The Heritage Foundation Backgrounder

No. 705 The Heritage Foundation 214 Massachusetts Avenue N.E. Washington, D.C. 20002 (202) 546-4400

The Thomas A. Roe Institute for Economic Policy Studies

May 4, 1989

HOW THE WHITE HOUSE SPURS WELFARE REFORM

INTRODUCTION

The Family Support Act, enacted by Congress and signed into law last year, has been touted by its sponsors as the most important reform of the welfare system in more than fifteen years. The attention Congress has attracted by this measure has obscured the more dramatic welfare reform taken by the states. And while a Congressional Budget Office evaluation strongly suggests that last year's congressional measure will increase welfare dependency,[1] the state initiatives are far more innovative and yield genuine gains. Examples:

♦ ♦ New Jersey in 1987 radically overhauled its welfare system, requiring, among other things, that nearly all able-bodied welfare recipients must accept job training and seek full-time employment. In addition, to expand day care services in poor neighborhoods, welfare recipients can become paid day care providers without losing as much of their welfare benefits as under state law.

♦ ♦ Wisconsin in 1987 launched a new welfare strategy that toughens standards for child support and introduces a controversial program known as "Learnfare." This requires teenagers in families receiving welfare to attend school regularly or face a cutback in family welfare benefits.

These innovative strategies were initiated by the states. As important, they were made possible by a federal interagency board created during the Reagan Administration; this board is known as the Low Income Opportunity Board. Significant changes in welfare programs at the state level invariably

1 Kate O'Beirne "Bad News on the New Welfare Law," Heritage Foundation *Backgrounder Update* No. 96, April 7, 1989.

require the suspension or modification of the federal regulations that determine how federal funds must be spent by states. In the past, states could spend months or years negotiating with a variety of federal departments to obtain rule changes – and the whole reform could be stymied by the refusal of one agency to grant a key rule change, or "waiver."

"One-Stop Shopping." To address this problem, the Reagan Administration, in 1987, created the high-level Low Income Opportunity Board. This interagency group comprises senior officials from the federal agencies concerned with welfare and anti-poverty programs. Because of this Board, states no longer have to submit requests to several different federal departments when they wish either to overhaul their state welfare programs or to conduct small-scale demonstration programs. Instead, in a kind of "one-stop shopping," they submit a proposal to the Board, which then coordinates the negotiations between the state and the federal agencies. The state proposal must be budget neutral with respect to federal funds, and it must contain a mechanism to evaluate its results – otherwise the states have a free hand to propose reforms.

Thanks to the Board, the process of obtaining waivers from federal welfare requirements now takes place much faster and more efficiently, giving states the incentive to propose more innovative reforms. The result: about half the states have submitted proposals or have had them approved by the agencies after an agreement was hammered out by the Board. It was the Board that made possible the sweeping reforms in New Jersey and Wisconsin.

Fostering State Diversity. The Board has become a catalyst for the "quiet revolution" in welfare reform at the state level. Moreover, while permitting state diversity, requiring the federal government to agree to a major state reform means the federal government maintains a check on state actions. This prevents the state from ignoring politically weak groups, such as the rural poor, and from avoiding pressing problems. Thus the Board is a powerful and creative new mechanism to energize the federal system in tackling social problems.

The Bush Administration has agreed to continue the work of the Low Income Opportunity Board. It needs now to strengthen it to make it even more effective. In particular, Bush needs to:

♦ ♦ Request Congress to change the law to grant wider latitude to states to reorganize social welfare programs if the states receive waivers from the Board. Current law, for instance, explicitly blocks transfers of money between certain major programs. This limits the power of the Board to grant waivers and thus limits state creativity.

♦ ♦ Expand the role of the Board to become, in effect, a high-level council for developing social welfare policy in areas that involve several agencies and the states. Example: low income housing assistance and services for the mentally ill.

The work of the Low Income Opportunity Board shows how federal action can help ignite innovation at the state and local levels without the federal government relinquishing its role of setting broad national goals and protecting the interests of society's weakest members and groups. The successful premise of this is simple yet powerful: Congress enacts the best set of federal programs that it can devise and then allows states to modify or opt out of those programs if they can persuade the federal government that they have a better way of reaching Congress's objectives.

WHY THE WHITE HOUSE BOARD WAS CREATED

When Ronald Reagan unveiled his welfare reform strategy early in 1987, he argued correctly that no single policy from Washington could solve a problem as complex as poverty and chronic welfare dependency. Thus, instead of a new national program, he proposed a reform process to allow states and communities to experiment with their own anti-poverty ideas. This was to be achieved by expanding states' authority to redesign existing programs.

There were three reasons for this strategy of decentralization and experimentation. First, a quarter century of bold federal initiatives had done little to solve chronic poverty and welfare dependency; Reagan thus was not tempted to join the long list of Presidents boasting that they had "the" answer. Second, improvements in the management skills and political effectiveness of state government had led to a surge in state policy innovation. And third, the freedom of states to try novel approaches was hampered by excessively restrictive federal regulations.

Removing Federal Barriers. The Reagan approach was to provide case-by-case relief from rules to encourage states to seek better answers to problems, while insuring that states did not ignore their responsibilities to the poor. To accomplish this, Reagan established the White House Interagency Low Income Opportunity Advisory Board in July 1987. The Board continues today under the Bush Administration (renamed simply the Low Income Opportunity Board). All federal departments and agencies that administer low-income assistance programs are represented on the Board, which serves as a forum for the Executive Branch to coordinate the analysis of welfare programs and policies and to "fast track" federal approval of state welfare demonstration projects. Members of the Board include: top officials of the Departments of Agriculture, Education, Health and Human Services, Housing and Urban Development, Interior, Justice and Labor; and representatives from the Office of Management and Budget and several White House offices.

States wishing to reform their welfare systems traditionally have faced many barriers. It could take years, for example, for a state to receive federal approval to test a new initiative. One reason for this is that "welfare" includes 59 different federal programs (the actual number could be more or less, depending on the definition of welfare), administered by numerous agencies

– each with its own regulations. Thus, a state might have to approach several federal agencies for special authority to restructure its welfare programs. Example: if a state initiative included a work program, extended Medicaid benefits, and a change in Food Stamp eligibility, it would need the approval of three separate agencies in two different departments: the Family Support Administration and the Health Care Financing Administration (in the Department of Health and Human Services), and the Food and Nutrition Service (in the Department of Agriculture).

With the creation of the Board, states can apply to just one federal authority for a package of special rules changes covering perhaps dozens of individual programs in several federal departments. This "one-stop shopping" moves the process rapidly and permits multi-program waivers to be evaluated as a package, not as unrelated proposals.

THE SCOPE OF WAIVER AUTHORITY

The central element of this new process is the granting of "waiver" or "demonstration" authority by agencies at the Board's direction. This exempts states from some federal statutes and regulations to allow the state to test alternative approaches to providing welfare assistance. Under current law, the power of the Executive Branch to grant this authority varies significantly from program to program. The major programs with waiver authority are: Aid to Families with Dependent Children (AFDC), the basic cash assistance program intended primarily for female-headed families; Medicaid, the health program for families eligible for AFDC; and Food Stamps, the largest food assistance program available to most poor households. The Department of Housing and Urban Development also has authority to waive regulations or to conduct demonstrations related to the objectives of its programs. In addition, a number of programs, principally block grants, have considerable flexibility for state action.

The Social Security Act

The most significant and far-reaching waiver authority affecting the welfare population is granted by Section 1115 of the Social Security Act. This authorizes waivers of specified sections of the Act for demonstration projects likely to promote the objectives of such programs as AFDC, Child Support Enforcement, and Medicaid. The section also allows the federal government to pay for certain costs of demonstration projects when federal funds normally would not be available. Thus federal funds continue to flow to the state even though the demonstration project departs from the activities envisioned in the Act. This authority had been used primarily in recent years to test a variety of employment programs under AFDC, such as requiring certain welfare mothers to participate in a work program.

Food Stamps

The Food Stamp waiver authority is much more limited than that in the Social Security Act. Section 17(b)(1) of the Food Stamp Act authorizes demonstration projects intended to increase the efficiency of the program and improve the delivery of benefits. The Secretary of Agriculture, however, normally may not approve demonstrations that would reduce benefit levels or restrict eligibility. Thus a demonstration could not provide more food stamps to the most needy families by reducing food stamp assistance to families already obtaining help from other programs. The available waiver authority has led to such recent state initiatives as demonstrations designed to test alternative methods of issuing benefits, like an electronic "bank" card with which recipients can obtain their benefits.

Housing

The Secretary of Housing and Urban Development (HUD) has authority to foster innovative approaches to make more efficient use of housing resources and to reduce welfare dependency. This allowed Reagan's HUD Secretary, Samuel Pierce, to launch Project Self-Sufficiency, under which local public-private partnerships are established to coordinate services and help integrate low-income single parents into the economic mainstream. HUD also launched a major demonstration of rental vouchers as a forerunner of a full voucher program.

HOW THE BOARD ENHANCES WAIVER AUTHORITY

The Board serves as a single contact for states applying for waivers of more than one public assistance program. If the Board agrees to review a state proposal, the state can make a presentation to Board members. Prior to the Board's creation, state officials typically would not have been able to meet with all relevant federal officials at one time. The Board's procedures set a target of 90 days for completion of the review process. In the past, even limited waiver applications normally took far longer to process.

The Board applies three criteria during its review of demonstration proposals. First, the proposal must have a chance of reducing dependency while continuing to meet the needs of welfare recipients. Second, it must not lead to increased costs for the federal government. And third, it must include a sound evaluation plan. In keeping with the spirit of decentralized welfare reform, Board members need not actually agree with the specifics of a state's proposals as long as these three basic criteria are met. The aim is to encourage innovation and experimentation – not to impose the Board's own view of what might or might not work.

Continuous Discovery Process. There are solid reasons for encouraging many state demonstrations, rather than trying to develop a single national blueprint. What works in one part of the country, for instance, may fail in another. Since the characteristics of the welfare population differ widely, moreover, states can tailor assistance to the conditions of specific groups and localities. As important, since there is little agreement on the best approach to take, authorizing many state experiments triggers a continuous trial-and-error process of policy discovery. This approach is more likely to lead to progress than is a centralized system of policy making – just as a decentralized, entrepreneurial economy systematically outperforms a centralized economy.

While its purpose is to spur policy entrepreneurship, the Board takes steps to ensure that state initiatives do not drain the federal Treasury, and that state experiments are fully evaluated, so that useful, accurate information is obtained for the federal government and for other states.

State Responsibility. Thus a package of waivers can be accepted if there is no net increase in federal outlays. If the state reform saves money, the state can keep the savings as long as it uses them to improve welfare services and benefits. If the reform leads to higher spending, then the state must bear the additional costs.

The Board adopts a high standard for evaluating demonstrations, requiring an evaluation not just of the package as a whole, but also of important individual elements of the plan. Strict, scientific evaluation may not, of course, always be possible, perhaps for legal reasons, or because the demonstration involves only a small number of recipients.[2] In such cases, the Board uses other evaluation approaches. Whatever method is used, the Board insists on one thing: the evaluations undertaken must be able to compare the results of the demonstration with what would have happened in the absence of the demonstration.

THE DIVERSITY OF STATE PROPOSALS

Since the Board was created, 26 state proposals have been presented to the Board for review. The Board has taken final action on 14 state demonstration proposals. Ten have been approved and the appropriate waivers granted.

Enormous diversity is reflected in the initiatives sent to the Board for review. Even when states address the same problem, the approaches tend to differ. Examples:

Workfare. While extensive research is available on the effectiveness of work programs in reducing dependency, the data sometimes are ambiguous. Thus many states have asked for authority to launch demonstrations to test work programs for mothers with young children. Currently these mothers are exempt if their youngest child is under six years of age. Illinois, for example,

2 Ideally, the state must maintain a "control" group of beneficiaries, so that the performance of this group receiving services under the existing program can be compared with those under the new arrangements. But sometimes it is illegal to make services available to one group but not to another.

has received a waiver to create mandatory participation in work programs for women with children over three years of age and New Jersey has been allowed to introduce such programs for women with children older than two. Although the recently enacted Family Support Act would allow states to require mothers with children just one year old to enroll in work programs, it is clear that many states do not wish to wait until the new law takes effect and that some would like to test lower age exemptions to see if they can better prevent long-term dependency.

Other Requirements for Benefits. The Family Support Act requires that teen AFDC parents without a high school degree must remain in school or lose their benefits. Several states, however, go further in adopting penalties or incentives to encourage individuals to leave welfare. For example, Wisconsin's "Learnfare" demonstration requires teenage AFDC parents and dependent children aged 13 through 18 years, to remain in school if they do not have a high school degree. Ohio has enacted a similar program; those who continue in school receive an incentive bonus payment of $62 a month, while those who do not have their AFDC benefits lowered by $62 a month. New Mexico and Tennessee have proposed similar schooling requirements.

Eligibility Rules. Several states have asked the Board for permission to revise the formula for determining benefits, to create financial incentives for recipients to choose employment rather welfare. The Wisconsin demonstration, for instance, will allow a longer period in which a portion of earned income can be ignored for calculating welfare benefit levels (known as the disregard). The New Jersey plan provides a larger disregard with no time limit for AFDC recipients who become family day care providers. And New York has been given permission to offer a more attractive benefit structure for welfare mothers who obtain a court order requiring the father to provide child support payments.

Streamlining Rules. The current welfare system applies different rules and reporting requirements to recipients of different benefit programs. A number of states have proposed making rules more uniform, thereby reducing erroneous payments and administrative complexity and making it easier for needy families to claim benefits and services. Alabama, for example, has proposed, for one part of the state, merging the AFDC, Food Stamp, and Low Income Home Energy Assistance programs into a single cash grant with a unified set of rules; the results would be compared to the existing system in another part of the state.

Child Support. Nearly all states applying for waivers are seeking ways to improve the collection of child support payments from absent parents. Georgia's demonstration proposal would test whether fathers are more likely to provide child support payments when these are counted as income to the recipient family rather than kept by the state to offset AFDC expenditures. The state believes that fathers are more likely to pay if the support payments go directly to benefit the custodial parent and children.

Entrepreneurship. West Virginia and Pennsylvania are proposing demonstrations that would aid welfare recipients seeking to gain independence by starting their own small business. Under West Virginia's plan, federal Job Training Partnership Act (JTPA) funds would purchase business and technical training and guidance. Waivers of AFDC and Food Stamp rules would allow income and assets to be treated differently for eligibility purposes, making it possible for recipients to continue to receive aid during the project. Capital would be made available from private lending institutions or the Small Business Administration.

HOW GEORGE BUSH SHOULD STRENGTHEN THE BOARD

Last year's Family Support Act contains features similar to some of the state demonstration proposals. For many states, however, the Act is not innovative enough. They would like to test many other welfare reforms. The states recognize that major reform can best be achieved by state and community-based experimentation.

While the welfare demonstrations being undertaken by the states through the Low Income Opportunity Board have accelerated state innovation, existing waiver authority is still very limited. Many major reform experiments will be impossible unless the Administration's existing legal powers to authorize waivers is expanded. Current law still blocks many innovative approaches. Examples:

♦ ♦ AFDC, Food Stamps, and energy assistance cannot easily be consolidated to provide one cash grant to families with one set of uniform rules. The reason for this is that no waiver can be given if it reduces the Food Stamp allotment to a household (the average allotment, in the case of a cash-out), even though overall benefits are increased for those most in need. Cashing out most other in-kind programs is ruled out completely.

♦ ♦ Currently only the AFDC and Food Stamp programs can require work from those who receive benefits. Some states want to extend this requirement to other programs, such as housing and energy assistance, or to apply it to the full package of benefits. But the law is too inflexible to allow this.

♦ ♦ The current housing assistance laws set the tenant's contribution to rent at a standard 30 percent of household income. Some housing authorities would like to establish a cash ceiling on rents, to retain higher income tenants and improve the economic mix of tenants in their projects. These authorities also feel that the 30 percent rule discourages many families from improving their situation because it constitutes an additional income "tax" of 30 percent. Others would like to allow officials to charge higher rents for better properties. These modifications are not possible under current law.

George Bush has decided to keep the Low Income Opportunity Board in existence. But rather than simply extending the life of the Board, Bush has the opportunity to exploit its potential more fully and to use the Board as a forum for developing Administration policy. To do so Bush should:

1) Send legislation to Congress expanding waiver authority to all major social welfare programs.

Such legislation would allow the Board to grant waivers permitting states to shift funds between major programs, to raise or lower various benefit levels, and to expand or constrict eligibility for programs. This new legislation would lift existing restrictions on the Administration's right to grant such waivers. Of course, a state could continue receiving funds through the existing system. But it could, alternatively, apply to the Board for authority to redesign state welfare programs, so long as it ensures that funds continue to serve the needs of the poor.

2) Establish the Board as the primary forum for developing the Administration's social welfare policies.

In many areas of social welfare policy-making, devising a consistent and effective strategy is virtually impossible because the relevant programs are located in different agencies. This leaves a policy-making vacuum in which far-reaching decisions in practice are made by the Office of Management and Budget or by senior White House officials working directly with cabinet secretaries. The result often is fragmented policy-making rather than strategies developed with the benefit of debate between the relevant agencies. By virtue of its structure and purpose, the Low Income Opportunity Board would be a useful forum for interagency policy-making. Welfare policy could be discussed by the Board and major initiatives developed.

Housing assistance for low income families, for instance, now is split between the federal departments of Agriculture (DOA), Housing and Urban Development (HUD), and Health and Human Services (HHS). But state welfare programs also provide assistance. Eligibility criteria differ widely. Some families receive plenty of help from overlapping federal and state programs, while other deserving families do not. Allowing the Board to become the forum for developing a more coordinated policy for low income housing, under the leadership of HUD, would reduce eligibility problems, use funds more efficiently, and encourage state innovation.

Similarly, many of America's homeless are victims of red tape that makes it impossible to coordinate housing and psychiatric services, and income support programs, so that the severely mentally ill can be helped.[3] The Board would be the best available vehicle for a coordinated effort, with the states, to tackle the appalling problem of the homeless mentally ill.

CONCLUSION

Rather than provide a safety line to lead people out of poverty, the American welfare "system" has become unresponsive to the needs of those to whom it is targeted. A centralized welfare system imposes a bureaucratic

3 E. Fuller Torrey, "America's Shame: The Homeless Mentally Ill," *Policy Review*, Spring 1989.

straitjacket on the states and stifles the experimentation so necessary to discovering new approaches to aiding the least advantaged. State governments should be given far more authority to shape their own welfare policies. Federal restrictions should be eased and states should be encouraged to shift funds from antiquated programs into new anti-poverty efforts designed at the state and local level.

Expanding the role of the White House's Low Income Opportunity Board would spur state innovation. Though the Board has attracted scant press and public attention since its creation in 1987, it is one of the most important gains for federalism in recent years. It could be a key factor in combatting poverty in America. During the 1960s, welfare reformers reasoned that states could not be trusted with complete responsibility for welfare policy, and so the system was centralized in Washington. This has led to rigidity, inflexibility and the stifling of the innovation spawned by diversity. Congress has been very reluctant to grant states sweeping authority to restructure welfare programs, fearing apathy among the states.

Igniting Creative Reforms. With the creation of the Board, states have the incentive to propose innovative changes to their welfare systems. Yet congressional concern about potential state insensitivity to the poor is allayed because all state initiatives must be approved and later evaluated. Thus state discretion is tempered by a federal check and balance.

Energizing federalism in this way already has ignited creative reforms in many states. Strengthening the Board would trigger an even greater volume and range of state proposals. The key point about such proposals is not that they are guaranteed to bring success – no doubt some would fail. It is that America is more likely to find answers to poverty and dependency with 50 states experimenting with new ideas than with the federal government pursuing a "one-size-must-fit-all" strategy. Experimentation is the driving force behind innovation in the American economy. It should also be leading force driving the reforms of social welfare policy.

Stuart M. Butler, Ph.D.
Director of Domestic Policy Studies

APPENDIX

STATUS OF WAIVER APPLICATIONS SUBMITTED BY STATES
(As of May 1, 1989)

Alabama	Approved December 1988.
Arizona	Withdrew project.
California	San Diego project could not meet the Board budget-neutrality standard; therefore recommended that Agriculture approve waivers independently.
Colorado	State withdrew project because of Family Support Act provisions.
Georgia	Approved October 1988.
Illinois	Approved December 1988.
Iowa	Approved one portion of state demonstration. Board action on the remaining elements of the project expected soon.
Kansas	Withdrew project.
Maine	State withdrew project because of Family Support Act provisions.
Maryland	Draft terms and conditions under review by state.
Nebraska	Rejected for coordination by the Board.
New Hampshire	Approved July 1988, but state chose not to implement its proposal after passage of the Family Support Act.
New Jersey	Approved September 1987. Some modifications needed because of Family Support Act.
New Mexico	Proposed terms for approval have been sent to state, awaiting a response.
New York	Approved May 1988. Some modifications needed because of Family Support Act.
North Carolina	Approved August 1988.
Ohio	Approved May 1988. Some modifications needed because of Family Support Act.
Pennsylvania	Board action to approve demonstration project expected soon.

South Carolina	Under review.
Tennessee	Proposed terms forapproval have been sent to state. State has responded to draft terms, but further negotiations are required.
Texas	Draft terms and conditions under review.
Utah	State withdrew project because of Family Support Act provisions.
Washington	Approved March 1988. Some modifications needed because of Family Support Act.
West Virginia	Approved July 1988.
Wisconsin	Approved October 1987. Some modifications needed because of Family Support Act.
Wyoming	Project could not meet the Board budget-neutrality standard. Board recommended that HHS approve waivers independently.