

## BRIEF ANALYSIS

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## Bob Dole's Welfare Reform Plan

Senate Majority Leader Bob Dole (R-KS) has introduced a major welfare reform bill. The bill includes some important provisions, and takes the first steps toward general welfare reform.

**What the Dole Bill Would Accomplish.** The most important provision would block-grant Aid to Families with Dependent Children (AFDC), probably the most important welfare program, to the states. This revokes the status of AFDC as an entitlement (that is, a payment made to all qualified persons regardless of the amount budgeted), turns it over to state control and allows each state to redesign it completely. Other good points of the Dole bill are:

- It gives states the option of taking a food stamp block grant.
- It abolishes the so-called JOBS program, a set of federal welfare reforms and requirements adopted in 1988 that have failed to achieve their stated goal of requiring work for welfare.
- It block-grants all major job training programs back to the states.

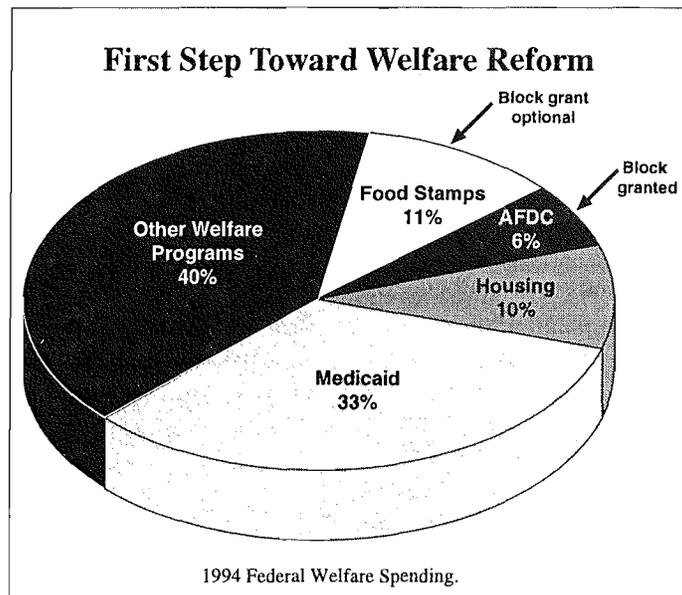
**Making the Dole Bill Better: Block Grant Food Stamps.** A weakness of the Dole bill is that it fails to fully block-grant food stamps, as a competing bill offered by Senator Phil Gramm (R-TX) does. Food stamps should be block-granted for the same reasons as AFDC. Both are at the core of the current welfare system, which is producing dependency, out-of-wedlock births and family breakup, as well as strong disincentives to work. Therefore, fundamental welfare reform should begin with these two programs. Block grants would allow the

states to experiment with new approaches and ideas to replace federal policies that are not working.

Block-granting food stamps would end their entitlement status and allow the states to determine how to aid the needy without encouraging perverse behavior. It would also restore federal budget control, since the federal government would only contribute to the program each year what its budget allowed, rather than spending whatever was necessary to cover entitlement obligations.

Finally, including food stamps would tend to even out the block-granted funds among the states, as states receiving more in AFDC tend to receive less in food stamps and vice versa. This would solve the equity issue, which now threatens to bring down the entire bill.

**Making the Dole Bill Better: No Strings Attached.** Despite all the talk of block grants, federalism and state discretion, the Dole bill still includes a thicket of federal requirements designed to require work and discourage out-of-wedlock births. Much of the debate in the Senate



is focusing on these requirements.

Yet the requirements are simply unnecessary. The states will be under great political pressure from voters to achieve the essential welfare goals. The federal requirements maintain federal bureaucratic control and, in some cases, probably are not the best ways of requiring work and discouraging out-of-wedlock births. And if conservative social goals can be federally mandated today, Congress will have a precedent to impose liberal social requirements if the balance of power in Congress shifts in the future.

**Making the Dole Bill Better: Completing the Welfare Reform Agenda.** The Dole bill does not go far enough. For example:

- It fails to block-grant housing assistance, as Senator Gramm's proposal does; housing assistance needs to be block-granted for the same reasons as AFDC and food stamps.
- It fails to block-grant Medicaid, the largest of all welfare programs, though this still may be accomplished separately.
- It does not even block-grant all the programs the House-passed bill does, including child nutrition and Supplemental Security Income for disabled children.
- It purports to send the block-grant funds directly from the Treasury, but lets the agencies that currently administer the block-granted programs retain oversight and enforcement authority.

AFDC accounts for only about 6 percent of total federal welfare spending and food stamps for only about 11 percent. That is why reforming these programs is only a first step.

In order to complete the welfare reform agenda, all major federal welfare programs, including housing assistance and Medicaid, should be block-granted to the states, eliminating the control of the federal bureaucracy. This would allow a complete overhaul of the welfare system. Moreover, block-grant funds should be issued directly from the Treasury Department, abolishing burdensome federal strings and requirements. This would allow abolition of the welfare bureaucracy in other federal agencies, as Senator Gramm proposes.

**Making the Dole Bill Better: Contracting Out Welfare.** Senator Gramm's proposal includes a provision allowing states to contract the administration and operation of their welfare activities to private charitable organizations, including those with a religious base. This idea has already been put forward in a House proposal by Congressmen Jim Kolbe (R-MI) and Joe Knollenberg (R-AZ). This would create broad new opportunities for innovation and efficiency in these programs. State welfare bureaucracies could be bypassed, and new incentives for program success would be created. Federal legislation should provide for these options and states should use them to carry out their welfare responsibilities.

**Making the Dole Bill Better: Taxpayer Choice.** Each state should also be given the authority to adopt taxpayer choice. In participating states, taxpayers should have the right to receive 100 percent federal income tax

credits for contributions to private charities that aid the poor. The tax credits should be limited to the same percentage of total income tax liability that would be spent on the welfare block grants. The federal government would then reduce the block-grant funds to each state by the amount of such tax credits taken by the taxpayers in that state. This would fully offset the federal revenue loss from the tax credit, leaving no net cost to the federal government. Thus taxpayers themselves would shift the block-granted funds to private organizations to the extent they thought such organizations were doing a better job than the state.

This would create a competition between state welfare bureaucracies and the private charities, stimulating the state to work harder and more effectively at serving the poor. To the extent private organizations continued doing a better job in the eyes of state taxpayers, the organizations would get more of the block-grant funds, maximizing their effectiveness.

Experience shows that private charities usually do a better job of serving the poor.

- They are far better at getting aid quickly to those in need.
- They are far better at focusing available funds on those most in need.
- They are far better at moving recipients out of dependency.
- They use available funds more efficiently, minimizing waste.

**Conclusion.** The Dole bill is a major step in the direction of fundamental welfare reform. Not all of the needed changes can be made in a single bill. However, the Dole bill should be amended to :

- Block-grant food stamps, public housing and the other programs block-granted in the House bill;
- Pay the block-grant funds directly out of the Treasury, abolishing in the process the federal bureaucracies formerly administering the programs;
- Allow states to contract out welfare to private charities;
- Allow states to invite taxpayer allocations of their welfare dollars.

*This Brief Analysis was prepared by NCPA Senior Fellow Peter J. Ferrara.*