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Welfare Reform: Building on a Good Start

Recently enacted welfare reform legislation reverses 61 years of U.S. welfare policy, ending a recipient's entitlement to a welfare check. It's a good start, and one on which the 105th Congress and the state legislatures can build a better future for millions of people trapped in the old welfare system.

States will now receive a finite block grant with few strings attached, giving them new opportunities to solve their welfare problems in their own way. Critics contend that ending the entitlement and giving states more control over their welfare programs will harm the poor. In fact, by giving states the increased freedom to meet the needs of the poor, the new legislation will help to break the cycle of poverty.

A Good Start. While the legislative debate centered on specifics such as work requirements, family caps and teenage out-of-wedlock births, the real reform was much more revolutionary: an end to the entitlement status of the open-ended New Deal welfare program Aid to Families With Dependent Children (AFDC).

In addition, the new legislation eliminates many of the perverse incentives inherent in the old system. For example, in the past the federal government matched what a state spent on its poor. The more a state spent, the more money it received. If the state saved a dollar by being more efficient or cutting waste or undeserving recipients, it was penalized by losing a dollar in federal matching funds. Thus the states had an incentive to waste money because they paid only half the cost of wasting a dollar or, conversely, received only half the benefit of saving a dollar.

Now that the matching-funds approach has been replaced by a finite block grant, states can use their resources in the most efficient and effective manner; a dollar saved will not mean a dollar lost.

Besides reversing the entitlement philosophy and restructuring incentives, the legislation establishes work as the essential element in reform, yet it provides the states with enough flexibility to shape welfare reform to their particular needs.

- Federal eligibility standards and benefit-level requirements have been repealed so that states may decide who is eligible for family welfare and what each person or family gets.
- States must require work as a condition for receiving any benefits.
- Eligibility and benefit requirements for food stamps are tightened, and states may reduce or deny food stamps to childless, able-bodied people between the ages of 18 and 50 who refuse to work.
- States may take into consideration food stamps received by a family when determining any additional cash benefit needed, thus eliminating duplication.
- States may use religious nonprofit or for-profit entities to carry out welfare reform.
- States may provide welfare benefits in the form of wage supplements to businesses that employ welfare recipients.
- States may refuse benefits for additional children born to a woman who is receiving benefits (the family cap).

Cut the Strings. Unfortunately, the welfare legislation also came with a number of unnecessary strings attached. For example, the legislation imposes a five-

Elements of Welfare Reform

- **Federal entitlement to cash benefits has been repealed.**
- **States must require work to receive benefits.**
- **States may refuse additional benefits for women having additional children.**
- **Eligibility for food stamps and other programs are tightened.**

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year limit on welfare benefits, possibly conveying the impression that recipients have an entitlement to five years of welfare. The impression could make it easier to criticize efforts of states such as Wisconsin, which has imposed a two-year limit.

Further, some of the strings are counterproductive. For example, the bill provides money for sexual abstinence education in the public schools. While teaching children abstinence is beneficial, allowing bureaucrats to interpret and teach it is not. There is simply no good reason to require *any* type of sex or abstinence education at taxpayer expense.

A Better Future. Governors, legislators and financial officers overseeing welfare reform should recognize the tendency of entrenched welfare forces to defend the status quo and minimize it by:

- *Challenging federal intrusion.* The spirit behind the welfare legislation is to encourage bold new state action and limit federal control. However, federal bureaucrats who have been conditioned to "grow the welfare system" may attempt to assert themselves in state affairs. Governors should challenge this federal intrusion whenever it appears.
- *Turning to those with innovative welfare ideas.* Governors and legislators should give the authority to design the new welfare programs to persons not wedded to the current system.
- *Expanding devolution.* Following the federal reform example, states should repeal their own AFDC programs and state bureaucracies and send welfare block grants to the counties.
- *Utilizing the private sector.* States should provide a dollar-for-dollar income tax credit to those who want to give part of their state income tax to private and religious nonprofit agencies. This approach, known as Taxpayer Choice, would create a level playing field between public- and private-sector charities, with taxpayers deciding which charities deserve the funds. The welfare block grant in each county would be reduced by the amount of money taxpayers in that county decided to allocate to private charities.
- *Integrating welfare programs.* Unfortunately the food stamp, Medicaid and Supplemental Security Income for the Disabled (SSID) programs were not block granted to the states. Through block granting, these programs could be integrated into the states' new welfare systems, as under special waivers Oregon is doing with wage supplements and Wisconsin is doing with Medicaid.

Answering the Critics. Welfare reform legislation has led to a number of false and misleading claims by its critics, who say:

- *The states will "race to the bottom."* This means that states will dramatically reduce their welfare benefits so as not to attract welfare recipients from other states. This charge ignores the fact that welfare benefits have always differed, sometimes markedly, from state to state. From 1935 until the late 1980s, any state could have "raced to the bottom," since there were no AFDC federal guarantees or minimum benefits.
- *More than a million children will be thrown into the street, according to an Urban Institute study analyzing the five-year limit on benefits for adult welfare recipients.* The five-year limit applies only to 80 percent of the federal caseload (the other 20 percent of welfare recipients can go beyond the five-year limit). State funds, which must remain at 75 percent of recent spending, could be used for children. Further, states already receive a social services block grant, from which funds may be spent on children whose parents are dropped by the five-year limitation. Finally, up to 30 percent of the federal welfare block grant may be transferred to social services.

Conclusion. Because each welfare recipient is different, welfare reform decisions, like medical diagnoses, require close contact with individuals and families. To the extent the new welfare reform bill moves these decisions out of Washington and back to the states, it is a step in the right direction. Indeed, moving the decisions to the local level — and then to the individual taxpayer — would make welfare reform even better.

This Brief Analysis was prepared by Robert B. Carleson, a former Reagan welfare advisor.