

BRIEF ANALYSIS

No. 179

*For immediate release:**Friday, October 6, 1995*

A New Day for Welfare

Congress is on the verge of passing a major reform that ends the entitlement status of Aid to Families with Dependent Children (AFDC), a status it has held since 1935. Instead, each state will receive a specific amount of money in a block grant and will have the freedom to design programs that meet its particular welfare needs. The Senate and House have passed separate bills. The legislation that finally reaches President Clinton's desk is expected to generally track the Senate bill, and the president, who campaigned on a pledge to "end welfare as we know it," has indicated that he will sign it.

Although some conservatives object that the Senate bill does not go far enough, it does accomplish the basic goal of changing the fundamental nature of welfare. In addition, it contains some provisions not in the House version that should please conservatives.

What Is Good About the Senate Bill: More Options for States. The Senate bill contains a number of good provisions that are not in the House bill.

- It permits states to also take their food stamp funds in block grants, something promised in the Republican Contract With America.
- It permits the states to direct some of the money to nonprofit and/or religious charitable organizations, which can use the funds more efficiently than government bureaucrats.
- It gives responsibility for distributing funds and conducting audits to the Treasury Department instead of the Department of Health and Human Services, which is desirable because the Treasury lacks the institutional biases of HHS.
- It provides fewer federal mandates than the House bill and thus creates fewer opportunities for bureaucrats in the Department of Health and Human Services to write regulations that twist or misconstrue the true intent of the law.

Like the House bill, the Senate version limits to five years the time a beneficiary can be on AFDC. Further, the Senate version strengthens the work requirement in the House bill.

What Could Be Better: Ending the Remaining Restrictions. The Senate version of the welfare bill has some shortcomings, but none that are fatal to the overall goal of reform. For example:

- It requires that state funding of welfare programs be at least 80 percent of current state funding, somewhat limiting the flexibility of the states.
- It adds funding specifically designated for child care, another limitation on the flexibility of states to use their funds most effectively.

What Is Bad About the Senate Bill: Too Much Power for the Federal Bureaucracy. During closing arguments, the Senate adopted an amendment by Senator Paul Wellstone (D-MN) that has the potential to undo part of the reform. Under provisions of the amendment, when a state opts to take food stamp funding in the form of a block grant, the federal bureaucracy will measure hunger in the state at the time the block grant originates and again two years later. If the bureaucracy finds that hunger has increased, political pressure could be applied on Congress to withdraw the block grants and force the states back into the federal food stamp program.

This provision is dangerous because the federal welfare bureaucracy has a natural desire to enlarge its area of control and can manipulate the data on hunger. The point of the block grant is that, regardless of how hunger is measured, federal food stamps are not the right solution. The House and Senate conference committee members should delete the provision before approving the legislation.

Another amendment to the Senate bill that conferees should remove gives the Department of Health and Human Services funds and direction to track "and evaluate" the performance of the states after they receive their welfare block grants. This provision invites manipula-

tion at both the federal and state levels. The federal bureaucracy has a vested interest in having block grants viewed as a failure in order to have power returned to Washington. So the evaluations are likely to be far from objective. Further, the Washington bureaucracy that judges welfare by how much is spent and how many people are “served” defines success and failure in ways inconsistent with the welfare reform goals of the public and the Congress.

Meanwhile, state officials will have perverse incentives to do whatever they can to retain the block grants. For example, Health and Human Services might define success as an increase in the percentage of welfare recipients working — a gauge that sounds good on its face. But a state official might increase the “percentage” of welfare recipients working by simply extending a little welfare to people who are already working. In a state with authentic welfare reform, the rolls should be *reduced* by moving people off the rolls into work, leaving on the rolls only the few not physically able to work. In this case, the percentage of persons on the rolls and working would go down and, using Washington’s definition, that state’s reform would be declared a failure.

The federal bureaucracy should not be charged with defining states’ success or failure. Success in welfare reform is simply how many persons are removed from welfare dependency.

What Should Not Be Added to the Senate Bill: Mandates Favored by Some Conservatives. Some proponents of welfare reform sought to have the Senate bill require that funds be cut off to teenage mothers or that women on AFDC receive no additional money for additional children — the so-called family cap. Such actions should be left to the individual states. Any federal mandate gives the welfare bureaucracy another opportunity to thwart meaningful reform.

Other Needed Changes. Ending AFDC as an entitlement and block-granting funds to the states is a major reform — one that needs to be extended to other entitlement programs such as Medicaid and food stamps. Until that happens, it will be impossible to get federal spending on the programs under control. A bill passed by a Republican Congress and signed into law by a Democratic president that ends AFDC as an entitlement will offer at least some hope that welfare reform can be a wide-ranging bipartisan effort.

Another component of welfare reform should be a dollar-for-dollar tax credit for contributions to private charities. Taxpayers could donate up to 40 percent of their personal income tax payments, which is the share of total individual income taxes that currently goes to federal means-tested welfare programs. To the extent that a state’s taxpayers utilized such credits, the state’s welfare block grants would be reduced by an equal amount. Thus the revenue loss from the tax credits would be offset completely by reduced federal welfare grants to the states, leaving no effect on the federal deficit.

Block grants plus tax credits would give taxpayers maximum control over welfare. If a state misspent its block grant funds, its taxpayers could shift the funds to the private alternatives that work better. Healthy market competition between state programs and private charities would give state welfare bureaucracies a real incentive to reduce poverty.

Eventually, block grants can be phased out by moving federal taxing authority from Washington to the states. Welfare spending will then be entirely the decision of each state’s voters.

This Brief Analysis was prepared by Robert Carleson, Senior Fellow of the Free Congress Foundation and Special Assistant to the President for Policy Development in Ronald Reagan’s first term.