UPDATE

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BAD NEWS ON THE NEW WELFARE LAW

(Updating *State Backgrounder* No. 681/S, "A State Guide to the New Welfare Law," November 30, 1988.)

When the Family Support Act of 1988 (P.L. 100-485) became law last October, its supporters touted it as a major reform of the welfare system, one that would move large numbers of welfare recipients off the rolls. By contrast, critics pointed to the absence in the law of strong work requirements, and the measure's reliance on expensive new services; because of these, they said, the overhaul of the welfare system would fail to reduce dependency. A recent study by the Congressional Budget Office (CBO) not only confirms the critics' concerns, but suggests that the critics actually may have understated the bill's weaknesses.[1]

The CBO finds that this newest "reform" actually will increase the number of families on welfare. While the CBO estimates that the law's training and work provisions will result in 50,000 fewer families on welfare by the end of five years, this is just 1 percent of the caseload. What is worse, the law's expanded eligibility and benefits, according to CBO analysts, will add 80,000 families to the welfare rolls, for a net increase of 30,000 families on welfare by 1993.

The CBO's study highlights other likely effects of the Family Support Act that agree with the claims of critics. Among them:

♦ ♦ **The great majority of welfare recipients will continue to receive benefits without any obligation to participate in work or training activities.** Under the terms of the Act, half of families on Aid to Families with Dependent Children (AFDC), the main welfare program, are exempt from the requirement to participate in work and training programs. Moreover, only 20 percent of the remaining adults on welfare must be enrolled by states in a work or training program by 1993. And if a state does not reach this goal, the only penalty on the state will be a slight drop in federal support for the costs of such programs, from 59 percent of the programs' costs to 50 percent. The national rate of participation in work and training programs already is between 10 percent and 15 percent, according to estimates by the Department of Health and Human Services.

♦ ♦ **States will spend large amounts of money on training programs that will have little effect on reducing welfare rolls.** About one million welfare recipients are expected to participate in the new training or work programs, according to the CBO, at a minimum cost of $3,075 per participant. Fewer than 4 percent of those who do participate in training and work programs, however, will find employment. Studies of state work programs show that the largest reductions

1 "Work and Welfare: The Family Support Act of 1988," Congressional Budget Office Staff Working Paper, January 1989.

in welfare rolls actually result from very modest programs. The CBO cites a Arkansas work program that costs just $158 per participant and reduced the welfare caseload by 5 percent. By contrast, a Maryland training and work program costs $838 per participant with a less than 1 percent reduction in the caseload.

◆ ◆ **Very expensive day care benefits will be provided to thousands of recipients who would have left welfare even without such benefits.** Beginning in April 1990, states must provide twelve months of child care assistance to families leaving welfare for a job. The CBO estimates that 470,000 families will qualify for this new benefit, but virtually all of these families would have left welfare without this additional assistance. Thus the new spending on these services will induce few extra welfare recipients to take a job, while costing taxpayers, according to CBO estimates, about $1.2 billion over five years. Child care for children under age 15 costs an estimated average of $159 per month, but the CBO cautions that this could escalate quickly if states chose ill-designed funding mechanisms and service delivery systems. Under Massachusetts' education and training (ET) program, for instance, costs are $270 per month, chiefly because state officials discourage the use of less expensive informal child care and refuse to reimburse care by relatives.

◆ ◆ **New Medicaid benefits for those leaving may encourage "recycling."** Current law allows families leaving welfare to continue receiving Medicaid benefits for a minimum of four months. The new law adds eight months to coverage, though states may charge a $20 premium for the final six months of coverage. The CBO raises the possibility that this more generous Medicaid transitional benefit might encourage many working families to go back on welfare after a year to requalify for another twelve months of the benefits – a process known as "recycling."

◆ ◆ **The new mandatory AFDC coverage for two-parent families will add thousands of families to the welfare rolls.** Requiring the 22 states that do not currently provide AFDC benefits to two-parent families to do so will add an average of at least 65,000 families each month to the welfare system, says the CBO. Provisions that liberalize the amount of earned income that can be disregarded in determining welfare eligibility will add another 15,000 families. This increase in the number of AFDC beneficiaries, and increase in AFDC benefits, will cost the federal government $1.3 billion and state governments $1.0 billion over five years.

In sum, the CBO study refutes the rhetoric used by the bill's proponents to push it through Congress. Lawmakers were told that the bill would mandate work in exchange for welfare payments and that new transitional benefits would induce thousands of families to leave the welfare rolls. The sponsors promised too that the measure would pay for itself by reducing welfare expenditures. Yet taking into account the total price tag of the legislation, each of the 50,000 families likely to leave the rolls because of the training and work provisions will cost American taxpayers an average of $66,000 to place in a job. The bill's generous funding, moreover, will not go to the poor. Instead, this money will go to bureaucrats, caseworkers, teachers, and accountants who run the programs. In the sense that these middle-class professionals also are dependent for their livelihood on the welfare services, thousands of non-poor individuals will join the system.

Toward a Workable Act. The CBO's analysis clearly gives an "F" grade to the Family Support Act. Lawmakers thus should stop assuming that last year's legislation reformed the system and reopen the debate over reform. Meanwhile, the Bush Administration should do what it can to make the Act as workable as possible.

In particular, Health and Human Services (HHS) Secretary Louis Sullivan should make sure that the bill's regulations, now being drafted by his department, are designed to move Americans off welfare. For example, states should be given the broadest possible flexibility to design efficient mandated work programs, such as that in Arkansas. The new regulations also should strengthen the work requirements whenever possible, perhaps by requiring welfare recipients who do not have a child under the age of six to participate for at least 30 hours a week in a work or training program. Any less stringent requirement would have a negligible impact on the welfare rolls. Finally, HHS and the White House should strengthen the role of the Low Income Opportunity Board. This interagency board "fast-tracks" requests from states for temporary waivers of federal rules to permit innovative state experiments to reduce welfare dependency. The Board has been the catalyst for real welfare reform in the states. The Bush Administration also should ask Congress to grant the Board broader waiver authority to help states create a welfare system that actually reduces dependency. Current law prevents the Board from allowing states to transfer funds between many major programs.

Expanding the Welfare Trap. During the welfare reform debate last year, Ronald Reagan stated that the test of any welfare reform proposal is: How many does it move off welfare? The Family Support Act flunks this test according to the CBO's analysis. Only a modest number of existing welfare families will leave the welfare rolls, at an enormous cost to the taxpayer. Thousands more American families will fall into the welfare trap as attractive new benefits tempt working families to sign on to welfare. The CBO study draws a startling conclusion: the bill's sponsors cleverly employed conservative rhetoric to push through an enormous expansion of the flawed status quo in the name of "reform."

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