. In the past, social policy consisted chiefly of giving these families money and other benefits; politics consisted chiefly of arguments about how generous policymakers should be with taxpayer dollars.

However, Congressional passage of the Family Support Act of 1988 may have signaled the beginning of a new era in welfare policy. In one sense, the bill was a typical compromise between Democrats who wanted to increase welfare benefits and Republicans who wanted also to strengthen the requirement that welfare parents actually work toward self-support and independence from welfare. The final bill did both. The major innovation of the Act was to put real teeth into the requirement for job preparation by compelling states to involve a specified percentage of AFDC parents in job preparation, job search, and work programs.

As always, whether the 1988 Act signals a real change in welfare policy depends on implementation and, in the longer run, on subsequent legislation. For the first time, the law now requires a fairly substantial percentage of welfare parents to work or prepare for work. Despite the fact that these work programs are moderately expensive, good research shows that this step alone can be expected to help some people leave welfare and thereby reduce welfare spending. On the other hand, unless the new approach to requiring behavioral changes in welfare parents is strengthened, it can be expected that before long welfare will again recede in the direction of a mere income maintenance program--with all that means for entrenched dependency.

The participation requirements of the Family Support Act are actually a logical extension of a direction adopted by Congress at least as far back as 1967 when mild work requirements were first written into welfare law. These requirements were emphasized even more by the Reagan Administration in 1981. Although funding for many work-related activities declined under Reagan, the various types of work programs states could use with welfare families were expanded. Most important, states were given great flexibility to design and implement their own programs. As a result, participation in employment programs by families on welfare more than doubled between 1981 and 1985, from about 400,000 to about 1 million. Solid evaluations of these programs in seven states, performed by the Manpower Demonstration Research Corporation (MDRC) and reviewed recently by Judy Gueron and Edward Pauly of MDRC, showed that welfare mothers were willing to work and that they thought it appropriate to work. Meeting the highest standards of social science research and evaluation, the MDRC studies also showed that employment programs could help welfare mothers, including those with poor education and work histories, enter the labor force and

earn more money than similar mothers who did not participate in the programs. Long-term follow-up showed that the employment and earnings gains persisted for at least three years after the programs ended. And in an outcome of some interest to those concerned about government spending, most of the projects actually saved government money.

There is every reason to believe that the 1988 Act has created an opportunity for state and local officials to bring the benefits of work, and even independence from welfare, to hundreds of thousands of welfare families. In short, welfare policy is on the right track. Policymakers can now take several steps to move the nation's welfare policy further in the right direction and thereby provide tangible help to poor mothers.

First, Congress must do something boring and thankless; it must ensure that the 1988 Act is competently implemented. This will require strong and imaginative Congressional oversight, particularly by the committees of jurisdiction--the Ways and Means Committee in the House and the Finance Committee in the Senate. Individual members of Congress can also inform state and local officials in their home states of their interest in the Act being implemented; they can make their intent especially evident by visiting work programs in their area and keeping in touch with the administrators of those programs. Even better, Members can sponsor hearings in their district to bring public attention to attempts by local officials to help welfare families achieve independence through work. Above all, Members of Congress must resist the mounting pressure to weaken the Act's work requirements through changes in the regulations that govern implementation of the Act or changes in the statute itself.

Second, Congress should carefully monitor the effects of the huge Earned Income Tax Credit (EITC) expansion enacted by the 101st Congress. If work requirements are a kind of stick designed to push welfare clients into work, the EITC is a carrot designed to make work more attractive. Capitalizing on efficient administration by using the tax system, until 1990 the EITC provided a maximum of \$1,000 in cash wage supplements for low-income working families with children. The EITC expansion enacted by Congress last year will increase the basic credit from 14 to 23 percent over a four year period and provide an additional 2 percent to families with two or more children, another 5 percent for families that have a child under age 1, and still another 6 percent for families that use the money to purchase health insurance (the maximum wage base in 1991 is \$7,140). By 1994, some families will receive income supplements of nearly \$2,900 or more than one-third of their wages.

This level of income supplement through the EITC should provide substantial incentive for welfare families to take jobs in the private sector. A mother with two children, one of whom is under age 1, who leaves welfare for a \$5.00 an hour job will receive a wage supplement of about \$2,400 per year. In addition, because of provisions in the 1988 welfare reform bill, she will be able to keep both her Medicaid health insurance and her child care subsidy for up to one year after leaving welfare. Then after one year, she will be eligible for both the new child care subsidy for at-risk families and the new block grant child care subsidy enacted by Congress last year. In addition, she will be eligible for about \$400 through the EITC to purchase health insurance.

As with the Family Support Act, the new EITC legislation should remind us that Congressional responsibility for good policy does not end with the mere passage of a bill. We know from years of experience that thousands of eligible families do not know about the EITC. Further, we know that although workers are eligible to receive the EITC in their paychecks, where it will do more good than a lump-sum payment at the end of the year, less than 1 percent actually get their money this way. In short, implementation was a problem even before Congress expanded the EITC last year. Now the Committees of jurisdiction as well as Administration officials should take the steps necessary to insure effective implementation of this splendid legislation.

With the welfare reform bill of 1988, the EITC expansions of 1990, and the numerous expansions of Medicaid since 1984, Congress has created a system in which single mothers can accept a modest starting job and enjoy income of around \$12,500 per year with full health insurance and

child care for at least one year. Further, in most parts of the nation she would still be eligible for housing assistance, and her children would be eligible for free school lunches and a number of other federal and state benefits. From the perspective of a mother on welfare, the life beyond dependency could begin to look fairly decent.

Nor have we included in this enumeration of income and benefits any money from child support. As several studies have now shown, it would be a serious error to assume that the fathers of women on welfare have no money. On the contrary, according to Irwin Garfinkel of Columbia University, they tend to have earnings that average about \$16,000 per year. If even \$2,000 of the father's earnings were paid in child support, the mother and children would have around \$14,500 per year in cash. The point: between the private economy and the nonwelfare government programs, we have created an economic environment in which poor mothers have a decent shot at achieving economic independence. Congress must now insure that we learn everything possible about the effects of these new EITC and child care provisions on poor and low-income families, and that the new laws on child support enforcement are implemented vigorously.

Not all poor families will capitalize on the opportunity provided by these programs. People who have finished school, avoided irresponsible parenthood, gotten and stayed married, and tried conscientiously to work do not wind up on welfare for five or ten years. Long-term and potentially long-term welfare mothers are not simply a cross-section of the American population or even of the poor. They are, in large part, people who may not be highly motivated to take actions that would lead to self-support. Given that around 2.6 million of the 4 million mothers on welfare at any given moment will eventually collect benefits for 8 years or more, the system needs a fundamental redesign.

Thus, our next recommendation for Congressional action is to place statutory limits on the length of time a welfare family can receive full benefits. Able-bodied parents should be told when they first enter the welfare system that they will receive full benefits for only a fixed period of time; the time limitations now being discussed vary between 2 and 7 years. After the fixed period has expired, the parents' cash benefits will begin to decline unless they show substantial progress toward independence by completing high school, taking a part-time job, or entering a trade school. If the cash benefits begin to decline, the family would remain eligible for Food Stamps, Medicaid, and similar benefits. Welfare scholars such as David Ellwood of Harvard and foundations such as the Ford Foundation have recently proposed similar plans, although they believe government sponsored jobs must be guaranteed.

This simple reform would convert welfare from a cash assistance program to a job preparation program almost overnight. Taken in combination with the 1988 Family Support Act and the expanded EITC, the reformed welfare program would be much more likely to serve as a transitional program that helps poor and unskilled parents achieve economic independence. Welfare would no longer serve as a warehouse for parents who cannot earn enough to support their families; rather, it would serve as a backup to temporarily assist parents who, for one reason or another, fail to be lifted toward economic success by the normal route of high school completion, post-secondary training or education, and early job experience.

This step toward self-reliance by welfare families should be accompanied by additional steps toward increased parental responsibility for their children's health. Recent years have seen disturbing indications that preschool children do not receive all their immunizations. A 1985 report from the American Public Welfare Association showed that around 25 percent of preschool children had not been vaccinated for measles, rubella, mumps, polio, or diphtheria. The APWA report also reviewed survey data showing that poor children in central cities were up to 20 percent less likely to have appropriate vaccinations than other children.

The possible consequences of missed immunizations are illustrated in dramatic fashion by recent information from the Centers for Disease Control, which shows that 60 children died from measles last year, the highest level in two decades. The National Vaccine Advisory Committee

appointed by the Department of Health and Human Services found that up to 90 percent of unvaccinated preschool children were in federal social programs, including AFDC. In Milwaukee, for example, 86 percent of unvaccinated children were in the AFDC program.

Holding AFDC parents accountable for the well-being of their children seems reasonable. In the President's 1992 budget, the Centers for Disease Control suggests that welfare benefits be contingent on timely immunizations. Given that the basic objective of AFDC is to provide support for children, making sure that parents accept responsibility for immunizations seems to be a step toward fulfilling this goal. The immunizations are paid for by numerous federal programs, particularly the Public Health Service's Immunization Grants and the Maternal and Child Health Block Grant, although parents may have to make appointments and wait for long periods in public facilities when they take their children to be immunized. Though we do not wish to ignore this inconvenience, it does seem a small price for parents to pay to assure their children's health.

The mechanism for monitoring fulfillment of the vaccination requirement could be a simple card, stamped in some way by the agency administering the immunizations, and sent by mail to the welfare agency. Penalties for failing to keep the immunizations up to date could include a reduction in the adult portion of the AFDC grant until such time as evidence of timely immunizations was submitted.

In keeping with the social covenant outlined above, these attempts to increase parental responsibility should be accompanied by a stronger federal commitment to increasing the economic security of female-headed families that try to leave or avoid welfare. In recent years, scholars such as Irwin Garfinkel of Columbia and David Ellwood of Harvard, as well as the recently released Rockefeller Commission Report, have advocated for a major new program called child support assurance. The basic benefit of a child support assurance system is a minimum child support payment of perhaps \$2,000 to all custodial parents, with perhaps an additional \$500 per child for every child after the first. The benefit is funded either by child support paid by the noncustodial parent or, if that fails, by the government.

The nation currently has a federal-state child support enforcement program in which about 13 million families participate. The major purposes of the program are to locate noncustodial parents, establish paternity if necessary, establish child support awards, and collect and distribute payments. Currently, about \$6 billion is collected by the program. An important goal of the new child support assurance policy would be to improve the effectiveness of the current child support system in order to reduce the costs of the assured benefit.

From our perspective, child support assurance has several attractive features. First, it is not welfare. The benefit would be universal; all single-parent families would be eligible for the assured benefit of around \$2,000. For most families, the noncustodial parent would pay more than the assured benefit; the government would then recapture its expenditure and the rest would be forwarded to the custodial parent. For families in which the noncustodial parent did not pay at least the amount of the assured benefit, the government would pay the amount guaranteed to the custodial parent and then attempt to recoup its outlays by vigorous child support enforcement. One way to think of the assured benefit, then, is government's commitment to guarantee at least a given level of cash support to all custodial parents.

The assured benefit can also be seen as a program that encourages independence. In combination with moderate wages and the EITC, it increases the odds that single mothers can provide adequate financial support for their families without relying on welfare. The assured benefit is a blanket of insulation between a single mother and dependency on welfare. Equally important, unlike welfare payments, the assured benefit may have the attractive feature of minimizing work disincentive. Most welfare benefits are inversely proportional to earnings -- as adults on welfare earn more money, their benefits decline. The amount by which benefits are reduced can be thought of as a kind of tax on earnings. Like any other tax, benefit reduction has the unintended

consequence of reducing work effort by reducing the level of reward for work. The assured benefit, however, is kept at the same level regardless of whether and how much custodial parents earn.

On the other hand, the assured benefit has a number of potential flaws. The most important is that it is a new entitlement program. Huge entitlement programs like Social Security, Medicare, and Medicaid provide benefits that are nearly impossible to control because any citizen who meets the qualifications for the program must be given the benefit. Money that does not need to be approved by Congress year after year is much easier to spend. An argument made frequently on Capitol Hill is that federal spending cannot be controlled until entitlements are curbed. Creating a new entitlement program flies in the face of this concern.

Another powerful argument against child support assurance is that it may provide an incentive for family breakup and illegitimate child bearing. This perverse incentive lies in the fact that only single parents receive the benefit. Opponents of the assurance program argue that such a benefit rewards both divorce and out-of-wedlock birth. On the other hand, to the extent that child support assurance increases the certainty of the noncustodial parent paying child support, fathers would likely have additional incentive to get and stay married. These two effects may be offsetting to some degree. Given the dramatic problems associated with the increasing number of single-parent families, we would need good evidence that child support assurance does not increase rates of single parenting before we could support a universal assured benefit program.

We have already pointed to the possibility that, because it does not decline with income, the assured benefit could minimize the work-reduction effects associated with welfare. On the other hand, in what economists call an income effect, the assured benefit could reduce work effort because the additional income may reduce the need to work. Reduced work by single mothers might have some positive effects, but greater economic security is not one of them.

In addition to child support assurance, another family benefit now commanding attention in Congress is tax breaks for families with children. Two major types of tax breaks are being considered: increases in the personal exemption and a new tax credit for families with children. The case for increasing the personal exemption is straightforward. Since 1948, relative to inflation, the value of the personal exemption has declined dramatically. If the 1948 exemption of \$600 had kept pace with inflation, its value today would be nearly \$3,500. Some analysts argue that even \$3,500 is too low; if the exemption had kept up with per capita income growth as well as inflation, its value today would be around \$8,000. Whatever its value, any decline in the personal exemption hits families with children hardest because they are bigger and therefore get more exemptions than families without children. For the same reason, any increase in the exemption's value would provide greater benefits to families with children than families or households without children.

Many analysts are critical of proposals to increase the personal exemption because a bigger exemption would help wealthy families more than low-income families and, in many cases, would provide no help at all to poor families. Here's why. A married couple with two children and an income of \$20,000 pays an effective federal income tax rate of 15 percent; a similar couple with earnings of \$80,000 pays at a rate of 31 percent. The tax rate, of course, is applied to income after deductions have been removed. One of these deductions is the personal exemption. In effect, then, the exemption to a family in the 15 percent bracket is worth only 15 percent of the exemption's value whereas the same exemption is worth 31 percent of its value to a family in the 31 percent bracket. If the exemption were set at \$3,500, its value to the poorer family would be  $.15 \times \$3,500$  or \$525; its value to a family with higher income would be  $.31 \times \$3,500$  or \$1,085. Moreover, a working family with two children and an income of \$14,000 or less would receive no money from the exemption because such families do not earn enough under the current system to pay taxes (they receive 4 personal exemptions worth a total of \$8,600 and a standard deduction of \$5,700; their total deduction of \$14,300 is more than their total earnings so they have no taxable income). Clearly, expanding the personal exemption would reduce the tax code's progressivity. Not everybody thinks this is a great idea.

Enter the child tax credit. Unlike an exemption, which is applied to income, a tax credit is taken directly off taxes. Thus, any family that pays taxes is helped by a credit and the face value of the credit is its actual value to every family regardless of income. Further, for those who want to use the credit to help poor families, even families that owe no taxes can get assistance if the credit is made refundable (under this procedure, families are sent a check equal to the value of the credit even if they have no tax liability to reduce). Anyone wanting to use tax breaks primarily to help poor and low-income families will criticize the exemption and praise the credit, especially in its refundable version.

The refundable tax credit suffers from a feature that is troubling to anyone concerned about the incentive effects of government programs. The recent report of the National Commission on Children, for example, recommended that families receive a refundable credit worth \$1,000 per child. Under this proposal, a 17-year-old never-married mother with two children who had never worked would receive \$2,000 per year until her children reached age 18. Many observers, including some members of Congress, are concerned about the incentive effects of providing a guaranteed income of this type. It should be noted that this feature of the credit can be minimized either by making the credit dependent on earnings or by reducing its size for families without earnings.

Given the interest in tax breaks, the Wednesday Group intends to devote further attention to these various alternatives. However, all of the plans are extremely expensive to taxpayers -- the cost of one personal exemption proposal now before Congress is about \$15 billion per year; the cost of a \$1,000 per child tax credit is around \$20 billion per year. In the current fiscal climate, price tags of this magnitude are likely to delay action on these plans for several years. By this time, we hope to be well along in developing and implementing some of the less expensive, but no less important, anti-poverty proposals outlined in this section.

This package of changes in federal welfare law is consistent with the social covenant set forth above. In part, it depends on and even requires that welfare recipients -- both mothers and fathers -- accept new responsibility for their personal development and behavior. But in return, the proposals offer concrete federal support to increase the short-term financial status of economically vulnerable families. Adopting these balanced reforms may improve the condition of children and parents on welfare, shorten the length of stays on welfare and thereby move people toward self sufficiency, and meet the obligation of policymakers to the American taxpayer.

However, in light of the uncertainties associated with both child support assurance and time-limited AFDC, we recommend that several million dollars be authorized by the Ways and Means Committee to finance large-scale demonstrations of these two new programs. The history of welfare reform is replete with good ideas that turned sour upon implementation. As the Income Maintenance Experiments of the 1970s showed so clearly, we can learn a great deal about the impact of our reform ideas if we first undertake demonstrations. In the case at hand, we need to plan demonstrations that examine the impact of child support assurance on family composition, work effort, welfare expenditures, and child support payment levels by noncustodial parents. Similarly, we need to plan demonstrations on time-limited AFDC that provide reliable information on family income, work effort, welfare exits, and welfare expenditures. If the demonstrations on child support assurance and time-limited AFDC show the impacts to be positive, we can move ahead with full implementation of what works. This strategy requires patience, but it protects taxpayers against expensive mistakes brought about by policymakers acting on the basis of inadequate information.

#### Young Males: Tough Challenges

In direct contrast with our optimism about policy initiatives for females and children, we are less sanguine about our ability to design effective policies for young, especially minority, males. Males have generally not responded well to work and training programs, and many have simply dropped out of the workforce. Further, their high rates of crime, violence, and drug use do not make them ideal subjects for policy initiatives.

Although even a clear diagnosis of the problem is bound to be controversial, we think the review above shows that low wages for young, especially minority, males is a significant factor. Though we are not aware of persuasive evidence on the point, the returns to petty crime and the rise of a lucrative drug trade may have convinced many young males that they could do better dealing and stealing than working for \$5.00 per hour. As entry level wages decline, especially for unskilled workers, and as highly paid manufacturing jobs depart from the cities, the incentive to earn income from illegal activities may increase. Combine these factors with the almost complete breakdown of family authority in the inner city, and the recent lethal developments in urban life seem almost predictable.

A two-part strategy seems in order. The first part is to continue passing strong federal legislation designed to help state and local officials deal effectively with crime and its aftermath. The Congress has taken a number of steps along these lines in recent years, and further steps seem certain. Little can be expected until authority has been reestablished and the good guys once again control the streets.

But we need also to think of ways to increase the returns to individual effort. Federal funds should be made available to support four approaches on a demonstration basis and to carefully evaluate the results. The first is already funded and will soon be underway. As part of the Family Support Act in 1988, Congress authorized five demonstration programs on new ways to help fathers of children on welfare prepare for and find employment. More than nine out of ten of the single-parent families on welfare are headed by mothers. For over a decade now, federal policy has emphasized the responsibility of these mothers for becoming independent through work. But what about the fathers? Although they are legally responsible for doing so, only about 10 percent of fathers of children on welfare make formal child support payments. Congress felt that the policy of emphasizing the responsibility of mothers for achieving independence from welfare without at least some focus on the responsibility of fathers was one-sided. The five demonstration projects are an attempt to discover whether systematic approaches to involving welfare fathers can be successful.

The Manpower Demonstration Research Corporation is helping plan and evaluate these projects. Given the potentially critical role of fathers in contributing to the independence of mothers and children from welfare, the success of these projects deserves careful oversight by the Ways and Means and Finance Committees. If methods can be found to persuade fathers earning money to pay child support, an important step in the direction of welfare independence will have been achieved. If methods can be found to help unemployed welfare fathers prepare for jobs, find jobs, and then pay child support, an even more fundamental step will have been taken.

Second, the Federal government should investigate the long-term effects of providing substantial rewards for inner-city and low-income youth who graduate from high school. Isabel Sawhill of the Urban Institute and others have proposed that the nation create a training account of, say, \$10,000 that every low-income youth could use as a kind of voucher for post-high school education, training, or relocation to accept employment. Modeled along the lines of similar programs supported by private funds in the past decade, there is some reason to believe that low-income youth will respond to the availability of funds for self investment. One problem with these training accounts is that a majority of low-income, inner-city youth manage to complete their education and join the productive economy. Since these youths too would receive the benefit, much of the money would be used to get adolescents to do things they would do anyway. Hence, unless better targeted, the training account would have to produce very dramatic effects to be cost-effective. Because of this and similar uncertainties with the training account, the federal government should fund several demonstration programs and carefully study their effects before proceeding with this policy.

Third, following the successful model of the Job Corps, we should evaluate the effectiveness of providing education and job training to low-income youth of junior-high and senior-high school age in small, residential centers located around the nation's major cities. Though residential centers are expensive, if well run they can eliminate the competing attractions of street life that now interfere with education in the inner-city and provide youth with the discipline and knowledge

required to enter the mainstream economy. Within a decade, 20 or so demonstrations of this type would allow policymakers to evaluate the effects on youth development of radical changes in the educational and living environment.

Finally, programs that foster entrepreneurial activity among young men and women in the inner-city should be expanded. Support should also be given to initiatives to encourage micro-enterprises for those currently on welfare, as in bills by Wednesday Group members Rep. Fred Grandy and Rep. Andy Ireland. There are currently several dozen programs of this type in the nation's major cities, most of them surviving a rather precarious financial existence. Two examples will illustrate the types of programs we have in mind.

The Education, Training, and Enterprise Center (EdTech) in Camden, New Jersey operates two take-out sandwich shops and a plant store. Initiated with money from the Summer Youth Employment Program (part of the Job Training Partnership Act), the business trains youth the old-fashioned way, by involving them directly in running a business. In one form or another, and drawing on a variety of federal and local resources, the program has now been in existence for over a decade. A measure of its success is that it recently won a contract to manage a cafeteria at the county hospital.

Another example of these entrepreneurial programs is Youth Futures in Minneapolis, Minnesota. In operation since 1982, the program works with kids between the ages of 14 and 20, a majority of whom have juvenile court records. Like EdTech, Youth Futures specializes in fast foods, selling hot dogs and health foods from carts. The program also runs a courier service. In general, the approach of Youth Futures has been to combine direct business experience with education in basic economics, business math, recognizing employment opportunities, and so forth.

Policy proposals on entrepreneurial programs suffer from two shortcomings. Almost none of these programs has been carefully evaluated and almost nothing is known about their long-term effects on youth development. Although the literature on programs like EdTech and Youth Futures makes the concept of youth enterprise look promising, the history of social intervention programs is littered with examples of programs that generated laudatory early evaluations but were later shown by careful study to produce only moderate, if any, effects.

A second problem with these programs is that they are diverse and difficult to describe. The most fundamental argument for local control is that social, economic, and political conditions vary so greatly in a large country such as ours. To design programs to fit local circumstances, many observers have been calling for more autonomy at the state and local level and for giving a larger share of existing program money to indigenous, often non-professional, groups that have the potential to work at the street level. A thousand points of light offers only a guide to policy. When the points of light all have different wattage and different sources of power, it is difficult to select the ones that are lighting the way from those that generate little more than heat. In this regard, it seems worth speculating that programs trying to help inner-city youth become entrepreneurs are bound, like any entrepreneurial activity, to count a fair proportion of failures among the successes.

Nonetheless, the idea of more flexibility in funding and more federal support for neighborhood groups is so attractive that we want to examine more of these programs in detail. As part of this study, we want to explore the use of enterprise zones as a possible way to help stimulate these private ventures. If detailed study of these entrepreneurial activities reveals them to be even half as successful as the anecdotal information now available, we want to think of good ways to select promising projects, provide them with greater federal support, and assure that the federal support is flexible enough to be useful.

Our proposals for assisting poor families are varied and complex. Even so, we think it wise to pursue as many of these strategies as possible, at least with large-scale demonstrations. A group of our members will help plan these demonstration proposals in detail and write the necessary legislation.

## Families at Risk for Abuse or Neglect: State Flexibility in Foster Care Funding

Most Americans are hardly aware of the existence of an elaborate system of public agencies that try to help children whose families fail to protect them. Last year, this system of public agencies was responsible for the care of about 400,000 children who had been abandoned or removed from their families because authorities judged the children to be at risk for serious abuse or neglect.

The commitment of federal, state, and local officials to helping these families is substantial. At least \$2 billion in federal funds and \$3 billion in state funds are spent each year on child welfare services. Even more impressive, federal spending on children in foster care is one of the fastest growing types of federal social spending. Though recent data on state expenditures are not available, a 1990 report from the American Public Welfare Association seems to document a rapid rise in state expenditures as well.

Despite all this new money, the federal approach to child welfare has a major flaw. There are two types of federal programs designed to help these children and families. The first type is grant programs, especially those under Titles IV and XX of the Social Security Act. These grant programs provide states with a fixed amount of money each year to fund services for children and families. The second type is entitlement programs, also in the Social Security Act, which are designed to help pay the expenses of poor children once they are placed in foster care or adoption. If states remove a poor child from her family and place her in foster care (or adoption), the federal government will pay an average of 55 percent of the cost of medical insurance and maintenance fees (the level of which is established by state government and averages around \$370 per month). These federal payments are open-ended and guaranteed. By contrast, federal funds to help families solve their problems through the grant programs that provide counseling, drug treatment, and employment services are both fragmented and capped so that they have been tightly controlled through the appropriations process.

As a result of these differences in type of funding, federal appropriations for helping families avoid or treat potentially lethal problems have grown slowly or declined since the early 1980s. Meanwhile, funding for the open-ended foster care and adoption entitlement program has exploded from around \$400 million to more than \$1.9 billion in constant 1990 dollars and is expected to grow to \$4.5 billion by 1996.

The House Ways and Means Committee, the Senate Finance Committee, and the House Select Committee on Children, Youth, and Families held hearings on these matters during the 101st Congress. Both the House and Senate considered legislation, and the House actually passed a bill calling for additional spending of around \$5 billion over 5 years. Owing to funding problems, however, Congress did not take further action. This year, Senator Bentsen, with support from Senators Mitchell and Moynihan, has introduced foster care legislation in the 102nd Congress. Mr. Downey, Acting Chairman of the appropriate subcommittee on the House side, and Mrs. Johnson, a Republican Member of the same subcommittee, have introduced similar legislation, and a Ways and Means subcommittee has approved an amended version of Mr. Downey's bill.

We propose that final legislation include a demonstration program in up to ten states that could be implemented for around \$50 million per year. States would volunteer to participate; once they had volunteered, a contract would be signed for a five-year program.

The fundamental idea of the demonstration is to convert the three current programs dealing with foster care and adoption into a single entitlement grant with much greater state flexibility. Take Florida as an example. In 1990, Florida received around \$10 million from the Child Welfare Services program, about \$16 million from the Title IV-E foster care program, and about \$5 million from the Title IV-E adoption program. Taken together, Florida had \$31 million to conduct all three programs.

Although Florida officials have great flexibility in how the \$10 million in service dollars can be spent, they have little flexibility in spending the foster care and adoption money. The advantage of the demonstration approach is that Florida would get approximately the same amount of money as they would get under current law (actually, they would get a little more as a bonus for participating in the demonstration), but they could spend the money with much greater flexibility. The expectation is that this flexibility would be used to spend relatively less money for foster care and relatively more money helping families avoid or quickly solve lethal problems that might cause removal of children, to help families quickly reunify if they do need to be separated to protect children, and, when necessary, to expeditiously terminate parental rights and place children for adoption. This demonstration program would accomplish several goals. First, it would allow a number of states to experiment with innovative approaches to helping families with serious problems. If the job training experiments conducted by states in the 1980s are a precedent, we can expect to learn a great deal simply by encouraging state initiative. Equally important, the field of child welfare would begin to accumulate quality data on the effectiveness of specific practices used by social service agencies to help problem families.

For example, a major focus of the demonstration programs would be preventing family breakup. In recent years, most states have implemented new programs designed to provide intensive services to families that suffer from major problems such as abuse or neglect, drug use, economic destitution, or mental health problems. The major objective of these programs is to identify problems such as these that may lead to removal of the child and then to provide immediate and intensive services to address the problems. Although many researchers and welfare administrators claim major positive results from these programs, these claims are not yet supported by appropriate evaluation studies. The demonstration program we propose can provide the needed evaluations. There is an equally pressing need for information on how to quickly reunite families once a child has been removed and how to terminate parental rights in a timely fashion.

#### Housing: Variable Rate Allowances

One of the most fundamental ways to help families is to design policies that promote decent and stable housing. Despite the conventional wisdom about the deplorable state of American housing, Americans have never been better housed and the federal government has never helped more families. Federal expenditures on housing are at an all-time high -- since 1980 outlays have more than doubled in constant dollars to \$17.3 billion; more people are receiving assistance than at any time in the past -- the number of assisted households has increased about 40 percent to 5.5 million since 1980; and the average benefit is higher than ever.

Although advocates and the media put the number of homeless at 2 or 3 million, no competent study produces a number larger than 400,000. We deplore homelessness, particularly among families, but find it counterproductive to exaggerate serious social problems -- if for no other reason than an accurate estimate shows that good policy might actually produce good effects.

Homelessness has many causes, but lack of decent housing is not always the most important. While it is true that some of the nation's cities suffer from shortages of low-income housing, the nation's housing stock nonetheless includes nearly 3 million vacant apartments. As shown by recent surveys conducted by the Department of Housing and Urban Development, the average quality of the residences in which Americans live has reached an all-time high while the index of crowding has reached an all-time low.

Despite these successes, all but obscured by media stories that herald the nation's housing woes, there is unease among the scholars, officials, and pundits who are knowledgeable about federal housing policy. Assume that good housing policy would reflect three criteria: efficiency, equity, and market compatibility. Even a cursory review reveals that federal housing policy has plenty of room for improvement on each of these three criteria.

According to a recent housing newsletter, by 1988 Newark, New Jersey had destroyed about a third of its public housing units, most by implosion. At the same time, the waiting list for housing stood at about 11,000. Spending millions of dollars on buildings that last less than 20 years is inefficient by anybody's definition.

Violations of equity are quieter than blowing up buildings. But they are equally serious. None of the federal housing programs are entitlements. When the appropriated funds are spent, families and individuals still in the queue are simply out of luck. Today about 12 million households meet the income criteria for receiving housing benefits; less than one in two get any help.

At bottom, violations of efficiency and equity are accounted for by violations of the third criteria, market compatibility. To put the matter starkly, federal housing policy is often anti-market. The Department of Housing and Urban Development and the local Public Housing Authority (PHA) decide where to build public housing, how much to spend per unit, how to maintain it, who lives in it, and so forth. Even when the federal government contracts with private builders, all sorts of rules and regulations combine to deprive the units of the benefits that flow from unfettered competition for housing dollars.

Moreover, even the voucher programs are not always consistent with free market principles. Vouchers allow families to select their own housing, but only if the housing meets federal standards. Most Americans are capable of selecting their own housing. However, Americans who receive public subsidies are often considered to be incapable of selecting safe and affordable housing on their own. Hence the need for housing regulations. There may be political reasons for regulation of housing that can be supported with federal dollars, but these should be balanced against the impact of regulations on efficiency and equity. The Department of Housing and Urban Development's recent report, Not in My Backyard, recommends a new balance in the economic costs and benefits of federal housing regulations. Meanwhile, we conclude that even when federal policy attempts to mimic market forces, the result often proves that half-way measures produce half-favorable results.

Housing vouchers have expanded from zero to nearly half a million since the beginning of the Reagan Administration. Vouchers make the recipients of public help similar to other consumers: it gives them purchasing power to enter the market and satisfy their needs and tastes. Because needs and tastes differ so dramatically, markets tend to produce goods that vary greatly in quality, utility, appearance, and cost. So it is with housing. Some Americans buy the most expensive house they can afford; they may spend 30, 40, or even 50 percent of their income on housing. Others spend much less, preferring to spend more on food, a better car, better education for their children, or any of a host of other consumer goods or investments.

Despite this diversity of needs and desires, the federal government gives vouchers that can only be used for housing that satisfies a 20-page list of federal standards. As a result, around 40 percent of people who receive vouchers are unable to use them because they cannot find housing that meets federal standards; in New York City, around two-thirds of voucher recipients cannot find housing that meets standards. No doubt, low vacancy rates and rent control exacerbate the situation in New York and many other cities, but the strict federal standards further limit the usefulness of vouchers. And this despite the fact that there is virtually no evidence that low-income people know less about selecting housing than the federal government and that the overall quality of America's housing stock is now at an all-time high.

As Irving Welfeld of the Department of Labor has argued in his widely acclaimed book, Where We Live, it is possible to combine the best features of vouchers with those of consumer preference satisfaction if we change voucher policy in two respects. First, drop all federal regulations. Give eligible citizens a voucher and let them find the best housing they can -- just as other Americans do. If dropping regulations turns out to be impossible, then at least minimize the number of regulations that families using vouchers must face.

Second, to maximize the quality of housing selected by voucher recipients, voucher policy should provide financial incentives for better housing. Eligible families selecting housing for which the rent is less than 20 percent of their income would receive no subsidy. Between 20 and 25 percent of income, families would receive a higher percentage subsidy for each additional percentage point of their income they are willing to spend for housing. Above 25 percent, each marginal percent of income receives a smaller marginal percentage subsidy.

Consider an example. A family with a minimum wage income of around \$9,000 per year would be able to spend \$150 per month if it wanted to spend only 20 percent of its income on housing. Under the revised voucher program, families would receive a subsidy of \$18 per month for each percentage point increase between 20 and 25 percent of family income, \$15 for each point between 26 and 30, \$12 between 31 and 35, and zero above 35. Thus, under the new system, this same family would receive an \$18 subsidy if it spends 20 percent of its income for housing, \$108 for 25 percent, \$183 for 30 percent, and \$243 for 35 percent or more. Instead of \$150 in purchasing power, the family could now enter the market with up to \$393 if it is willing to spend 35 percent of its income on housing. Not bad for a family with a monthly income of \$750.

The advantages of this program are legion. First, it would be relatively easy to implement and administer. The family would present itself to the local Public Housing Authority and would document family size and income. The family then receives a 1-page table, designed specifically for their income and size, that tells them how much "refund" their voucher will allow them to receive for rents of various amounts. They look for an apartment, make their own arrangements on closing a deal, send their rent contract to the housing authority to document the size of their expenditures, and their "refund" checks begin immediately.

Second, the federal government will save some money, enabling the same level of appropriation to assist more families. Large-scale housing experiments have shown that some people elect to live in below-average housing (half of America lives in such housing) and are willing to pay less to receive less. For these recipients of public subsidies, who are now forced to get "better" and more expensive housing in order to receive federal housing benefits, taxpayers save money. Or even better, more money is left over for another deserving family.

Third, the efficiencies of the market remain intact. Competition, even for low-income housing, encourages landlords to maintain presently deteriorating property. "Good enough" housing will not be forced off the market by 20-page government inspection standards. Moreover, subsidy recipients are not tied to a particular location; they can move whenever and wherever their taste dictates and pocketbook allows. Both landlords and consumers must be alert to new possibilities.

Finally, the variable rate vouchers permit landlords to maintain, or even bring back to acceptable quality, the bottom end of America's housing stock. Particularly in cities such as New York, which have low apartment vacancy rates, this outcome could prove to be especially beneficial as the vouchers stimulate supply of low-income units. We now have more housing per capita than ever before; in most cities the problem is not building new housing but assuring the efficient use of that which already exists. Increasing the purchasing power and freedom of buyers is the best -- perhaps the only -- way known to allocate the nation's resources so that taxpayers, buyers, and landlords simultaneously maximize their own interests.

Particularly in view of the housing voucher experiments of the 1970s and recent increases in the number of federal housing vouchers, the federal government now has enough experience with vouchers, and enough good research has been done on the condition of America's housing stock, that the nation is fully prepared for radical departures from its current housing policy. The HOPE and HOME projects that Secretary Kemp is now implementing are good examples of such departures. We believe the housing voucher demonstration we propose would be a useful complement to HOPE and HOME.

## Health: Allowances for Buying Insurance

If the nation's housing market has serious problems, the nation's health care system is on the critical list. According to Census Bureau data, in an average month in 1988 around 32 million citizens, disproportionately children, had no health insurance. But lack of health coverage is only a painful symptom of a sick health system. Perhaps the most significant problem underlying our health care difficulties is the rate of medical inflation. Between 1950 and 1988, while the consumer price index for all items increased 400 percent, medical inflation ran at 839 percent. The Department of Health and Human Services recently released data showing that health care inflation ran well ahead of the Consumer Price Index again in 1990.

If medical expenditures were a minor item in the typical household and business budget, these inflation rates would be merely alarming. But health spending is the third largest type of household expenditure, ranking behind only food and housing; it is also a rapidly growing portion of government and business spending. In 1988, Americans spent an average of over \$2100 per capita on medical care. Moreover, medical expenditures are rising rapidly as a percentage of all consumer spending. In 1950, about 4 percent of GNP was medical spending; by 1990 this figure had jumped to nearly 12 percent.

The factors driving medical costs are numerous and diverse -- an aging and wealthier society that demands more health care, use of expensive advanced medical technologies, a malpractice system that leads to defensive medical practices estimated to boost costs anywhere from 5 to 20 percent, and disturbing public health trends, notably the AIDS epidemic. Perhaps even more important, unnecessary spending is encouraged by the fact that only a small percentage of medical costs is paid for directly by those using the services. In 1986, only 25 percent of the \$458 billion in medical expenditures was paid directly by consumers. By contrast, Medicare, Medicaid, and other government programs paid 41 percent of the bill and insurance companies paid somewhat over 30 percent.

It does not take an economist to understand that if people do not pay directly out of their pocket for a valued commodity, they have every incentive to over-consume. The basic problem with the health care market is that supply and demand are not regulated by price because the people buying are not the ones paying. Under such circumstances, consumers often have little understanding about prices; hence both consumption and prices have a tendency to get out of hand.

If Congress were made up of economists, federal tax laws affecting health care would be different. Presently, employer-paid premiums for group health insurance are excluded from taxable income, thereby providing a tax subsidy of around \$50 billion annually. While this law has helped expand private health insurance to cover about 75 percent of American citizens, it has also encouraged the purchase of expensive health plans that do not require the insured to pay much out of their own pocket when they receive health care. Economists argue that health benefits should be treated entirely as taxable income or, at least, should be provided only a partial tax subsidy. Yet, as in the case of housing vouchers, political opposition to a change of this magnitude is too strong. We think it will be several years before Congress seriously considers policy changes of this magnitude.

Meanwhile, there are several worthwhile policies Congress should consider to prepare the way for major overhaul of the nation's health care financing system. First, Rep. Nancy Johnson and Rep. Rod Chandler of the Wednesday Group have introduced legislation designed to expand access through expansion of public health centers and reform of the small group insurance market. Nearly two-thirds of the uninsured are in families with a full-time worker, and the Health Equity and Access Reform Today Act contains reforms for the small group insurance market that would lead to more affordable health insurance for small business. Helping small businesses and the self-employed is especially important because they employ most of the full-time workers who are uninsured. In addition, the HEART Act begins the process of changing tax code incentives to spawn

managed care and copayment structured plans (and impose a temporary moratorium on state action to inhibit the development of managed care).

Second, changes are needed in the state regulations that, according to the Economic Report of the President (1991), cause around 9 million people to be uninsured. State laws contain over 800 mandates that require employer-sponsored health insurance to cover specified types of services, health care providers, or beneficiaries. While some of these mandates have merit, they nonetheless add substantially to the cost of health insurance. Higher costs make it difficult for companies, particularly small businesses with tight profit margins, to afford health insurance for their employees. State regulations also serve as barriers to cost management reforms such as utilization review, managed care, and cost sharing. The impact of state regulations on costs often has the perverse effect of forcing small businesses not to offer health insurance. Unfortunately, low-wage employees are the ones most likely to have jobs that offer no health insurance. We intend to do everything possible to urge state legislators to review and trim the number of state mandates on employers providing health insurance. Where mandates cannot be repealed, we will urge that state legislators exempt small businesses that band together to buy health insurance for their employees, as the Johnson and Chandler Small Employer Health Insurance Incentive Act of 1991 does.

The third and primary initiative we will pursue is to convert Medicaid into a financing system that helps individuals and families purchase health insurance. The proposal, which will be discussed in detail in a forthcoming Wednesday Group paper, calls for a sliding scale health allowance. The plan involves three major components:

- Congress would write legislation specifying what health services should be covered by any insurance company, health maintenance organization (HMO), or other entity that would compete for participation in the program. Congress must resist the temptation to make the basic insurance package prohibitively expensive.
- Eligible individuals and families would be given an allowance with a value proportional to family size and inversely proportional to income; special emphasis would be placed on creating an allowance program that can be integrated with the current system of employer-supported health insurance;
- Once health financing entities were certified as eligible for participation, they would be free to recruit eligible individuals and families to purchase coverage using their health allowance (as well as individuals not using allowances).

This basic outline of the health allowance plan leaves many issues unresolved, particularly whether the value of plans could vary across states and how the current differences across states in expenditures on Medicaid would be integrated into the new system. There is also a need to alter insurance and other health regulations at the state level. In addition, we want to find ways to facilitate participation in the insurance plans by small businesses, perhaps by retargeting state and federal tax deductions.

We are forming a work group to develop these strategies in more detail. Our legislative package will include funds for third-party evaluation of the health allowance plan in order to maximize the knowledge gained from state demonstrations and thereby pave the way to national implementation.

#### Education: Promote Parental Choice

Since the publication of A Nation at Risk in 1983, the problems of American education have been well known to professionals, politicians, and the American public. For many years beginning in the late 1960s, standardized test scores at every grade level declined, some precipitously. In recent years, there has been a slight recovery of test scores, particularly among black students, but performance is still below the levels established by students in the 1960s. In international

comparisons among industrialized nations, American students as a whole finish somewhere near the bottom in achievement. Worse, our best students perform significantly worse than top students from other nations.

Less well known is the fact that this decline in educational performance occurred simultaneously with a huge outpouring of financial and human resources into the educational enterprise. Imagine a giant "X". If the leg sloping downward from left to right is educational performance, the leg sloping upward is educational inputs. In 1960, the nation spent about \$1,900 per pupil, the average teacher salary was about under \$20,000 (both in 1988 dollars), and the average teacher had around 11 years of experience. All these figures rose steadily until 1988, at which point they were \$4,600, \$28,700, and 15 years respectively. In short, we more than doubled the resources going into education at the same time that educational performance fell so disastrously.

These facts should make Congress somewhat dubious about calls for fixing education by pouring in new resources. Word sometimes gets around slowly, but at least since the seminal Coleman report in 1966, data has continued to accumulate showing that there is little relationship between educational inputs and outputs. This is not to deny the disparities in school financing that do exist, particularly between urban and suburban districts. But there is no evidence that more money alone will result in better educational outcomes.

If the answer to poor schools is not increased spending, what is it? Although the nation appears to be in the early spring of a reform movement that may provide a persuasive answer to this question, it is not too early to claim that deep reform rests on several interrelated factors. Evidence has been accumulating for well over a decade that although per pupil expenditures and teacher pay and experience bear little relation to student outcomes, there are nonetheless identifiable characteristics of successful schools and teachers. Research now shows that successful schools are those led by strong principals who provide teachers with great autonomy and by teachers who work together as a team and have high expectations for students; these schools also have the necessary autonomy from central administration to make most educational decisions at the building level, require students to take many courses in basic subjects such as English, math, science, and history, require substantial homework, and maintain a lively but orderly school atmosphere.

As John Chubb and Terry Moe have argued in their recent book, Politics, Markets, and America's Schools, these characteristics of successful schools and teachers are precisely those least likely to flourish under our system of bureaucratic control of public education. Over the past several decades, America's public schools have evolved into a rigid, hierarchical system that stifles flexibility at precisely the two locations where it is most needed -- the school building and the classroom. Even the movement for school-based management that was popular in many states during the 1970s did little to free the school building itself from the control of an army of state legislators, school board members, superintendents, assistant superintendents, and union leaders.

Perhaps the single most fundamental characteristic of the American public school system is that it has a monopoly on use of tax dollars for educating American children. Though there has always been pressure on public school performance from parents, business groups, reformers, and intellectuals, there has been neither an education market showing how student learning might be promoted by enterprises other than the public schools nor has there been any market discipline bringing rewards to schools that operate well and punishment to those that don't. Indeed, bad schools are often precisely the ones that get the most attention and the most resources, as the education establishment tries to cure problems with more spending.

In this environment of rigidity and mediocrity, a "new" idea seems to be gaining hold. Several states, cities, and school districts around the country are permitting limited competition among public schools by giving parents some choice in determining which school their children will attend. For the first time, these choice programs are providing parents and children with the right to attend the public school that best fulfills their own preferences and needs.

But these limited programs are half measures. If traditional school systems with no parent choice provide schools with complete protections from the market-like forces of competition, the limited choice plans now being implemented open schools to only the slightest effects of competition. For most of the plans now being tried permit choice only among the public schools. If market forces are to induce the changes necessary to promote student achievement in America, they can only do so if the competition for students is completely open and free. Students and their parents, in other words, must be allowed to select any school that meets minimal state standards. Unless substantial changes on the supply side are induced by choice, this school reform too will simply be another initially promising idea that is captured and smothered by the public schools.

So we are now in the beginning stages of a battle for publicly-supported education. Given the nation's tradition of local and state autonomy in education, the federal government cannot be a major player in this unfolding drama. It does not, however, follow that Congress must be completely passive. As President Bush and Secretary Alexander have shown, the bully pulpit is an excellent tool that can be used to promote educational innovation. We strongly recommend that Members of Congress play precisely the same role within their own districts and states. Choice, particularly if it extends to private enterprises, is still a radical idea. By discussing the idea and its advantages seriously in their districts, and particularly by figuring out ways to bring these ideas before local educational forums such as school boards, campaigns for school bond issues, and candidate forums, Members can hasten the day when the value of competition reaches the public schools.

Choice will not, by itself, produce the needed revolution in educational achievement by American students. Given both the diffuse nature of educational goals and the technical nature of much of the enterprise, parents and students will need straightforward information about school performance if they are to make good choices. Markets cannot work efficiently without good information about the value of goods and services. But as matters now stand, there is no unified data base that permits comparisons of schools across or within states and districts. The nation needs such a system both to accurately gauge our national progress toward improved achievement and to provide parents with the information they need to effectively use their emerging right to select the best education for their child.

Thus, our second recommendation is to continue the quiet reform of federal educational statistics that began under President Reagan. More specifically, we intend to devise a plan to expand the National Assessment of Educational Progress. Started in 1969, the NAEP tests representative samples of students at ages 9, 13, and 17 in a variety of academic subject areas. Its reports over the years constitute the single most reliable source of information about learning by American students.

The National Assessment is a national treasure. But despite its many strengths, it was created by Congress with serious defects. Chief among these are prohibitions on achievement comparisons across or within states. However, as the National Assessment began to earn widespread recognition for its fairness and effectiveness in providing straightforward information about student achievement, fear of its misuse gradually declined. By 1988, Congress was able to change the enacting legislation and make it optional for states to participate voluntarily in state-level comparisons. To date, 35 states have agreed to participate. This unexpectedly high number of states willing to subject themselves to comparisons with other states shows that we are beginning, as a nation, to face up to the bad news that testing sometimes brings in order to maintain public knowledge of how well our schools are performing.

There are two major reasons to develop a plan to nurture this progress toward universal assessment of school achievement. First, the President and Governors have committed themselves to the first and necessary step of educational reform: identifying goals for American education. But goals are useless unless accompanied by a means of assessing whether they are achieved. Since a number of the goals agreed to by the President and governors refer to student achievement, we must have quality data on achievement. Expanding the NAEP is the most reliable and economical way to obtain this information.

Second, as the nation moves toward increased educational choice by families, we must help equip parents with the tools necessary to fulfill their new obligation to select the best school for their child. A major ingredient in the decision of most parents will be whether the schools they are considering maintain high levels of student learning relative to other schools in the district, state, and nation. Sad to say, the great majority of schools in the nation cannot supply parents with this most basic piece of information. Again, expanding the NAEP to the building level is the most efficient way to create this foundation of effective parental choice.

One goal of our work group will be to devise a plan for overcoming opposition in the House so that we can create and pass legislation during the 102nd Congress to dramatically expand the NAEP. Another objective will be to evaluate the Chapter I program and to consider the applicability of using it as a model for choice.

### Decategorized Services

For the past year or two, the Administration and Congress have been interested in something variously referred to as "decategorization of services" or "comprehensive services." The Assistant Secretary for Program Planning and Evaluation of HHS, for example, is chairing a task force of the Administration's Domestic Policy Council which will publish a report on services integration this fall.

Similarly, the Council has asked the American Enterprise Institute to conduct a year-long consultation involving background papers and a national conference on comprehensive services. Several foundations have agreed to put up money to fund these activities. Further, Bill Emerson, a Republican Member of the Agriculture Committee, authored a provision in last year's farm bill that requires study of the barriers to closer coordination of a wide range of welfare programs.

Decategorization appears to mean different things to different people. At least three distinct, albeit related, policy ideas can be distinguished in the current rhetoric. The first, anticipated by President Reagan's domestic policy report, Up from Dependency, is that states should have greater flexibility in how they spend their federal social welfare dollars. According to Up from Dependency, in 1985 there were 59 federal programs that spent over \$132 billion to address social issues.

Each program, as well as the new social programs enacted since 1985, has its own rules and procedures. Often, the rules and procedures seem to work at cross purposes. Moreover, the programs are administered by a host of cabinet departments, divisions, and agencies within the federal bureaucracy. Similarly, funding and oversight of the programs are divided among dozens of committees and subcommittees in the House and Senate. To address this maze of separate funding streams, Reagan's report recommended doing away with categorized programs, giving states the money in the form of a large block grant, and letting states decide how best to spend the money to solve social problems.

Giving states all or even most of the money now spent on social programs in a block grant is not politically feasible. As those who tried to implement Reagan's recommendations quickly discovered, converting categorical social programs to a block grant would challenge the role of many Congressional Committees. It would be safer to step on Superman's cape.

On the other hand, it may be possible to provide states with more flexibility by modifying the Reagan proposal in two ways. First, rather than trying to change national policy in one fell swoop, it would be more practical to start by conducting demonstrations in several states. The only legislation necessary to take this step would be to give the Secretaries of cabinet level departments the authority to grant waivers under specified circumstances. Second, rather than using the funds from all or most social programs, it seems more practical to start with a few, closely related programs -- perhaps only programs under jurisdiction of the same Congressional Committee. Our proposal

on child welfare programs outlined above is a good example of this approach. Coordination of three or four of the more than forty federal job training programs would also be a good place to start. A third example is provided by HUD's family self-sufficiency program, in which housing vouchers are contingent on a family's agreement to work toward economic independence. A written plan is then agreed upon, the major purpose of which is to coordinate the efforts of several local agencies to provide the family with transportation, child care, job training, and similar services.

Closely akin to the idea of providing states with more flexibility in allocating money is the idea of more effectively coordinating services at the state and local level. Presumably, a major underlying reason for giving states fewer categorical restrictions on social programs is that they could achieve greater efficiencies through improved coordination. But combining money from social programs is not the only way to ensure coordination at the state and local level. Take day care as an example. There are dozens of federal funding sources for day care. The five major sources are the Dependent Care Tax Credit, Head Start, the Child Care Food Program, the JOBS welfare program, and Title XX. Legislation passed in 1990 has added two new day care programs, the Child Care Block Grant and the At-Risk Families grant. Taken together, states, localities, and families are expected to have around \$35 billion to spend on these programs over the next five years.

Given that a major purpose of these programs is to facilitate day care for families, states may be able to help more people more effectively by centralizing the administration of all or most of them. Several states have already created subcabinet agencies to coordinate their day care programs. In some states, this attempt at unified administration carries through to the cities and counties. Whether these administrative changes have actually produced benefits remains to be determined. But efficiency -- more coverage and higher quality for the same cost -- through unified or coordinated administration is a traditional and worthy concept. Hopefully, the current interest in decategorized services will shed some light on whether state efforts to better coordinate services such as day care have actually produced benefits.

In addition to combining funding streams and achieving better state and local coordination, a third aspect of decategorization is offering comprehensive services in single programs. The new Comprehensive Child Development Centers now being conducted as part of Head Start provide a concrete example. About 100 programs have been funded to work with the same group of poor families over a 3 to 5 year period. As we have seen, despite several decades of poverty programs, the strategy of giving families a host of categorical benefits such as cash, health insurance, and housing has resulted in neither the elevation of families from dependency to independence nor to a substantial reduction in poverty levels.

The intention of the Comprehensive Child Development Centers, very much in accord with the recommendations of Lisbeth Shorr's book, Within Our Reach, is to overcome this categorical approach by combining many services at one location. At a minimum, the families receive Head Start, job training and counseling, and parenting education at the same location. In addition, to address special problems such as drug abuse, family violence, or emotional problems, families are referred to other services available in the community.

As often happens with new policy ideas, there seems to be a tendency to claim too much for the accomplishments and promise of decategorization. No one can be opposed to better, more efficient program administration or coordination, but proponents should be cautious in claiming that decategorization will solve social problems until they have evidence that at least one actual problem has been solved. Further, administrative reforms are perennial. They are usually announced with great fanfare, only to die a quiet death after a few years. In other cases, the outcomes are actually evaluated and the evaluations provide only tepid support for the original fervor. Unified services for children, for example, has a long and checkered history, and some remarkable projects have tried to implement this concept.

Perhaps the most notable were the Parent Child Development Centers of the 1970s. Three centers were funded with federal dollars; subsequently, three more centers, each paired with an

original center, were funded. Parents were involved in an elaborate set of activities designed to improve their parenting skills. They were also offered a wide array of support services (health, social, and medical services; transportation; day care for the child and siblings; clothing) and were paid a stipend for their participation. Evaluations of the projects, nicely summarized by Paul Dokecki of Vanderbilt University, showed modest, sometimes temporary, gains by mothers and their children. The new Comprehensive Child Development Centers sponsored by Head Start may differ from the Parent Child Development Centers, but research on the former suggests that program impacts will be modest.

Though we wish to be cautious in our claims about the benefits of decategorization, we believe there is potentially a great deal to gain from greater state flexibility in how social welfare dollars are spent, from efficient program administration, and from comprehensive services for children and parents.

### Waivers

Lewis Brandeis once remarked that the states were laboratories of federalism. In recent years, we have seen examples of state innovation and evaluation that led the way to national policy reform. The landmark welfare reform bill of 1988 was preceded by nearly a decade of intense state experimentation with welfare-to-work programs. When Congress took up the issue of welfare reform in 1987, states came forward with concrete examples of how welfare mothers could be helped to qualify for, find, and accept jobs. As Judith Gueron and Edward Pauly show in their recent book on the state experiments, evaluations of these programs performed by the Manpower Demonstration Research Corporation showed that many welfare mothers looked for and accepted employment; that the mothers thought it was appropriate for states to require them to work; that there were welfare savings produced by work; and that the effects lasted for at least three years. Many observers believe the MDRC experiments were one of the two or three major reasons welfare reform was enacted in 1988.

The growing tendency for states to demonstrate and evaluate their reform ideas is an extremely positive development. Every member of Congress has had the experience of voting on proposed programs without the benefit of solid information on what effects the programs might produce and whether these effects were worth as much as the cost of the programs. A primary solution to initiating untested programs is to implement and evaluate demonstrations that provide Congress information before it decides to spend large sums of money.

The major recommendations in this document are to perform large-scale demonstration programs, particularly on time-limited AFDC, child support assurance, residential programs for inner-city adolescents, the individual training account, the variable-rate housing voucher, and the health care voucher. We have little doubt that many cities, counties, and even entire states would be willing to try these new approaches if they receive adequate federal support and if they are not subjected to a thousand bureaucratic rules.

In authorizing the scores of social programs that now supply cash and in-kind benefits to millions of children and families, Congress and the executive branch have created a maze of statutes and regulations that limit the flexibility of those who implement the programs. In few if any cases do states and counties now have the authority to implement these new ideas without violating a host of federal rules.

Consider two examples. In the course of our work on this project, we met with Governor Tommy Thompson of Wisconsin. It is an understatement to say that we were impressed by the variety of reform programs he was attempting to implement in Wisconsin. These included the Learnfare program designed to provide incentives for teenage welfare recipients to attend school, the Parental and Family Responsibility initiative to provide financial incentives for teen mothers on welfare to marry, and the Milwaukee experiment in educational choice. It is not necessary to agree with these particular programs to understand that carefully designed tests of their underlying

ideas would provide valuable information for policymakers, regardless of their philosophical orientation. As in the case of welfare reform, reliable information on how programs work can often have the effect of mitigating deep political disagreements. And yet, we were disturbed to hear of the seemingly endless hassles Governor Thompson endured before he could obtain enough flexibility from federal rules to try his reforms. We wondered how many other governors wanted to attempt innovative reforms but were defeated by the sheer height of barriers that would have to be scaled.

A second example is taking place as this report is being written. In November of 1990, the citizens of Oregon enacted the Oregon Full Employment Program by a 58 percent affirmative vote, with citizens in 35 of 36 counties approving the initiative. For nearly a year now, a group of Oregon citizens, operating entirely on private funds, has tried to obtain the exemptions from federal rules and regulations that will be necessary to actually implement the project. In brief, what Oregon wants to do is use resources now supporting AFDC, food stamps, and unemployment insurance to provide jobs for parents eligible for benefits under any of these programs. Wages for the jobs are guaranteed at \$740 per month, a figure that compares quite well with the average AFDC and food stamp benefit of about \$560. Moreover, if both parents worked, a family could earn \$1450 per month or nearly \$18,000 per year. All these families would be eligible for an additional \$1,000 or so under the Earned Income Tax Credit; many would be eligible for medicaid benefits; and all would be eligible for several federal and state day care programs. Moreover, participants in the program keep all their welfare benefits until they actually begin a job and start receiving earned income.

In our judgment, using money now being spent on welfare to operate a program that helps families escape welfare and achieve financial independence through work is a sound concept. The effort to do so, however, has verified the old saying that "the devil is in the details." So far, the citizens group trying to establish the project has made nine trips to Washington, at least five times that number to the state capital in Salem, and has spent about \$750,000. Their major objective is to obtain the waivers from federal rules and regulations necessary to conduct their innovative project. They are making headway, but it seems likely that at least another year or two, and another \$200,000 to \$300,000, will be expended before the project even begins. Worse, there is a real possibility that the project will never be implemented.

As these examples demonstrate, the system of statutes and regulations created by the federal government, and usually by state governments as well, constitutes a serious obstacle to reform experiments. We think two actions should be taken. First, wherever possible the Administration should use existing waiver authority to help states and localities initiate social experiments. The major conditions for granting waivers should be that the demonstration not cost federal taxpayers additional money and that the project be carefully evaluated so that other states can learn from the results.

Happily, Section 1115 of the Social Security Act contains provisions that allow the Secretary of HHS to provide waivers from the statutory requirements of several of the main titles of the Act. This type of general waiver authority is all too infrequent in federal statutes, but such authority as does exist should be fully exploited by the Administration. In fact, we encourage the Administration to take steps to inform states of the flexibility HHS is willing to grant if they undertake well planned demonstrations on important social issues.

Second, we encourage Congress to place broad waiver authority in legislation that establishes new social programs. In addition, we recommend that committees of jurisdiction for extant major federal social programs -- Title I of the Elementary and Secondary Education Act, housing legislation, medicaid, child nutrition, food stamps, and the various training programs being operated by the Department of Labor -- consider placing waiver authority in existing laws.

We expect that, over a period of years, waiver authority will encourage an ever increasing number of innovative social programs at the state level. Experience shows that some of them will fail; in these cases taxpayers will have saved money if broader implementation of flawed programs is avoided. Some will succeed; in these cases both taxpayers, and more important, the families participating in the programs themselves, will be winners.

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## CONCLUSIONS

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Capitalist societies give free reign to individual initiative and ability. The results can be seen in every sphere of private and public life; namely, substantial differences between the top and bottom in the distributions of achievement and reward. In response, Democratic governments have invented two broad strategies to take the edge off capitalism. The first is to artificially lower the top and raise the bottom of the income distribution by taxing the rich and giving to the poor. The second is to invent ways to provide the poor with the tools necessary to improve their status.

The results, never very satisfying, now seem to defy logic. Despite the billions spent by American government to sustain and to stimulate the nonelderly poor, we find that a small but growing group of a few million citizens continue to make decisions that have major negative consequences for themselves, their families, their neighborhoods, and society. Ironically, the greatest victims of their behaviors are those closest to them -- their children and their neighbors. The door to opportunity needs to be widened for these citizens.

To date, public policy has had only modest success in moving these Americans into the mainstream of the nation's economic and social life. But we have at least learned that unconditional guarantees of cash and other government benefits have the effect of perpetuating the very conditions they were designed to reduce. It now seems reasonable to try a new approach.

The social covenant and accompanying policy initiatives we have proposed are not a complete break with traditional approaches to poverty. Rather, they emphasize a reordering of government priorities: less unconditional government largesse, a greater emphasis on the mutual obligations inherent in public benefits, and a renewed attempt to provide poor citizens with the tools necessary to help themselves. This redirection of the social policy our nation has followed for the last two or three decades cannot be expected to produce immediate results. However, if accompanied by a continuing search for successful social programs that balance private responsibility and public benefits, we can expect gradual progress in reducing the number of citizens whose very way of life jeopardizes their own and the nation's future.



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## *About the Wednesday Group*

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The House Wednesday Group is a Republican organization founded in 1963 in the U.S. House of Representatives. It provides a forum through which its members discuss politics and policy, develop legislative proposals, and advance their knowledge on issues of shared concern.

The thirty-seven Wednesday Group members, chosen by invitation and representing a diverse range of geographical and ideological backgrounds, meet every week to discuss their ideas. The Group, whose chairman is Congressman Bill Gradison of Ohio, is supported by a professional staff that arranges seminars with leaders in the policy community, conducts research for reports on major issues, and works with the members to develop legislation.

If you have questions about the Wednesday Group poverty project, please contact Edward Kutler, Wednesday Group Executive Director, at (202) 226-3236.

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BILL

GALSTON

November 9, 1993

MEMORANDUM FOR CIRCULATION

FROM: BRUCE REED

SUBJECT: Talking Points on House GOP Welfare Reform Plan

On Wednesday, November 10, House Republicans will hold a press conference to announce their welfare reform plan, which is based on the President's campaign pledge to require welfare recipients to work after 2 years. The Administration's reaction is spelled out in the attached HHS press release. The key points to stress are:

**1. Welfare reform is a bipartisan issue, and we welcome the Republicans' effort to help the President pass a plan.** Many elements of the Republican proposal are consistent with the President's vision, including their emphasis on parental responsibility and a two-year time limit followed by work. There is widespread consensus across party, class, and racial lines that the current welfare system is broken. We look forward to working with members of Congress and governors in both parties to fix it.

**2. The President has laid the groundwork to make good on his promise to end welfare as we know it.** His economic plan included a dramatic expansion in the Earned Income Tax Credit, which will move people off welfare by rewarding work and make good on another campaign promise -- that no one who works full-time with a family at home should live in poverty. The Administration's health reform plan will remove the incentive in the current system for people to stay on welfare in order to keep their health benefits.

The Administration has granted welfare reform waivers on a bipartisan basis to several states, including Iowa, Georgia, and Wisconsin. The Administration's Welfare Reform Working Group has held a series of hearings around the country (including one this week in Memphis) with state and local leaders, people in the welfare system, experts, and citizens who support reform. The Working Group will present policy options to the President later this year, with reform legislation likely early next year.

**3. Many elements of the Republican plan are consistent with the President's approach; other elements raise some concerns.** We want to do everything we can to reward work, family, and responsibility. Some provisions in the Republican plan raise concerns -- such as capping the EITC, a powerful work incentive with bipartisan support. Moreover, while we believe that welfare reform can save money over the long run by moving people into independence, we are concerned that some of the savings claimed in the Republican plan could shift considerable spending to the states. Finally, we would like to do more in the area of child support enforcement. But we are confident that we can work together with leaders in both parties to develop a welfare reform plan with bipartisan support.

If you have any questions, feel free to call me at 456-6515.

**DRAFT STATEMENT RESPONDING TO REPUBLICAN PLAN**

Mary Jo Bane, David Ellwood and Bruce Reed, co-chairs of President Clinton's Working Group on Welfare Reform, issued the following statement today in response to the release of the welfare reform legislation by House Republicans:

"We are pleased that the Republicans in the House of Representatives have entered the debate on welfare reform. We will certainly be looking closely at their legislation in the weeks ahead as we work with Congress and the states and localities to continue the development of the Administration's plan. Many of their proposals address the President's vision for reform, which stresses work, family, opportunity and responsibility.

Clearly there is broad consensus throughout the country and across party lines for fundamental change in the welfare system. The emphasis in the Republican plan on work and parental responsibility is very much in keeping with the President's goals.

While we applaud their emphasis on work, some elements of the plan concern us, such as the cap on the EITC - a powerful work incentive which has bipartisan support - and the across-the-board cuts in cost-effective nutrition programs which are likely to shift costs to the state. Much more can and should also be done to crack down on parents who fail to pay child support. Most importantly, we want a plan that focuses both on opportunity and responsibility, to ensure that Americans can and do work and become self-sufficient in the work force. As the President said in his February 17 address to Congress, "in the end, we want people not to need us any more."

We look forward to working with Congress on a bipartisan basis to develop a plan which fulfills the President's vision of a welfare system which truly helps people to work and become self-sufficient."

**SUMMARY OF WELFARE REFORM LEGISLATION  
SPONSORED BY HOUSE REPUBLICANS  
Fall, 1993**

**I. ATTACKS THE TWO FUNDAMENTAL CAUSES OF WELFARE**

***CAUSE 1: NONWORK***

- Less than 10% of welfare mothers work
- Although many mothers leave welfare within 2 years, many stay for 8 years or more; today there are more than 3 million mothers on AFDC who will remain on welfare during 8 years or more

***THE SOLUTION: MANDATORY WORK***

- When fully implemented, the Republican bill requires 63% of mothers who have been on AFDC for at least 2 years to work 35 hours per week for their benefits; mothers do not lose their benefits if they work in community or private sector jobs arranged by the state
- Mothers must use the first 2 years on AFDC (less at state option) to participate in education, training, work experience, and job search to prepare for a position in the private economy; if they do not find a job within that 2 years, they must participate in a community work job in order to continue receiving welfare benefits
- Provides states with an additional \$10 billion to provide welfare mothers with employment services, including day care
- One adult in two-parent families on welfare must work 32 hours per week and search for a job 8 hours per week starting the first day they receive welfare
- Mothers applying for welfare must participate in a job search program while their application is being processed
- Fathers of children on welfare who do not pay child support must also participate in work programs
- Mothers who refuse to work have their benefits reduced and then terminated; states failing to ensure that parents work suffer serious financial penalties

***CAUSE 2: ILLEGITIMACY***

- Illegitimacy has risen wildly in recent years; now 2 of every 3 black children and 1 of every 5 white children are born out of wedlock – and the rates are still rising
- Of illegitimate babies born to teen mothers, a shocking 80% will be on welfare within 5 years
- Teen mothers are the most likely to stay on welfare for many years without working
- Most of the increase in poverty and welfare in recent years is caused, not by a poor economy or reduced government spending (both are up), but by increased illegitimacy

***THE SOLUTION: ESTABLISH PATERNITY, RESTRICT WELFARE, CRACK DOWN ON DEADBEAT DADS***

- All mothers applying for welfare must identify the father or they will not receive benefits
- After identifying the father, mothers receive a reduced benefit until paternity is legally established
- Mothers who are minors must live at their parent's home, thus preventing them from using an illegitimate birth to establish their own household
- States must increase their paternity establishment rates, over a period of years, to 90% or suffer stiff penalties
- States are required to stop increasing welfare checks when families on welfare have additional children; states can avoid this requirement only if they pass a law exempting themselves
- States are required to stop paying welfare benefits to parents under 18 years of age; states can avoid this requirement only if they pass a law exempting themselves
- Deadbeat dads with children on welfare are required to pay child support or work

(OVER)

## **II. SLASHES WELFARE FOR NONCITIZENS**

### ***THE PROBLEM: TOO MUCH WELFARE FOR TOO MANY IMMIGRANTS***

- Hundreds of thousands of noncitizens are added to the nation's welfare programs each year
- A recent study by the Social Security Administration shows that more than 11% of all recipients and 20% of elderly recipients of Supplemental Security Income are noncitizens
- Noncitizens also qualify for Aid to Families with Dependent Children, Food Stamps, Medicaid, housing, and other welfare benefits

### ***THE SOLUTION: STOP WELFARE FOR NONCITIZENS***

- Simply end welfare for most noncitizens
- Allow refugees to receive welfare for only a fixed number of years unless they become citizens
- Allow noncitizens over 75 to receive welfare
- Continue the benefits of current noncitizens receiving welfare for 1 year

## **III. EMPHASIZES PARENTAL RESPONSIBILITY**

- Requires mothers who are minors to live at their parent's home
- Requires states, in most cases, to stop welfare payments to unmarried parents under age 18
- Requires states to terminate the cash welfare benefits of families that do not have their preschool children immunized
- Encourage states to reduce the cash welfare benefit of families that do not assure that their children attend school regularly
- Allows states to require AFDC parents to participate in parenting classes and classes on money management
- Allows states to discourage parents from moving to a new school district during the school year

## **IV. ATTACKS SEVERAL ADDITIONAL WELFARE PROBLEMS**

- Requires adults applying for welfare to engage in job search before their benefits start
- Requires addicted recipients of welfare to participate in treatment programs or lose their benefits
- Converts 10 major food programs into a block grant that provides states with almost complete discretion over spending; funding for the programs is reduced by 5%
- Caps spending on Supplemental Security Income, Aid to Families with Dependent Children, Food Stamps, Public and Section 8 Housing, and the Earned Income Tax Credit to inflation plus 2% per year
- Provides states with much greater control over means-tested programs so they can coordinate and streamline welfare spending
- Encourages states to provide financial incentives to induce mothers on welfare to work and marry
- Allows states to let welfare recipients accumulate assets to start a business, buy a home, or attend college
- Allows states and local housing authorities to use more generous income disregard rules to promote work incentives
- Requires addicted recipients of Supplemental Security Income benefits to submit to drug testing; ends SSI benefits for those testing positive for illegal drugs

## **V. ACCOMPLISHES ALL THE ABOVE IN A BILL THAT REDUCES THE DEFICIT BY \$20 BILLION OVER 5 YEARS**

- The training and mandatory work provisions of the bill cost nearly \$12 billion over 5 years
- The paternity establishment, job search, parental responsibility, block grant, and immigration provisions of the bill save about \$31 billion over 5 years.
- Thus, the net impact of the bill is to reduce the budget deficit by almost \$20 billion over 5 years.

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