AS ADOPTED 2/6/96

WELFARE REFORM

The Governors believe that our nation's leaders are now faced with an historic opportunity and enormous responsibility to restructure the federal-state partnership in providing services to needy families. We, the nation's Governors, are commited to achieving meaningful welfare reform now. The continuation of the current welfare system is unacceptable. Congress has made significant efforts toward making changes that will allow states the flexibility to build upon the lessons states have learned through a decade of experimentation in welfare reform. The President has also voiced his commitment to achieving welfare reform and has continued to grant waivers to states to facilitate experimentation. We urge Congress and the President to join with the nation's Governors in support of a bipartisan agreement that will reallocate responsibilities among levels of government, maximize state flexibility, and restructure welfare as a transitional program with a focus on work and self-sufficiency. We believe, however, that children must be protected throughout the restructuring process.

State experience in welfare reform has demonstrated that three elements are particularly crucial for successful welfare reform: welfare must be temporary and linked to work; both parents must support their children; and child care must be available to enable low-income families with children to work. Additionally, we believe that block grants should be entitlements to states and enable states broad discretion in the design of their own programs based upon mutually agreed upon goals. We also believe that states should have access to supplementary matching federal funds for their cash assistance programs during periods of economic downturn. The conference agreement on HR 4, the Personal Responsibility and Work Opportunity Act, incorporated many of these elements, but we also believe further changes must be made to create a sound and workable welfare reform bill. The National Governors' Association would support the HR 4 conference agreement with the changes listed below. The absence of recommendations on the restriction of benefits for aliens should not be interpreted as support for or opposition to the alien provisions of the HR 4 conference agreement:

Core Employment Support Services

- *Add $4 billion in funding to the general entitlement for child care. This funding would not require a state match.*

Flexibility in Meeting Work Requirements

- *Change the participation rate calculation to take into account those who leave cash assistance for work as long as they remain employed.*

- *Reduce the number of hours of participation required in future years to 25.*
- *Permit states the option to limit the required hours of work to 20 hours a week for parents with a child under age six.*
- *Allow job search and job readiness to count as a work activity for up to 12 weeks.*

Contingency Fund for State Welfare Programs

- *Add $1 billion to the contingency fund.*
- *States can meet one of two triggers to access the contingency fund: the unemployment trigger in the conference agreement or a new trigger based on food stamps. Under the food stamp trigger, states would be eligible for the contingency fund if the number of children in their food stamp caseload increased by 10 percent over FY 1994 or FY 1995 levels.*
- *Eliminate the maintenance of effort requirement for the contingency fund.*

Performance Incentives

- *Provide cash bonuses of 5 percent annually to states that exceed specified employment-related performance target percentages. These bonuses would not be funded out of the block grant base.*
- *Maintain the bonus for states that reduce out-of-wedlock births contained in the conference agreement.*

Family Cap

- *Provide states with the option to restrict benefits to additional children born or conceived while the family is on welfare.*

Cap on Child Care Administrative Costs

- *Raise the administrative cap on child care funds to 5 percent.*

Hardship Exemption

- *Raise the exemption to the five-year lifetime limit on benefits to 20 percent of the caseload.*

Fair and Equitable Treatment

- *Add a state plan requirement that the state set forth objective criteria for the delivery of benefits and fair and equitable treatment.*

Child Protection Block Grant

- *Maintain the open-ended entitlement for foster care and adoption assistance.*
- *Provide a state option to take foster care, adoption assistance, and independent living funding as a capped entitlement with annual growth adjustment based on average national caseload growth rate. States may transfer any portion into a Child Protection Block Grant for activities such as early intervention, child abuse prevention, and family preservation. States must continue to maintain effort at 100 percent based on state spending in the year prior to accepting the capped entitlement. States must maintain protections and standards under current law. States can reverse their decision on a yearly basis.*
- *Create an entitlement Child Protection Block Grant of the remaining child welfare, family preservation, and child abuse prevention and treatment programs. These programs are not currently individual entitlements. States must maintain protections and standards under current law.*

Supplemental Security Income (SSI) for Children

- *Accept the provisions in the Senate-passed welfare bill.*
- *Change effective date for current and new applicants to January 1, 1998.*

Food Stamps

- *Accept the provision in the Senate-passed welfare bill that reauthorize the Food Stamp program in its current uncapped entitlement form.*
- *Modify the income deductions as outlined in the Senate-passed welfare bill.*

School Nutrition Block Grant Demonstration

- *Maintain the current entitlement for children.*
- *Schools would continue to receive per meal federal subsidies for all lunches and breakfasts under current eligibility criteria.*
- *Additional subsidies for schools with high proportions of free or reduced-price participants will be maintained.*
- *States would continue to receive the proportion of administrative costs based on current law but in a block grant.*

- *The state must develop a state-based plan that includes public input and describes how the state will operate the program.*
- *All other safeguards described in the conference report will be maintained.*

Provision for Territories

- *The National Governors' Association strongly encourages Congress to work with the Governors of Puerto Rico, Guam, and other territories towards allocating equitable federal funding for their welfare program.*

Earned Income Tax Credit

- *This is only an issue within the context of budget reconciliation.*
- *Limit the savings from revising the EITC to $10 billion.*
- *Add a state option to advance the EITC.*

Any changes in the above recommendations would nullify this endorsement.

THE WHITE HOUSE

WASHINGTON

October 6, 1995

The Honorable John Breaux
United States Senate
Washington, D.C. 20510

Dear John:

More than eight months ago, we came together at Blair House in an honest effort to find common ground on an issue upon which most Americans have long agreed: the need to reform our broken welfare system. Leaders from both parties and all levels of government put a host of innovative solutions on the table and agreed that, whatever else we do, we must first restore the values of work, responsibility, and family.

The welfare reform debate in Washington has come a long way since we met. Our working session at Blair House produced an overwhelming consensus from both parties and all levels of government on the need for the toughest possible child support enforcement nationwide. That consensus helped spur the House and Senate to adopt every major child support enforcement measure in my Administration's welfare reform plan.

Similarly, when we met, some on the far right were demanding that we saddle the states with extremist mandates, even orphanages, as part of welfare reform. But in the months since, a broad, bipartisan coalition -- from Republican and Democratic governors to the Catholic Church -- has proclaimed an American consensus that it is wrong to punish children for their parents' mistakes.

Last month, a sweeping bipartisan majority in the United States Senate passed a welfare reform bill that reflects much of the common ground we found at Blair House. As the House and Senate meet to reconcile their differences on welfare reform in the coming weeks, I hope you will speak out on the basic values of work, responsibility, and family that we discussed in January. As someone who cares deeply about this issue, you know that we have an unprecedented opportunity to reform our broken welfare system and an awesome responsibility to do right by our nation's children.

I have worked on this issue for 15 years. No one in America believes more deeply than I do that the current broken system is an affront to the taxpayers who pay for it and the people who are trapped in it. So if Congress can agree on a bipartisan bill that is tough on work and fair to children, we'll have real welfare reform, and the nation will be better for it. But let me be clear: if Congress walks away from this bipartisan common ground and sends me a bill that is weak on work and tough on children, it will kill welfare reform, and I will be forced to continue to end welfare through the waiver process, one state at a time, until Congress gets it right.

There is now an overwhelming bipartisan consensus across America that real welfare reform is first and foremost about work. We will only complete this historic mission to end welfare as we know it if we succeed in moving people from welfare to work. That means imposing time limits and tough work requirements, making sure people get the child care they need to go to work, and rewarding states and holding them accountable for their efforts to put people to work, not for cutting people off.

There is also an overwhelming bipartisan consensus that welfare reform should not punish children. Across the country, Republican and Democratic governors agree that we must demand responsibility from young mothers and young fathers, not punish children for their parents' mistakes. Likewise, the American people know that ending welfare is not about walking away from abused children or taking away poor children's school lunches.

We have made great strides together in this welfare reform debate, and I am confident that we can put politics aside and achieve an historic bipartisan agreement. We have come too far to let the American people down. Together, we can give them a government that honors their values, by making welfare a second chance and responsibility a way of life.

Sincerely,

Bill Clinton

THE WHITE HOUSE
Office of Media Affairs

September 14, 1995 | Contact: 202/456-7150

CALIFORNIA

The Republican Budget Resolution Conference Agreement: Medicaid Cuts Will Force States to Reduce Health Coverage

Republican's Proposal: Reduces Medicaid Payments to States by 30% in 2002

Republicans are proposing to cut more than $182 billion from Federal Medicaid spending between 1996 and 2002: a cut of 20% over seven years and 30% in 2002. **California would lose $18 billion over the seven years, a 31% reduction in 2002 alone.** Even if California could absorb half of the cuts by reducing services and provider payments, it would still have to eliminate coverage for 1.2 million people in 2002, according to the Urban Institute, including:

- 95,000 older Americans;
- 145,800 people with disabilities; and
- 918,100 children and their families.

The Republican proposal would force California to eliminate coverage for about 34,400 people needing long-term care in 2002.* Medicaid is the largest insurer of long-term care for all Americans, including the middle class. Currently, Medicaid covers 66% of the 90,400 nursing home residents in California. Medicaid also serves about 56,400 older Americans and people with disabilities using home care in California. Without Medicaid, families of the elderly and disabled could not afford nursing home care that costs an average of $38,000 per year nationally.

The Republican proposal would force California to eliminate coverage for 571,700 children in 2002.* Currently, 26% of the children in California rely on Medicaid for their basic health needs. Medicaid pays for immunizations, regular check-ups, and intensive care in case of emergencies for about 2,260,000 children in California.

California could avoid these difficult choices forced by the Republican proposal only by increasing its Medicaid spending by 31% in 2002 -- by raising property or sales taxes, or cutting other critical state spending.

The President's Balanced Budget Proposal

The President's proposal saves $54 billion over seven years from Medicaid, less than one-third the Republican cut and still a significant contribution toward deficit reduction. The President's Medicaid policy produces savings by reducing and retargetting disproportionate share payments, increasing state flexibility, and limiting the growth in Federal Medicaid spending per recipient. This policy constrains Federal spending but allows states to respond to unexpected changes in the number of people covered. It does not put states at risk and dismantle a program that has served as a critical safety net -- as would happen under the Republican proposal.

* U.S. Department of Health & Human Services estimates based on the Urban Institute data; numbers may not sum to totals due to rounding.

IMPACT OF THE HOUSE REPUBLICAN WELFARE PROPOSAL ON THE STATE OF CALIFORNIA

The House Republican's Personal Responsibility Act ends numerous federal-state entitlement and discretionary programs -- including Aid to Families with Dependent Children (AFDC), Emergency Assistance (EA), child care, child welfare, and nutrition assistance -- and replaces them with block grants to states. It cuts funding for Food Stamps and significantly reduces the number of disabled children eligible for the childhood SSI program and converts most of the program into a block grant. **This could result in California and its residents receiving significantly less federal funding for these programs.**

TOTAL FIVE YEAR LOSSES FOR CALIFORNIA: $14.077 BILLION
APPROXIMATE NUMBER OF CALIFORNIA CHILDREN DENIED AFDC BENEFITS:1,158,000

* * * *

TITLE I would block grant cash assistance for needy families, resulting in **$3.477 BILLION LESS** in federal funding for California over the next five years than the state would have received under current law. States would be prohibited from using federal block grant funds to provide benefits to many currently eligible groups, including most legal immigrants and unmarried minor mothers and their children.

TITLE II would block grant federal funding for abused and neglected children and children in foster care or adoptive placements, resulting in **$705 MILLION LESS** in federal funding for California over the next five years. The proposal eliminates federal funding for Family Preservation and Support and several other specific programs to prevent child abuse and neglect. Though the block grant would grow modestly over the five years, no adjustments are provided for population growth or economic cycles.

TITLE III would consolidate federal child care programs into a block grant that would **CUT $166 MILLION** from the federal funds that would be provided to California over five years. In the year 2000 alone the cut would be $49.3 MILLION -- meaning that **31,850 FEWER CHILDREN** would receive federal child care assistance that year. California would be subject to federal time limits and work requirements for its AFDC recipients without guaranteed support for the child care services which are essential to making participation in work possible. No adjustments would be provided for population growth and economic cycles.

TITLES III AND V also repeal existing nutrition assistance programs -- including School Lunch and WIC -- for needy families and replace them with a lump sum capped at less than the rate of inflation, resulting in **$1.099 BILLION LESS** in federal funding to California. These reductions would limit children's access to these important programs, jeopardizing their nutrition and health.

TITLE IV would restrict welfare for legal immigrants, resulting in **$6.124 BILLION LESS** in federal funding for California's residents. Most legal immigrants would be ineligible for old-age or disability payments under the SSI program, would not be able to receive temporary family assistance, and would not be eligible for services funded under Title XX (Social Services Block Grant) and many other programs.

TITLE V would impose a rigid cap on Food Stamp expenditures, allowing no adjustments for economic cycles. It would mandate work for certain recipients without providing funds to states for job creation. As a result, California would receive **$2.650 BILLION LESS** in federal funding over the five years.

TITLE VI would deny Supplemental Security Income (SSI) to many currently eligible persons and future applicants -- particularly disabled children, many of whom would be denied all benefits due to eligibility restrictions placed on them by the proposal. These reductions would result in **$901 MILLION LESS** in federal funding for California for childhood disability programs over the five years and would result in 13% of disabled children losing eligibility for federal SSI benefits.

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Comparison of Welfare Reform Major Provisions

H.R. 4, as passed by the House and H.R. 4, as passed by the Senate

PROVISION	HOUSE BILL	SENATE BILL
Block Granting AFDC and Child Care	Block grants AFDC, EA, and JOBS into a single capped entitlement to states. Also creates a separate discretionary block grant for child care.	Block grants AFDC, EA, JOBS, and child care into single capped entitlement to states. The block grant provides a separate allocation for child care and restricts the use of these funds. CCDBG remains intact, as a discretionary program.
Child Welfare	Combines as a block grant to states most federal child welfare programs including title IV-E foster care and adoption assistance, title IV-B child welfare services (including the Family Preservation and Support Program), and several discretionary programs funded under the Child Abuse Prevention and Treatment Act (CAPTA) and other authorities. Eliminates basic federal protections for abused and neglected children.	Maintains current programs assuring federal support for abused and neglected children from low-income families. These programs include title IV-E foster care and adoption assistance and title IV-B child welfare services, including the Family Preservation and Support Program. The Child Abuse Prevention and Treatment Act (CAPTA) is reauthorized. Pre-welfare reform eligibility rules continue to apply.
Child Care	A child care block grant would be authorized at $2.1 billion annually as discretionary spending for FYs 1996 through 2000.	From FY 1996 through 2000 $8 billion would available as a capped entitlement to states for child care assistance: 1) $5 billion would be set aside within the family assistance block grant; and 2) an additional $3 billion would also be made available. To be eligible for a percentage of this $3 billion, a state would be required to maintain spending at 100% of their current year set aside plus the amount of state match expenditures for child care programs in FY 1994; funds would be drawn down by states at Medicaid match rate. This additional $3 billion, if reauthorized, would be subject to "pay-as-you-go" funding rules. An additional $1 billion per year is authorized for the states under CCDBG.

PROVISION	HOUSE BILL	SENATE BILL
WIC School Lunch and Nutrition Assistance Programs	The House bill would replace child nutrition programs operated outside of schools, WIC, and commodity distribution programs with a block grant to states. Funding would be set at $4.6 bill ion for FY 1996 rising to $5.3 billion by FY 2000. A separate block grant to states for school-based child nutrition programs would also be created. This would be funded at $6.7 billion in FY 1996 rising to $7.8 billion in FY 2000. These provisions would result in cuts of $6.6 billion over five years.	No block grants proposed. Contains program cuts amounting to $2.6 billion over five years, principally by instituting a two-tiered structure of reimbursement in Family Day Care Homes. Other reimbursements would also be reduced.
Food Stamps	The House bill would reduce federal funding for Food Stamps by $20.6 billion over 5 years. It would cap federal program expenditures regardless of growth. The bill would limit maximum benefit increases to 2% per year, regardless of the increase in food costs. It would terminate benefits after 90 days for non-disabled childless individuals between 18 and 50 years old unless they are working at least half-time or in a work program. It would also freeze the standard income deduction and the limit on excess shelter expense deductions at their current levels. Optional food stamp block grant is only available to states that operate a statewide EBT system (states that choose the block grant must spend all funds on food assistance).	The Senate bill would reduce funding in the Food Stamp Program by $17.5 billion over 5 years. Maximum benefit levels would be reduced to 100% of the Thrifty Food Plan. Able-bodied childless adults between 18 and 50 would be ineligible for food stamps after 6 months, unless they work half-time or participate in a work or training activity. The standard deduction from income would be reduced and frozen through FY 2002. States would have the option to receive food assistance as a capped block grant. (States that choose to implement a block grant would be only required to use 80% of the funds for nutrition assistance; the remaining funds could be used for administrative costs or transferred to work-related programs).

PROVISION	HOUSE BILL	SENATE BILL
SSI	The Individual Functional Assessment (IFA) is repealed. Children who on SSI by virtue of the IFA would no longer receive cash benefits and Medicaid. For children who are now eligible for SSI because they meet the medical listing, cash benefits and Medicaid would continue. For applicants after enactment, cash benefits and Medicaid would only be available for children who meet the medical listing and are institutionalized or would be institutionalized if they do not receive personal assistance services required because of their disability. Children who meet the medical listing (regardless of whether they are eligible for cash benefits and Medicaid or not) would be eligible for services under a state block grant. The maintenance of effort requirement pertaining to optional state supplementation of SSI benefits would be repealed.	Eligibility restricted to those children who meet medical listing; Individual Functional Assessment (IFA) and references to maladaptive behavior repealed, but all current IFA eligibles are reviewed. Eligibility for aged benefits under SSI would be raised from 65 to the "retirement age," as defined for Social Security retirement benefits. The age of eligibility would gradually increase from 65 to 67 beginning in 2003, and reaching 67 in 2025. Any future changes that may be made to the Social Security retirement age would automatically change the eligibility age for SSI. Similar repeal of maintenance of effort provisions.
Drug Addicts and Alcoholics	Effective October 1995, individuals with an addiction material to the finding of a disability would not longer be eligible for SSI and would lose their Medicaid eligibility.	Effective January 1997, individuals with an addiction material to the finding of a disability would be ineligible for SSI and would lose their Medicaid eligibility. Other disabled individuals on SSI with a substance abuse condition would be required to participate in treatment as a condition of eligibility.
Drug Treatment	$100 million for each of FYs 1997 through 2000 would be appropriated for providing substance abuse treatment through the Capacity Expansion Program and funding medication development research through the National Institute of Drug Abuse.	$50 million for each of FYs 1997 and 1998 would be appropriated for state programs for drug addicts and alcoholics through the Substance Abuse Prevention and Treatment Block Grant.

PROVISION	HOUSE BILL	SENATE BILL
Child Support	Includes major comprehensive child support enforcement reform including paternity establishment, state central registries of child support orders, and uniform procedures for interstate cases. It would also eliminate the $50 pass-through of child support to cash assistance recipients.	Same as House bill, except omits "children first" priority when child support arrearages are paid after the family leaves welfare. Noncustodial parents who are delinquent in paying child support would be ineligible for means-tested federal benefits. Imposes child support obligation on paternal grandparents in cases in which both parents are minors.
Non-Citizens	With certain exceptions, non-citizens would be ineligible for SSI, Medicaid, food stamps, transitional assistance, and social services block grants. Immigrants would become eligible upon naturalization. Exceptions include immigrants too disabled to naturalize, and immigrants over age 75 with 5 years residence. Most federal and state needs-based programs would be required to deem the income and resources of sponsors. Deeming would be extended until the immigrant naturalized and would apply to current recipients.	Future immigrants (arriving after enactment) would be ineligible for 5 years for most needs-based assistance. States would have the option of denying most means-tested programs to most current and future immigrants. In addition, most non-citizens, including current recipients, would generally be ineligible for aid under SSI. Non-citizens would continue to be eligible for some programs, such as foster care and adoption assistance, emergency medical care, child nutrition, Head Start, and food stamps under some circumstances. Most federal needs-based programs would be required to deem the income and resources of sponsors. Current immigrants would be subject to deeming for 5 years; future immigrants for as long as they are residents of the U.S. -- unless they accumulated 40 qualifying quarters (10 years) -- even if they became U.S. citizens.
Entitlement Status	Eliminates entitlement for aid. States would have discretion to set all rules pertaining to eligibility.	Similar provisions.

PROVISION	HOUSE BILL	SENATE BILL
Funding Levels	The AFDC block grant would be $15.4 billion for each year from FY 1996 through FY 2000.	The family assistance block grant would be approximately $16.8 billion for each year from FYs 1996 through 2000. In addition, there are 2 supplemental grants: 1) an additional $.8 billion over 5 years for additional FY 1995 spending on EA; and 2) $.9 billion over 4 years would be given to qualifying low benefit, high growth states. The bill would increase state allocations by 2.5% to states that meet any of the following criteria: 1) state currently has below average federal AFDC related spending per poor person and above average population growth; 2) state has federal AFDC spending per poor person in FY 1996 that is below 35% of the national average; or 3) state has extremely high population growth (greater than 10% increase in population from 4/1/90 to 7/1/94).
Economic Contingency Funding	States with high unemployment rates could borrow from a $1 billion national Rainy Day account administered by HHS. Eligible states would be those with 3-month average unemployment rates in excess of 6.5% and rates at least 10% higher than either of the previous 2 years.	Establishes 2 contingency funds. $1 billion would be appropriated for FYs 1996-2002 for the Contingency Fund for State Welfare Programs for states with high unemployment rates. State spending above the FY 1994 level would be matched at the Medicaid rate. Eligible states are those with 3-month average unemployment rates in excess of 6.5% and rates at least 10% higher than either of the previous 2 years. An emergency loan fund (with no unemployment trigger) of $1.7 billion would also be available for emergency funding needs to states. The Secretary is not allowed to forgive loans from the fund.

PROVISION	HOUSE BILL	SENATE BILL
Performance Bonuses	No provision.	For FYs 1998 through 2000, a state performance fund totaling $2 billion, set aside from the family assistance block grant, would be awarded to states. For FYs 1998 and 1999, performance would be based on job placement. For FY 2000, performance awards would be based on improvements in the following areas: length of time receiving assistance, child support collections, earnings, exits due to employment, and recidivism. For FY 2000, a high performance bonus fund in the amount of state penalties collected from FYs 1996 through 1999 would be awarded to 10 states.
State Penalties	If an audit determines that funds were spent inappropriately, the misspent amounts can be withheld from future payments to the state. No single quarterly payment could be reduced by more than 25%. Failure to achieve the required work participation rate would result in up to a 5% reduction. Failure to participate in Income and Eligibility Verification System would result in a penalty of 1% of the state's annual grant. HHS would review the success of states' work programs to identify and report to Congress the 3 least and the 3 most successful programs.	The penalty for state failure to meet work participation requirements is 5% of the family assistance grant for the first year and 5% more than the previous year for each subsequent violation. States would also be subjected to a 5% penalty in the next fiscal year for: misuse of the grant; failure to submit required report; failure to participate in the Income and Eligibility Verification System; failure to comply with paternity establishment and child support enforcement; or failure to timely repay a federal loan from the contingency loan fund.
Maintenance of Effort	No state match or maintenance of effort requirements.	For FYs 1996 through 1999 states would be required to maintain 80% of FY 1994 spending on welfare-related programs. States could not count Medicaid expenditures or other state expenditures used to qualify for federal matching funds; dollar-for-dollar reduction for failure to meet requirements.

PROVISION	HOUSE BILL	SENATE BILL
Work Requirements	A state's required work participation rate would be set at 10% in 1996 rising to 27% by 2000 and to 50% by 2003. For 2-parent families, the participation rate would be 50% in FYs 1996 and 1997, and 90% in FY 1998. The work participation rate would be reduced by a percentage equal to the percentage decline in the caseload relative to FY 1995 (not including reductions due to federal law). Recipients must be working in unsubsidized or subsidized employment, on-the-job training, subsidized public sector employment, or job search (for the first 4 weeks an individual is required to participate). Individuals must average 20 hours a week in FY 1996, increasing to 35 hours in FY 2002.	Work participation rate would increase from 25% in FY 1996 to 50% in FY 2000; rate for 2-parent families would increase from 60% in FY 1996 to 90% in FY 1999. Participation rate would be reduced for caseload reductions as in the House bill, but not for reductions due to changes in eligibility criteria. In addition to House provisions, at state option, recipients with children 5 and under would not be required to work more than 20 hours per week, and states may exempt families with a child under age one from work requirements. States would be prohibited from sanctioning a recipient for failure to work if he or she is a single custodial parent of a child 5 or under and has demonstrated inability to obtain appropriate, affordable child care. After receiving assistance for 3 months individuals are required to participate in community service (as defined by the state). With limitations, vocational educational training would count as a work activity.
Personal Responsibility Contracts	No provision.	Includes personal responsibility contracts for welfare recipients, under which benefits would be reduced for failure to comply.
Time Limits	Families who have been on the rolls for 5 cumulative years (or less at state option) would be ineligible for cash aid and related services. States would be permitted to exempt up to 10% from the time limit.	Similar to House bill. States would be permitted to exempt up to 20% of the caseload from the time limit.
Medicaid	Medicaid rules would remain unchanged and eligibility for traditional groups would be generally unaffected under welfare reform. Applicants would be subject to two eligibility processes to determine if: 1) they are eligible for Medicaid on the basis of cash assistance block grant rules; or 2) they are eligible on the basis of pre-welfare reform AFDC rules.	Similar provisions.

PROVISION	HOUSE BILL	SENATE BILL
Teen Parents	States would be prohibited from providing cash benefits to minor mothers (until they reach 18) with children born out of wedlock. Vouchers could be provided for the purchase of certain goods for the child, and the family would be eligible for Medicaid.	Unmarried minor parents would be required to live with an adult or in an adult-supervised setting and participate in educational and training activities. For FYs 1996 through 2002 an additional $.15 billion would be available to assist states in providing or locating adult-supervised settings ("second-chance homes").
Family Cap Provisions	States could not use federal funds to provide cash benefits to children born while parent is receiving assistance or to a parent who has received assistance at any time during the 10 month period ending with the birth of a child. Vouchers could be provided for the purchase of certain goods for the child, and the family would be eligible for Medicaid.	No federal mandate, but state option to deny assistance.
Illegitimacy Bonus	Bonus payments would be provided to states that experience a decrease in the rate of non-marital births.	In FYs 1998 through 2000, an additional grant fund (on top of the family assistance block grant amount) is established to encourage states to reduce out-of-wedlock births. Grant totals $25 multiplied by number of children in state in families with incomes below poverty line if the illegitimacy ratio is reduced 1 percentage point, and $50 multiplied by number of poor children, if the ratio is reduced 2 percentage points. In determining the ratio, the rate of abortion can not be higher than in FY 1995.
Contracting Services to Religious, Charitable, Private Organizations	No provision.	States could contract with religious, charitable, or private organizations to provide services under Titles I, II, or X. States could require organizations to form a separate organization to administer assistance programs. Individuals would have the right to object to receiving assistance from a religious provider; states would be required to provide comparable assistance. Organizations could not deny services to individuals on the basis of religion.

PROVISION	HOUSE BILL	SENATE BILL
Adoption Tax Credit	No provision in H.R.4, but a nearly identical provision to this bill was passed by the House in H.R. 1215.	Provides a refundable tax credit of up to $5,000 for qualified adoption expenses. The credit is phased out at incomes above $60,000 per year.
Protection of Battered Individuals	No provision.	Any individual who was battered or subjected to extreme cruelty would be exempt from various requirements, limitations, or penalties under the Act, including the work requirements, if the physical, mental, or emotional well-being of the person would be endangered by the requirement.
Research, Studies, and Demonstrations	The Census Bureau would receive $10 million in each of FYs 1996 through 2000 to evaluate the effect of the welfare reforms through surveying a random sample of recipients and other low-income populations as appropriate.	$20 million would be authorized for each of FYs 1996 through 2000. 50% percent of these funds would be allocated to state-initiated studies of the welfare system (federal funds would cover 90% of the costs of these studies) and to complete evaluations of approved state waivers that are continued after October 1, 1995. The remaining 50% of the funds would be used for federal studies of the benefits, effects, and costs of state programs and for the development and evaluation of innovative approaches to reducing welfare dependency and increasing child well-being. The Census Bureau would receive $10 million in each of FYs 1996 through 2000 to evaluate the effect of the welfare reforms through surveying a random sample of recipients and other low-income populations as appropriate.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

THE DIRECTOR

October 18, 1995

Honorable Bob Dole
Senate Majority Leader
United States Senate
Washington, D.C. 20510

Dear Mr. Leader:

The Administration is pleased that Congress finally may be within striking distance of passing comprehensive welfare reform. In spite of the positive changes made by the Family Support Act of 1988, the welfare system still fails to serve the taxpayers who pay for it and the people who are trapped in it. The American people have waited a long time for this historic moment. We owe it to the people who sent us here not to let this opportunity slip away by doing the wrong thing or failing to act at all.

We have outlined below our top priorities and greatest concerns. Let us be clear: if Congress can agree on a bipartisan bill that is tough on work and fair to children, the President will sign real welfare reform into law, and the Nation will be better for it. But, if Congress tries to walk away from our common values with a bill that is weak on work and tough on children, it will kill welfare reform, and the Administration will continue to pursue welfare reform through waivers, one State at a time, until Congress gets it right.

For two and a half years, this Administration has worked aggressively to make welfare a second chance, not a way of life. In 1993, the President's economic plan gave a tax cut to 15 million working families through the Earned Income Tax Credit, which rewards work over welfare. Last year, the President sent Congress the most sweeping welfare reform plan any administration has ever presented. That plan included tough child support enforcement measures; time limits; work requirements and child care resources to meet those requirements; performance incentives; a national campaign against teen pregnancy; a state option to deny cash assistance to families who have additional children born while on welfare; and measures to promote personal responsibility by requiring as a condition of assistance that minor mothers live at home and stay in school and all welfare recipients sign personal responsibility contracts. The Administration collected a record $10 billion in child support in 1994, and earlier this year, the President signed an Executive Order to crack down on Federal employees who owe child support. The Administration has granted 35 States the freedom to experiment with welfare initiatives to move people from welfare to work and protect children. In July, the President directed that Federal regulations be strengthened to prevent welfare recipients who refuse to work from getting higher food stamp benefits when their welfare checks are docked.

These measures have gone a long way toward reforming welfare around the country. Through welfare reform experiments, 8.6 million recipients around the country are in households in which adults are being required to work, live at home and stay in school, sign a personal responsibility contract, earn a paycheck from a business that uses money that was spent on food stamps and welfare benefits to subsidize private sector jobs, or are under other waiver provisions. These States are doing their part to promote real reform that reflects the basic values all Americans share: work, responsibility, and family. Now Congress needs to do its part with a welfare reform bill that honors those same values by requiring work, demanding responsibility, and protecting children.

In our view, the Senate bill, while far from perfect, reflects the bipartisan common ground that welfare reform must be tough on work and fair to children. The Administration will welcome a bipartisan bill that honors these common values. But a welfare reform bill that, like the House bill, is weak on work and tough on children will be unacceptable.

Done right, welfare reform will move people off the welfare rolls so they can earn a paycheck, not a welfare check. Done wrong, it could cause enormous harm. Most Americans, without regard to party, agree that real welfare reform is about requiring people to work, not simply cutting them off the rolls; about demanding responsibility from young mothers and fathers, not abandoning abused children or taking away poor children's school lunches; and about strengthening families, not penalizing children who deserve a better life. The Administration urges conferees to act in the bipartisan spirit that has marked the better moments of this welfare reform debate.

MOVING PEOPLE FROM WELFARE TO WORK

Across America, there is an overwhelming bipartisan consensus that real welfare reform is first and foremost about work. Anyone who can work should be required to work, and no one who can work should stay on welfare forever. Work has always been at the heart of the President's approach to welfare reform, and it is the foundation for the dozens of State experiments the Administration has approved. We will only complete this historic mission of ending welfare as we know it if we succeed in moving people from welfare to work. That means imposing time limits and tough work requirements, making sure people get the child care they need to go to work, and rewarding States and holding them accountable for their efforts to put people to work, not for cutting them off.

The Administration considers the following provisions of the Senate bill essential to real welfare reform:

- Requiring States to maintain their stake in moving people from welfare to work. Welfare reform must strengthen, not abandon, the historic partnership between Federal and State governments. Unfortunately, the House bill would not require States to continue their financial commitment to welfare reform. All levels of government have a stake in the success of reform, and should be held accountable for it. The Administration strongly supports the Senate provision that States contribute at least 80 percent of their FY 1994 effort each year in order to receive Federal funds. Absent a tightly drawn, permanent maintenance-of-effort requirement, many States could be expected to withdraw their own funds, purge large numbers of recipients from the rolls, and avoid the burden of moving people from welfare to work. This race to the bottom would doom welfare reform and have devastating effects on families with children.

- Providing child care to move people from welfare to work. The House bill is weak on work because it does not ensure that child care will be available for people who need it to leave welfare for work. Specifically, the bill would cut back on funds currently available under child care, and would eliminate the child care quality, health, and safety protections in current law that were put in place with overwhelming bipartisan support only five years ago. It makes no sense to deny child care to people trying to leave welfare, or to deny States the resources they need to provide child care. The Administration strongly supports the Senate child care provisions that give States a separate funding stream dedicated to child care, with an additional $3 billion over five years to help welfare recipients move into the workforce and to help working families stay off welfare. The Senate bill also protects those with young children who want to work, but are unable to secure child care. Without sufficient child care funding, welfare reform will be an enormous unfunded mandate on the States, and could force them to cut recipients off rather than move them into work. The Administration recommends that the conferees improve the final bill by including more child care resources, not less.

- Protecting States and families in the event of economic downturn, so that welfare reform does not shift a huge burden onto State and local taxpayers, and States can afford to put people to work instead of putting poor families at risk. The House bill would not adequately protect States and families in times of unemployment and economic stagnation, when States would encounter reduced revenues and increased caseloads. A so-called rainy day loan fund is not adequate. The Administration strongly supports the Senate addition of a contingency grant fund, which makes a funding reserve available to States in economic trouble. We recommend that both the current trigger mechanism and the amount of funds in reserve be strengthened to provide States greater protection in a serious recession without significantly increasing projected Federal costs.

- Providing incentives that reward States for putting more people to work, not for cutting them off. The House bill gives States a perverse incentive to save money by throwing people off the rolls, and lets them count people as "working" if they were simply cut off welfare -- whether or not they have moved into a job. To change the culture of welfare, reform should reward success instead of failure or the status quo. The Administration strongly supports a work performance bonus like the Senate provision that would focus State welfare bureaucracies and recipients on the central goal of moving from welfare to work.

The Administration also strongly supports Senate provisions to require recipients to sign personal responsibility contracts in return for assistance, and to give States the option to provide job placement vouchers directly to welfare recipients as a way to change radically the culture of the current welfare system. The Administration supports the Senate hardship exception of 20 percent, and the House provision that would allow, but not require, States to provide non-cash assistance in the form of vouchers to children who lose their benefits due to the time limit.

DEMANDING RESPONSIBILITY

The Administration believes that welfare reform must promote personal responsibility and responsible parenting. We must demand responsibility from parents who bring children into the world, not let them off the hook and expect taxpayers to pick up the tab for their neglect.

The Administration strongly supports the following elements of welfare reform that can help make responsibility the law of the land:

- The toughest possible child support enforcement is central to getting people off welfare and helping them stay off. The Administration strongly supports bipartisan provisions in both the House and Senate bills to streamline paternity establishment, require new hire reporting, establish State registries, make child support laws uniform across State lines, and require States to use the threat of denying drivers' and professional licenses to parents who refuse to pay child support.

- Requiring minor mothers to live at home and stay in school as a condition of assistance. The Administration strongly supports the Senate provision to demand that young parents be responsible and turn their lives around, rather than the House provision that would automatically punish children born to unwed mothers under 18 -- regardless of whether the mother has made an effort to turn her life around so her children don't end up on welfare indefinitely.

- A national campaign against teen pregnancy. Welfare reform must send a strong message to young people that they should not get pregnant or father a child until they are ready to take responsibility for that child's future. The Administration supports Senate provisions to combat teen pregnancy by an appropriate expansion of abstinence education, targeting sexual predators, setting national goals for reductions in teen pregnancy, and enabling States to provide second-chance homes for young mothers and their children. The Administration does not support the so-called illegitimacy bonus in the House and Senate bills, which some believe could promote abortion and which is unworkable in its current form.

PROTECTING CHILDREN

There is an overwhelming bipartisan consensus in this country that welfare reform should not punish children. Across the country, Republicans and Democrats at the State and local level agree that we must demand responsibility from young mothers and young fathers, not penalize children for their parents' mistakes.

In particular, the Administration strongly opposes the following provisions which would punish children:

- Destroying vital child nutrition programs, such as school lunch and WIC. Welfare reform is about requiring parents to work and take responsibility, not about taking food out of the mouths of poor children. The Administration strongly opposes the child nutrition and WIC block grants in the House bill, and supports the bipartisan Senate decision to keep those programs intact. The Administration is concerned that budget cuts will strain the ability of schools, child care centers, and summer food service sites to provide nutritious meals to low-income children. The school-based nutrition block grant would not respond to economic recessions or population growth. In a recession, States would be unable to respond without cutting back on the quality or quantity of food, raising taxes, or cutting other services so that children could eat. In addition, the Administration believes that the competitive bidding provisions within the House-proposed WIC block grant are inadequate and would fail to maintain the program's cost savings. WIC's current cost containment requirements have saved billions of dollars that have been used to serve additional WIC families.

- Ending the Federal commitment to abused and neglected children and those at risk. A time of dramatic change in the welfare system is not the time for radical and untested experiments with our Nation's child protection system. Rather than protecting vulnerable children, the House bill would put hundreds of thousands at increased risk of harm by cutting funding for foster care, adoption assistance, and child abuse prevention. The Administration strongly opposes the child protection block grant and program cuts in the House bill, and supports the bipartisan Senate decision to keep those programs intact.

- The House mandate that all States deny assistance to unwed minor mothers and their children. The Administration strongly agrees with the broad bipartisan consensus -- ranging from Republican and Democratic governors to the Catholic Church -- that it is wrong to punish children just because their parents are poor, young, and unmarried. The Administration supports the Senate provision, affirmed by an overwhelming bipartisan vote, which leaves this matter to the States.

- The House mandate that all States deny assistance to additional children born while a family is on welfare. At a time of bipartisan agreement on the need for more State flexibility, welfare reform should not saddle the States with policy mandates with uncertain impact. The Administration agrees with the overwhelming bipartisan majority of Senators that States should have the right to decide for themselves whether or not to adopt the family cap.

KEEPING OUR NUTRITIONAL SAFETY NET

The Administration urges the conferees to preserve the national nutrition safety net, which assists about 27 million working family members, poor children, and elderly Americans each day. Federal nutrition programs have produced measurably better health over the years as a result, and have earned bipartisan support. National nutrition standards and a funding mechanism that enables these programs to meet greater needs in times of regional or national economic hardship are essential to making welfare reform work.

The Administration has always maintained that preserving a nutritional safety net Nation-wide is a critical part of welfare reform and strongly opposes a food stamp block grant. However, if steps are taken to permit optional State block grants, the House approach is vastly preferable. Requiring States to spend grants only on food assistance will preserve the vital link between food stamps and nutritional assistance. The Senate provision for a State food stamp block grant option would sever that link and encourage States to divert Federal dollars away from putting food on the table.

The level of food stamp cuts, although too deep in both bills, is more reasonable in the Senate bill. The Administration's own balanced budget proposal would save $19 billion over seven years, an 11 percent cut. By contrast, the House bill would cut food stamps by nearly 27 percent in the year 2002. In addition, the House bill places an inflexible ceiling on the amount authorized for appropriations for the food stamp program. This cap allows no room for error in estimates of future program costs nor any margin in economic conditions. By capping spending levels, the House bill would leave working Americans vulnerable to shifts in the economy and to changes in nutrition standards that could be driven more by political and budget pressures than by the Nation's good health. The Administration urges the conference not to exceed the Senate level of cuts or to impose an inflexible spending cap.

PROTECTING DISABLED CHILDREN AND THE ELDERLY

Both the House and Senate bills go too far in the changes they would make to the SSI children's disability program. However, the Administration favors the Senate provisions over the deep cuts in the House bill, which go far beyond what is needed to correct recent growth in the program. The House bill would eventually prevent nearly a million disabled children who would be eligible under current rules from receiving cash assistance, and create a block grant for services that would arbitrarily cut by 25 percent funding levels for disabled children who would no longer be eligible for cash benefits, but would be eligible for services. The loss of cash assistance would be devastating to many low-income families struggling to care for a disabled child at home. The Administration supports the bipartisan Senate decision to continue to provide SSI cash benefits for all eligible children. But, we strongly urge the conferees to reduce hardship to disabled children currently on SSI by exempting them from the new, stricter eligibility rules. However, if the conferees determine that these rules should be applied to current SSI recipients, the Administration recommends applying them only to those children eligible as a result of maladaptive behavior.

The Administration also recommends the deletion of a Senate provision that would gradually raise the age requirements for elderly poor applying for SSI from 65 to 67, parallel with the rising age requirements for Social Security. The apparent consistency of this change masks an important difference between these two programs: Social Security recipients can retire early and get benefits, and most do so, but there is no early eligibility age for SSI. This provision was added at the last minute without adequate public scrutiny and debate, and should be dropped.

BENEFITS FOR NON-CITIZENS

Both the House and Senate bills go too far in cutting benefits to legal immigrants, and shifting costs to States with high numbers of immigrants. The Administration supports holding sponsors who bring immigrants into this country more responsible for their well-being, but these changes should be made equitably.

The Administration strongly opposes the Senate provision that would discriminate against U.S. citizens by denying benefits to legal immigrants even after they became naturalized citizens. We cannot have two categories of citizens, and a provision that treats naturalized citizens less favorably than the native born raises serious constitutional concerns. Also objectionable is the Senate provision that would establish a class system for American citizenship by requiring sponsors' income to exceed 200 percent of poverty. Working families who are U.S. citizens should not have to pass a wealth test in order to be reunited with a family member. In addition, fairness dictates the adoption of the House provision that exempts those over age 75 and those too disabled to complete the naturalization process from benefit cutoffs.

Several further changes could make the legislation much more acceptable to the Administration. Immigrants who become disabled after entering the country should be eligible for SSI. The benefit restrictions in the Senate bill distinguish between immigrants with and without sponsors. This is a more sensible approach than the House bill, which bans virtually all immigrants from receiving benefits. Benefit restrictions should not apply to discretionary programs and such mandatory programs as student loans and the Social Services Block Grant; the administrative burdens on these programs of verifying everyone's citizenship is significant, and the budget savings are negligible. Furthermore, it is important that the legislation clarify that it does not call into question the full participation of any child in public elementary and secondary education, including pre-school programs. In addition, refugees and others who came to the United States to avoid persecution should be given adequate time to naturalize before being subject to benefit restrictions. Finally, the Administration has serious reservations about the bill's application of these provisions to the Medicaid program.

THE LEVEL OF CUTS IN LOW-INCOME PROGRAMS

The overall budget cuts in both the House and Senate welfare reform bills far exceed the level of cuts proposed in the Administration's Balanced Budget Plan. For welfare reform to succeed, it must save money by moving people from welfare to work -- not by cutting people off assistance, which will cost taxpayers much more down the road, or by merely shifting costs to the States. Adequate resources must be provided to move families from welfare to work. Excessive cuts will punish working people and their children -- working parents who need child care; families who work full-time, but don't earn enough to ensure there's always food on the table; and low-income elderly Americans who have worked their whole lives and shouldn't die hungry. The Administration strongly urges the conferees not to penalize work and punish children by accepting cuts deeper than the bipartisan Senate bill.

CONCLUSION

We have made great strides together in this welfare reform debate. Now Congress has an historic chance to reach a bipartisan agreement to end the current welfare system and replace it with one that is tough on work, tough on responsibility, and fair to children. A bill that honors those values will be acceptable; a bill that is weak on work and tough on children will not be. The Administration calls on the conferees to put politics aside and help give the American people a government that honors their values by making welfare a second chance and responsibility a way of life.

Sincerely,

Alice M. Rivlin

Alice M. Rivlin
Director

IDENTICAL LETTERS SENT TO:

Honorable Thomas A. Daschle
Honorable Newt Gingrich
Honorable Richard Gephardt

cc: House and Senate Conferees on H.R. 4, Welfare Reform denigrate the significant entrepreneurial contribution made by some immigrants. For instance, it might be that even though most immigrants do not become entrepreneurs, those who do are wildly successful and contribute significantly to the American economy. The proponents of this argument typically do not back up their assertion with data (since none exist) but instead rely on anecdotes. However, for every Philippe Kahn (an illegal alien who founded Borland International), there is a Bill Gates. Moreover, on average, the self-employed do not do very well in the labor market, regardless of whether they are immigrants or natives. Small firms have very high failure rates, and self-employed workers often earn less than wage-and-salary workers who have comparable skills.

Myth: The melting pot works fast.

In 1990, 10 per cent of the people living in America were "second generation" (that is, were born here but had at least one parent born elsewhere). By 2050, if current trends continue, the share of second-generation Americans will increase to about 14 per cent, and an additional 9 per cent of the population will be the grandchildren of current immigrants. The impact of immigration depends not only on how immigrants perform in the U.S. economy but also on the economic performance of their offspring. Despite this, the current debate almost completely ignores the implications of immigration policy for the economic and social well-being of this country in the twenty-first century.

We ignore these implications at our peril. The experience of the children of earlier immigrant waves suggests that, although second-generation workers earn more than their immigrant parents, on average the intergenerational improvement is not that large. At best, the children of immigrants earn about 10 per cent more than their parents. Because recent immigrant waves are relatively unskilled and earn about 20 per cent less than natives throughout much of their lives, this pattern would imply that second-generation workers in the next century may also have a substantial economic disadvantage.

There is also evidence that the huge wage differentials among different national-origin groups in a given generation are transmitted to their children. For example, in 1940 immigrants from the Philippines earned about 41 per cent less than immigrants from Italy. In 1970, second-generation Filipino-Americans earned 17 per cent less than second-generation Italian-Americans. Today's skill differentials among foreign-born groups become tomorrow's skill differentials among American-born ethnic groups. It might take up to four generations for the ethnic differences in economic status introduced by current immigration to disappear.

The Need for Action

WE DO not yet know how the welfare state and the multicultural agenda favored by many segments of the intellectual elite will alter the speed at which the melting pot does its job. A prudent observer can only conclude that these misguided policies will retard the forging of Americans. This factor, combined with the relatively low skills of recent immigrant waves and their high rates of welfare recipiency, might mean we are already witnessing the creation of a large new underclass. As other countries have learned at a very high cost, ethnicity matters, and it matters for a long time.

The debate over immigration policy is much too important to be guided by ignorance or by a distortion of the facts. The available evidence suggests reasons for conservatives, and even for open-border libertarians, to be worried about immigration. Perhaps if we can agree on the essence of the problem, we can proceed to a more rational discussion of the policy solutions.

Time is running out, however. The failure of the political system to address the problems caused by illegal aliens led to the enactment of Proposition 187, a proposition that many of us (even if we believe that illegal aliens create problems) view as ill-advised and ill-crafted. The longer the politicians bury their heads in the sand, the more likely that the Proposition 187 movement will spawn a "Proposition 188" to control legal immigration.

This resolution to the debate would be unfortunate, because it would probably lead to far more draconian measures than are justified. If we wish to pursue a more rational policy that nourishes some forms of legal immigration, that upholds the traditions that made America an "immigrant nation," and that takes advantage of the many economic, social, and cultural contributions that a well-chosen immigrant flow can confer upon the U.S., we will have to act soon and decisively. ☐

Welfare as We Know It

STRINGING ALONG

The 'no strings' approach to welfare reform would not be likely to result in reform worthy of the name.

ROBERT RECTOR

A NEW theme, federalism, has emerged in the welfare-reform debate, taking its place alongside the topics of work and illegitimacy. Speaking for most of his fellow governors, Michigan's John Engler told Congress, "It's time to give the states a chance. Certainly we can do better . . . States must have the freedom, with no strings attached, to implement change."

John Engler is a solid conservative with a record of moderate accomplishment on welfare reform. Unfortunately, what he was proposing as a national welfare policy has nothing to do with federalism, and his "no strings" approach represents a step backward compared to reform alternatives such as those contained in the Contract with America.

To understand the muddled relation between state governments and wel-

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fare reform we must begin by recognizing that the current U.S. welfare system has been overwhelmingly created and funded by Washington, D.C. Programs such as Aid to Families with Dependent Children (AFDC), Food Stamps, and Medicaid are well known, but they are only the tip of the welfare iceberg. There are more than eighty major welfare programs in each state providing cash, food, housing, and social services to low-income Americans. Nearly all these programs emanate from Washington. Total welfare spending in 1994 reached $350 billion, of which a full 74 per cent came from the Federal Government. Moreover, the states' share of spending is largely restricted to one program, Medicaid. If Medicaid is excluded from the count, the Federal Government's share rises to nearly 85 per cent.

Governor Engler's call to "let the states do it," with its emphasis on federalism and decentralized power, has a strong appeal to conservatives. But Engler's proposal was greeted with dismay by many conservatives in the House and Senate. This is because Engler was proposing to get rid of not only the mountains of bizarre liberal welfare regulations but also the last handful of conservative national requirements in welfare, particularly those involving work, paternity, and illegitimacy.

Thus the question of what is conservative in welfare reform has become confused. Three distinct approaches have emerged.

1. True Federalism. True federalism starts by honoring the Tenth Amendment and recognizing that the Constitution provides no role for the Federal Government in welfare. In this approach, national means-tested welfare programs such as AFDC, Food Stamps, and Medicaid would be abolished and federal taxes reduced proportionately. State governments would then take full control of welfare programs within their borders and—most critically—would take full responsibility for funding them. The Federal Government would be removed from welfare entirely, both as a program provider and as a funding source.

True federalism has received little public discussion, but it is very popular among House freshmen. Representative Steve Chabot (R., Ohio) is working on a bill that would abolish federal means-tested programs and return the savings, not to state governments, but directly to the taxpayers. The bill would provide an annual tax rebate of roughly $3,400 each year for each household paying federal income tax. Income-tax withholding would be adjusted so that the "rebated" funds remained in the taxpayers' pockets instead of coming to Washington. Each state government could then take whatever portion of the tax rebate it deemed necessary to run welfare in its state. Governors thus would be directly accountable to their own taxpayers for the costs of welfare.

2. No-Strings Block Grants. This approach has been pushed by Governor Engler and by Governor George Allen of Virginia (although Engler, to his credit, has spoken favorably of true federalism as well). Governors would be given carte blanche to run welfare, but the funding of the welfare system would remain primarily federal. Washington would buy the car, gas, and tires, and the governors would drive wherever they wanted. It is easy to see why governors would be attracted to this scheme, which should be called "super revenue sharing" rather than federalism. Among federal legislators, Senator Bob Packwood (R., Ore.) seems inclined toward this approach.

3. Block Grants with Conservative Principles. This policy is best represented by the legislation introduced by two conservatives, Representative Jim Talent (R., Mo.) and Senator Lauch Faircloth (R., N.C.). Talent and Faircloth are among the strongest proponents of state flexibility—their bill abolishes over 65 separate federal welfare programs and folds the funds into a single huge block grant. The bill thus wipes out the forty-foot pile of federal regulations on welfare. In place of this mound of red tape, Talent and Faircloth would establish a few precise, conservative principles on work, illegitimacy, and paternity. Says Talent, "We want great increases in state flexibility, but we also want to ensure that federal funds are used to promote work, not dependence, and marriage, not illegitimacy."

Talent and Faircloth are eager to get rid of about 98 per cent of federal regulations on welfare. Most governors agree, but demand (at least publicly) that the remaining 2 per cent of conservative federal requirements be jettisoned as well. Alone among the governors, Wisconsin's Tommy Thompson has argued for the general approach of greater flexibility coupled with firm national standards.

Welfare for Governors

THE governors' position is simple: they want Washington to raise the money for welfare and let them spend it. But a fundamental rule is that people spend their own money wisely and other people's money foolishly. If there is one thing more profligate than a politician spending taxpayer funds, it is one group of politicians spending funds raised by a separate group of politicians. A minute's reflection should reveal that this sort of revenue sharing is not federalism and is not conservative. Indeed it is a blueprint for fiscal irresponsibility: it eventually turns even the best governors into welfare panhandlers, hustling for larger federal handouts.

Still, "no strings" revenue sharing is popular. Interest is driven by conservative folklore that paints state governments as feisty dynamos of reform battling the sclerotic heart of darkness inside the Beltway. But, while liberal Washington has been a gargantuan obstacle to welfare reform, an even bigger roadblock has been the governors and state legislatures. During the 1988 welfare reforms, for example, work requirements were kept near zero largely because of pressure from governors.

A little-known fact is that the bulk of the nation's welfare bureaucracy resides not in Washington but in the state capitals. From Tallahassee to Juneau, these welfare bureaucracies are voluminous, left wing, and autonomous. Few governors do much to govern their bureaucracies. Typically they elevate a career bureaucrat to run the department or import a political appointee who knows little about welfare. Although most governors are Republicans, few welfare directors are conservatives.

Most Republican governors are well equipped with anecdotes about how Washington regulation deliberately blocks reforms. They are right. But few realize that for every conservative idea blocked by Beltway red tape there are two quietly throttled in the bowels of their own welfare establishments.

A few weeks ago, while testifying on welfare before a state legislative committee, I stumbled across a recently released "blueprint" for welfare reform produced by the administration of Carroll Campbell, the Republican former governor of South Carolina. The document looked like something plagiarized from the left-wing Children's Defense Fund. This would be amusing if it weren't so typical of what passes for "reform" at the state level.

The need for a federal impetus to reform is widely recognized by conservative welfare experts. Take, for example, making welfare recipients work—a simple idea supported by about 90 per cent of the public. Larry Mead is the nation's leading academic authority on workfare and a relentless advocate of making welfare recipients work. Mead argues that most of the impetus toward work has come from the federal level; if federal standards were dropped, workfare would simply come to a halt in many states. Jason Turner, the tough-as-nails administrator of the nation's most successful workfare program, under Governor Thompson of Wisconsin, agrees: "The bureaucracies in most states are wedded to the status quo," he says. "Without a strong push from the federal level, change won't occur."

Then there is Chuck Hobbs. As White House welfare guru under Ronald Reagan, Hobbs spent years promoting state welfare waivers and encouraging state experimentation. No one in the United States has done more to promote the notion of the states as "laboratories of reform"; Hobbs currently runs a consulting firm promoting workfare and helping states obtain federal waivers for experiments. But he sadly reports that nearly all waiver requests that have floated up from the states over the years are liberal. Without conservative national requirements, he says, there will be little change. Hobbs advocates a "pincer movement" in which conservative reforms are pushed at the federal and state levels simultaneously. "Bureaucratic inertia is tremendous," he says. "Conservatives at the federal and state levels will have to unite to overcome it."

A bellwether is the *Washington Post*, which has recently begun to editorialize against "prescriptive" Washington solutions and in favor of greater state flexibility. The *Post*'s timely defection to the ranks of the federalists reflects its understanding that, at present, the conservative tide of welfare reform is strongest in Washington; the status quo is best served by letting the states "do their own thing."

The "no strings" argument has always been paradoxical. The governors contend that with federal red tape

eased they will zip toward reform at 100 mph, and yet they object to a federal minimum speed requirement of 10 mph. One of the ironies of the "no strings" approach is that it split the conservative governors from their best potential allies in Congress. While the National Governors' Association was busy tussling with conservatives over abolishing federal work standards, moderates moved quietly to limit state flexibility in critical areas—for example, by rescinding the Contract pledge to block-grant Food Stamps. Thus the net effect of "no strings" so far has been to shift Republican legislation to the left. Conservative national standards have been weakened, while the governors are getting less flexibility than they need.

The push for "no strings" may be fading; the zenith was probably reached a few weeks ago, when House Republicans on the Ways and Means Committee dutifully stripped work requirements out of their welfare bill on behalf of "states' rights" and took a full day of pounding from liberals for being weak on work. Since then Governors Thompson, Weld, and Engler have all agreed to national work standards.

If the governors are sincere about wanting to run welfare on their own, then they should earnestly push for true federalism *à la* Congressman Chabot. As long as they are in the business of running welfare mainly with federal funds, they should (and probably will) join with conservatives in Washington in seeking greater state flexibility within a solid framework of conservative principles. □

Toward Peru's Future

HERO STORYTELLER

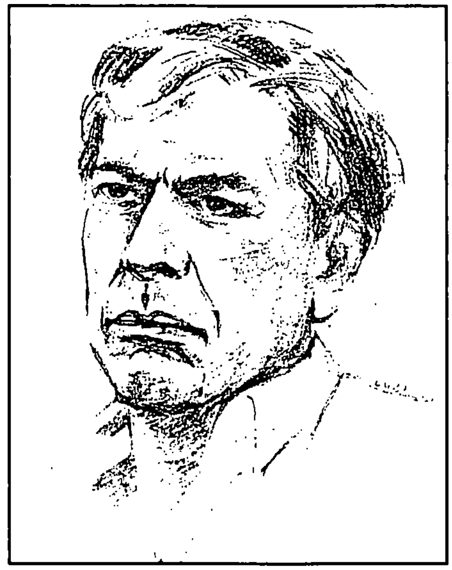
Alberto Fujimori may have saved Peru, but he could not have done so without Mario Vargas Llosa.

JAMES COMO

There is no trust in the Americas, neither in individuals nor in nations: the constitutions are books, the treaties scraps of paper, the elections battles, liberty is anarchy, and life a torture.
—Simón Bolívar, 1815

THIS spring Peru will elect a president, its fourth consecutive legitimate presidential election—astonishing in a country that has had only *one* other such succession in this century. Alberto Fujimori is running again and he will not lose, not even to the universally respected Javier Pérez de Cuellar, the former secretary general of the United Nations. And that virtual certainty is accompanied by a second: there will be a campaign unlike any that most Peruvians have ever known, for the rhetoric of liberal democracy, free markets, private initiative, and personal freedom—as opposed to that of ubiquitous statist intervention—will be *taken for granted* by nearly everyone.

Until 1987, the most compelling feature of late-twentieth-century Peru was this: *no newness*, and so no hope. The entire culture was saturated by "noise," randomly distributed uncertainty and uniform disarray; that is, by *entropy*. Is it any wonder that Mario Vargas Llosa, the renowned novelist briefly turned politician, felt "absurd and unreal" in his own country? Was it at all likely that he could do anything about it? Yet, thanks in large part to Vargas Llosa, Peru—"this beggar sitting on a bench of gold," as the Peruvian naturalist Raimondi described his country—has shown signs of, finally, refuting Bolívar. Today Vargas Llosa's carping about President Fujimori (amidst much necessary criticism of him) has earned considerable ostra-



cism, but tomorrow, when a whole pack of opportunists, demagogues, and technocrats are reduced to footnotes, he will still be the hero who not only stood athwart Peruvian history and yelled "Stop!" but went on to propel it on its historic way.

Peru Unraveling

UNTIL then, Peru was hardly worthy of exclusion from the Liberator's 175-year-old judgment. A febrile, Khmer Rouge–like terrorist organization, *Sendero Luminoso* (Shining Path), was slowly eviscerating the country; hyperinflation was devaluing an absurd currency just as an unraveling social contract was debasing standards of conduct, both public and private; the underemployed joined the unemployed, those who had been merely hungry now starved, and the infrastructure deteriorated. Overpopulation of the capital turned its environs into great garbage heaps (so that cholera erupted) and its downtown streets into little more than urinals. Many of the people living in small towns or in the countryside away from the coast were de facto serfs, semi-indentured, not to multinational corporations or to old oligarchic interests, but to the barons of a great drug-trafficking empire and their ideologically maniacal counterparts. And all the while a helplessly mercantilist state presided, at once bloated and flaccid. Rampant and petty corruption (*coima*) accompanied an obligatory shamming (*pillería*) in all aspects of bureaucratic life, and the state employed or otherwise ruled most of the official Peruvian work force. In some years more than a thousand ex-

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