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UNITED STATES SENATE

COMMITTEE ON AGRICULTURE, NUTRITION

AND FORESTRY

Washington, D.C. 20510

Message to: George Stephanopoulos

Message from: ED BARRON
Staff Director

Telephone: (202) 224-6901

Telefax: (202)224-9287

This transmission, including this cover sheet, totals 15 pages

Notes:
Senator Leahy may call you on this -- especially with chairman Lugars + Sen. Jeffords involvement.

United States Senate

COMMITTEE ON
AGRICULTURE, NUTRITION, AND FORESTRY
WASHINGTON, DC 20510-6000

December 1, 1995

The Honorable William Jefferson Clinton
President of the United States
The White House
Washington, D.C. 20500

Dear Mr. President:

Your mention of a few items in your reconciliation veto letter would greatly help me and other Members of Congress in working to achieve some of your agenda for America.

In terms of issues in this Committee's jurisdiction I strongly urge you to specifically mention nutrition cuts and environmental concerns. **Note, Chairman Lugar yesterday sent me a letter complaining about the welfare reform bill and urging Senate Conferees to <u>oppose</u> the welfare reform bill.**

The nutrition cuts in reconciliation and in the separate welfare reform bill are way too high. By the year 2001 the food stamp cuts will amount to taking one week's worth of groceries per month from low-income families. The child nutrition cuts amount to $6.1 billion, and almost no effort is made to put parents to work and get them off welfare.

Both the reconciliation bill and the welfare reform bill will result in exactly the wrong goals: increasing hungry and medical disabilities in infants and children and reducing work opportunities for parents. Chairman Lugar notes that provisions in the bill "may jeopardize the safety net for citizens . . . but the adult citizens involved have the opportunity to debate those issues within the states and to migrate in the event that the safety net is insufficient."

Chairman Lugar then points out that "young citizens who do not have the option of debate and migration" are defenseless. Senator Lugar notes that "we have not yet repealed the business cycle . . . and [some] states will have serious problems meeting a rising case load."

Your original welfare reform proposals would have actually turned the corner on welfare and helped parents to become productive members of society and better examples for their children.

The Contract for America crowd and their welfare proposals will harm a whole new generation of American children. The bill will seriously widen the gap between the rich and the poor, and make it more difficult for low-income parents to find work.

In a separate letter requesting your veto of welfare reform I have detailed more of my concerns.

The bill's environmental problems are equally disastrous. For example, a golden opportunity to save the Everglades is being lost. Sugar cane farming in slowing killing the Everglades, a national treasure that is vital to Florida's's environmental health and economic future. It is destroying Florida Bay and endangering the state's important tourist industry.

The reconciliation bill extends the federal sugar program for another seven years. The program is harming the Everglades and guaranteeing significant profits for large sugar farmers.

Senator Lugar and I proposed that Florida sugar farmers pay a two-cent-per pound assessment on cane sugar grown in the Everglades to pay for restoring and protecting the Everglades. Bipartisan support also exists in the House. Representatives Sam Gibbons (D-Fl), E. Clay Shaw, Jr. (R-Fl) and Peter Deutsch (D-Fl) have introduced similar legislation in the House.

A sentence in your veto letter on this would give us leverage to help you save the Everglades. Floridians want their national treasure protected and support the assessment by more than four to one.

Senator Dole knows the importance of Florida. On *Larry King Live* he tried to make this his issue. He said: "I don't believe that a Republican can win the Presidency without winning Florida . . . . We've been trying to find a way to protect the Everglades."

Also, failure to provide sufficient funding for the conservation reserve program and for the wetlands reserve program will undercut your environmental efforts. Legislative efforts by Republicans to cut the conservation funding by half will harm your goals. I have previously written to you regarding my Environmental Quality Incentives Program (EQIP) initiative. The Republican budget package takes a step toward EQIP by including funding for livestock producers to protect water quality -- the one environmental bright spot in the package. I would urge you to expand the funding for EQIP in the final budget and make sure crop producers as well as livestock producers are eligible for assistance.

I have spoken directly to Leon Panetta and to Director Rivlin on these matters and continue to believe that Senate Democrats can help you on these issues. I look forward to receiving your veto letter.

Respectfully,

Patrick Leahy

PATRICK LEAHY
Ranking Democrat

cc: The Honorable Al Gore
Chief of Staff Leon Panetta
Secretary Dan Glickman
Secretary Bruce Babbitt
Director Carol Browner
Director Alice Rivlin
Deputy Chief of Staff Harold Ickes

PATRICK LEAHY
VERMONT

COMMITTEES:
AGRICULTURE, NUTRITION, AND FORESTRY
APPROPRIATIONS
JUDICIARY

United States Senate

WASHINGTON, DC 20510-4502

November 30, 1995

President Bill Clinton
The White House
Washington, DC

Dear Mr. President:

Senate Democrats join you in support of true welfare reform. I regret to inform you that the conference agreement on welfare reform represents not the bipartisan spirit of the Senate bill but the extreme partisanship of the House bill.

<u>The extreme positions demanded by the House Republicans are impeding the passage of a fair, bipartisan welfare reform bill</u>. The Republican conference agreement represents an assault on the health and well-being of working families, children, and senior citizens. Even some moderate Republicans oppose the bill as now drafted, but they may not be able to hold out forever against the extreme forces in their party.

In our view, the nutrition titles of the reconciliation and welfare bills have seven provisions that will shred the national nutritional safety net.

The cuts are too large. The cuts in school lunches, food stamps, and other child nutrition programs in the reconciliation bill total over $40 billion over 7 years, an increase of $5 billion over the Republicans' own budget resolution. For families in the food stamp program -- where over 80 percent of benefits go to families with children -- the cut represents about one week's worth of groceries per month. You and Senate Democrats proposed a more modest program of $20 billion in cuts; Senator Lugar's original committee proposal was $28 billion. A reasonable compromise would land somewhere between those two numbers.

Americans want real welfare reform -- not school lunch cuts. The $1.3 billion cut in school lunches under the reconciliation and welfare bills is about the same size as the original House block grant cut. The total child nutrition cuts are $6 billion. To most Americans, school lunch cuts have nothing to do with welfare reform.

Block grants reduce funding for school lunches and food stamps in the event of recessions

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OR DIAL TOLL FREE 1-800/642-3193
SENATOR_LEAHY@LEAHY.SENATE.GOV

or natural disasters. As Senator Lugar recently wrote, "We have not repealed the business cycle. When another recession occurs, states that choose [child nutrition] block grants will have serious problems meeting a rising caseload." The block grant proposal threatens the guarantee of a free lunch for needy children. Senator Lugar's original proposal for food stamps and child nutrition did a much better job than the current bills of increasing administrative flexibility for the states while maintaining a safety net.

Cuts to immigrants are extreme and will be difficult to administer. The conference report goes further than either the House or Senate bill in throwing taxpaying legal immigrants off the food stamp program. They cannot get food stamps until they either become citizens or have been here for 5 years. The bill also bars children who are illegal immigrants from the school lunch program. Since under Supreme Court rulings public schools are open to all immigrants regardless of status, this provision will have the effect of turning cafeteria workers into INS agents and ensuring that immigrant children sit hungry through an entire school day.

Poor families will be forced to choose between rent and food. Many poor families are forced to spend disproportionate amounts of their income on housing. This bill changes the way benefits are calculated to reduce food stamps for families with high housing costs. As a result, more families will have to make a choice between going hungry and living in overcrowded, inadequate housing.

The entitlement caps will lead to across-the-board cuts and accelerate the race to the bottom. The welfare reform bill requires cuts in food stamps if spending exceeds CBO's conservative estimates (adjusted for caseload and food inflation). If one state cuts its cash assistance to needy families, as they are likely to do under the weak maintenance of effort provisions, per-household food stamp spending will increase and the cap will likely be breached, forcing nationwide across-the-board cuts in benefits. In other words, families with children will suffer -- even those living in a state that <u>does</u> take care of its poor people.

These nutrition cuts are just one piece of a much larger assault on working families and children in this Republican budget bill. Well over one million children, and perhaps more than two million children, whose families are now keeping their heads above water will be plunged into poverty by the Republican budget. An estimated 3.3 million families earning under $30,000 a year, including 6.8 million children, will see their income taxes <u>increase</u>. Meanwhile, the wealthiest of American taxpayers will get gigantic tax breaks -- $8,500 a year for the top 1 percent.

The Republican welfare plan is integrally linked to its balanced budget plan. Republicans are depending on the huge cuts in nutrition benefits to help pay for their tax cuts for the wealthy. To accept this radical welfare bill without significant concessions from the Republicans would undermine your Administration's commitment -- enshrined in its support for a balanced budget -- to guaranteeing a sound future for our children.

To ensure that the nutritional safety net remains intact and that true welfare reform goes forward, I recommend the following:

- **Veto the Republican welfare plan as you have vetoed the Republican budget bill.** Children and the elderly should not be asked to give up meals in the name of deficit reduction unless large, wealthy corporations, the military-industrial complex, and others pay their fair share toward deficit reduction as well.

- **Protect children, the elderly, the disabled and working families in budget negotiations on nutrition provisions.** The conference committee's cuts in food stamps and other nutrition programs go far beyond those in the Senate welfare reform bill -- child nutrition and food stamps are virtually the only programs that even exceed the cuts in the Republican budget resolution.

I look forward to working with you and with other Congressional leaders to produce a balanced budget agreement that is fair and reasonable. Thank you for your efforts.

Sincerely,

Patrick Leahy

PATRICK LEAHY
Ranking Democrat
United States Senate Committee
on Agriculture, Nutrition and Forestry

cc: Alice Rivlin, Office of Management and Budget
Leon Panetta, White House Chief of Staff

POTENTIAL POVERTY EFFECTS OF CONGRESSIONAL WELFARE REFORM BILLS AND BUDGET PLANS AS WELL AS THE DISTRIBUTIONAL IMPACT OF CONGRESSIONAL AND ADMINISTRATION BUDGET PROPOSALS

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November 8, 1995

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OVERVIEW

This report provides two analyses: (1) an analysis of the potential impact on poverty of the House and Senate welfare reform bills and Senate Democratic alternative, and of the House and Senate budget plans; and (2) an analysis of the distributional effects of the House and Senate budget plans and a preliminary analysis of the Administration's plan.

Today, millions of poor children are stuck in a welfare system that discourages work and responsibility, breaks up families, and fails to move people from poverty to independence. Most Americans, without regard to party, agree that we must reform welfare by imposing time limits, requiring people to work, demanding responsibility from young mothers and fathers, and strengthening families.

Over the past two-and-a-half years, the President has taken executive action, encouraged state experimentation, and spearheaded national legislation to reform the nation's failed welfare system. He cut taxes for working Americans by expanding the Earned Income Tax Credit (EITC), which rewards work over welfare; he signed an Executive Order to crack down on Federal employees who owe child support; he has granted 35 States the freedom to experiment with initiatives to move people from welfare to work; and he 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.

Throughout the welfare reform debate, the Administration has called for measures that will maximize the opportunities for families to work their way off welfare and out of poverty, and minimize the risks to children if they do not. The President endorsed the welfare reform bill sponsored by Senators Daschle, Breaux, and Mikulski, which every Senate Democrat supported. When that measure failed, the Administration worked with Senators in both parties to secure important improvements in the final Senate bill. In letters to Congress on welfare reform and budget reconciliation, the Administration has repeatedly called for other improvements.

As the President said in his Sept. 16 radio address, praising the bipartisan improvements that the Senate made,

> Despite the progress we've made, our work isn't done yet. We'll be working hard on this bill over the next few weeks to make sure the right incentives are there to move people from welfare to work, to make sure children are protected, and that states not only share the problem, but have the resources they need to get the job done. And we'll be working hard to build on the bipartisan progress we've made this week.

In that spirit, this report recommends:

• **Maintaining and strengthening improvements in the Senate welfare reform bill:** Providing the child care that mothers need to leave welfare for work; requiring states to maintain their financial effort; providing an adequate contingency fund to protect states and families in economic downturns; giving states performance bonuses for transforming their welfare systems to place people in jobs; preserving child welfare and child nutrition programs; and letting states decide for themselves whether to impose policies like the family cap.

• **Additional improvements in welfare reform:** Providing vouchers to children whose parents reach the 5-year time limit and cannot find work; and preserving the $50 child support pass-through.

• **A more balanced deficit reduction plan:** Rejecting efforts to cut the EITC; rejecting a Medicaid block grant; and moderating cuts in Food Stamps and Supplemental Security Income (SSI).

Done right, welfare reform will help people move off welfare so they can earn a paycheck, not a welfare check. Done wrong, it will cause harm and fail to transform a broken system. With House and Senate committees meeting to work out their differences on their respective welfare reform and reconciliation bills, this report underscores the importance of working on a bipartisan basis to build on the Senate's progress, not turn back toward the House legislation.

Any serious plan to balance the budget in the coming years will include some cuts in programs that affect low-income Americans. We must make sure, however, that the cuts and benefits in a budget plan are distributed equitably, and that program reforms are designed to reward work and independence so that people can lift themselves and their children out of poverty.

After all, this year's efforts to balance the budget come after two decades of income stagnation and rising economic inequality. Since the early 1970s, most Americans have worked harder and harder just to stay in place; many have fallen behind. At the same time, the gap between rich and poor has reached its widest point since the government began to track it in 1947.

From the start, the President's economic program was designed to address these two problems. The Administration worked with the last Congress to cut the budget deficit in order to increase national savings, freeing up capital with which businesses could invest and, thus, create more high-wage jobs. While freezing overall discretionary spending, the Administration shifted public resources toward investments in education and training in order to enhance the skills of our future workforce, enabling them to compete better in the global economy. Because trade-related jobs, on average, pay more than other jobs, the Administration opened new markets across the globe for U.S. goods. Because no working family should have to live in poverty, the Administration sought to "make work pay" by expanding the EITC. And because welfare should provide a second chance, not a way of life, the Administration proposed a dramatic plan to "end welfare as we know it."

As the distributional analysis shows, both the House and Senate budget plans would exacerbate the trend toward rising income inequality; they would provide huge tax breaks for those who don't need them and finance them with deep cuts in benefits to middle- and low-income families with children. With the combination of tax, income and health benefit changes taken into account, families earning under $50,000 would pay more while those earning over $100,000 would pay less. Families with incomes of under $30,000 would be hit the hardest.

The President's plan, by contrast, would minimize the impact of cuts on low- and moderate-income families with children. At the same time, it would target tax relief to working families with children.

On poverty, in particular, this report includes two kinds of tables. One uses the pre-tax cash definition of income that the Census Bureau uses for official poverty statistics. The other incorporates a broader definition that takes into account tax policies such as the EITC and near-cash in-kind assistance, such as Food Stamps and housing. Neither definition includes proposed changes in health coverage, which would have dramatic impacts on low-income children -- far beyond changes in Aid to Families with Dependent Children (AFDC).

Under the broader definition of poverty, the House welfare reform bill could move 2.1 million children below poverty in the year ____. Improvements included in the Senate bill have cut that number by nearly half, to 1.2 million. The Senate Democratic welfare bill could move 400,000 to 500,000 below poverty.

These numbers, however, do not tell the whole story about poverty:

First, they do not reflect some gains that the Administration's economic policies have made in reducing poverty. For instance, they do not reflect the recent Census Bureau finding that the number of people in poverty fell by 1.2 million between 1993 and 1994, nor the fact that Food Stamp rolls have dropped by another _____ in the first __ months of 1995.

Second, unlike the distributional analysis, which shows the entire picture of who would gain and who would lose in the various budget plans, the poverty analysis only shows how many people who are near the poverty line because of the government benefits they receive could fall into poverty if those benefits are cut.

Finally, the poverty analysis is based on long-term projections for the year ____, which do not try to predict a number of important variables that far into the future -- e.g., job growth, marriage and birth rates, and the long-term behavioral impact of a fundamental change in the culture of welfare. If work-based welfare reform, tough child support enforcement, and a national campaign against teen pregnancy help promote work and responsibility and reduce births outside marriage, more people will lift themselves out of poverty and fewer will find themselves there in the first place. If we do not enact real welfare reform that moves people from welfare to work and fails to reduce teen pregnancy and slow the growing rate of births outside marriage, the declines in poverty of the last two years will be reversed.

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POVERTY ANALYSIS OF THE WELFARE REFORM AND BALANCED BUDGET PLANS

Changes in taxes and benefits proposed in the various budget and welfare plans will significantly affect income. Some of these proposed changes will move people across the poverty line. The poverty line was developed in the 1960s based on the amount of income estimated to be necessary for a family to sustain itself. It is adjusted annually by changes in the consumer price index, and varies by the number of children, elderly, and other persons in the household. In 1994, the average poverty threshold for a family of four was $15,141.

This analysis includes two kinds of poverty tables. One uses the pre-tax cash definition of income that the Census Bureau uses for the official poverty statistics. The other table incorporates a commonly used alternative definition of income that is broader than the official poverty definition and takes into consideration a wider range of factors relating to income. It includes, for example, the effects of tax policies (including the Earned Income Credit) and near-cash in-kind assistance programs such as Food Stamps and housing programs. The discussion below references only the broader definition. Neither definition includes proposed changes in Medicaid and Medicare.

The following tables compare the potential effects of the House and Senate balanced budget plans on the number of persons and children with incomes below the poverty line, and estimate the effects these proposals have on the size of the poverty gap -- a measure of how short of the poverty thresholds a family's income falls. The tables also show the separate effects of the House-and Senate-passed bills welfare bills and the Senate Democratic welfare reform alternative, which every Democratic Senator supported and the Administration endorsed. The analysis estimates the impact on poverty at full implementation, which will be reached in most program provisions by the year 2002.

How should these results be interpreted?

A poverty study complements the distributional analysis that follows -- but it cannot provide as much information. There are several reasons why the distributional analysis provides a more comprehensive picture:

- Estimating the change in the number of people below the poverty line does not necessarily provide information on the change in individuals' well-being -- it only shows how many of those currently above the poverty line move below it. For example, a measure of poverty status cannot show the significant impact of income loss on the millions of families already below the poverty line .

- Estimating the change in the poverty gap gives some information on how far below the poverty line people's income moves. However, policies that affect those who are 10% to 25% above the poverty line will not have an appreciable effect on the poverty gap -- but will be highlighted by a distributional analysis.

- There is no commonly agreed-upon way to include in a poverty analysis the effect of changes in health coverage which are dramatic in both the House and Senate budget plans.

While the lost health coverage is included in the distributional analysis, it is not part of the poverty analysis.

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SUMMARY OF RESULTS

Progress since January 1993

The policies of this Administration have already reduced poverty in America and will help to offset the potential impact on poverty of possible cuts that could be enacted as part of any effort to reform welfare and balance the budget:

Effect of 1993 changes. The EITC and Food Stamp changes enacted in 1993 had a significant impact on low income working families. At full implementation, these changes would move 1.4 million persons, including 0.8 million children, out of poverty under the post-tax, post near-cash transfer definition of poverty. (See the first two columns in the next table.) The current House- and Senate-passed budget plans would repeal significant portions of these expansions.

Economic progress. The Clinton Administration has cut the deficit in half and expanded the economy. The Census Bureau recently reported that, under the pre-tax cash definition of income used for official poverty statistics, there were already 1.2 million fewer people, including 0.4 million children, below poverty in 1994 than in 1993. Under the more comprehensive definition of income, there were 0.6 million fewer poor children in 1994 that in 1993. (The change for all persons was 1.2 million.) Similarly, the Food Stamp rolls have dropped by 2.0 million people -- 7% -- since they peaked in March 1994.

House and Senate Welfare Reform Bills

Number of children in poverty. Under the broader definition of income, the House welfare reform bill could move 2.1 million children below poverty. Improvements included in the Senate bill cut that number by nearly half, to 1.2 million. The Senate Democratic welfare reform bill, on the other hand, move only 0.1 million to 0.5 million children below poverty[1].

Variables not included in poverty analysis. It is important to put these numbers in perspective. The poverty analysis is based on long-term projections that do not attempt to predict a number of important variables far into the future: effect of deficit reduction on job growth; marriage and birth rates; and the long-term behavioral impact of a fundamental change in the culture of welfare. If work based welfare reform, tough child support enforcement, and a national campaign against teen pregnancy succeed in promoting work and responsibility and reducing births outside marriage, more people will move themselves out of poverty and fewer people will find themselves there to begin with.

House and Senate Budget Plans

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[1]The Senate Democratic welfare reform bill is being modeled, but results are not ready yet. The poverty effects are much smaller than that of the bills that were passed because it ensures States have adequate funding for work programs and child care; ensures that children can receive vouchers for housing and other needs after their parents reach the time limit for receiving cash assistance; ensures States have adequate funding for benefits regardless of the economy; and has much smaller cuts in SSI and food programs.

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Number of children in poverty. The House budget plan could move 2.3 million children into poverty. The Senate Budget plan could move 1.7 million children into poverty -- as many as 500,000 as a result of deep cuts in the EITC.

Health care cannot be included in poverty analysis. The House and Senate budget plans would put millions of poor children at risk of losing medical coverage. These effects are not included in the poverty analysis but they would make millions of children worse off.

POLICY RECOMMENDATIONS TO PROMOTE WORK AND MINIMIZE THE IMPACT ON CHILDREN

Any comprehensive plan to balance the budget within the next decade will require spending cuts, some of which will affect low-income Americans. In its balanced budget plan, the Administration has sought to make sure that cuts and benefits are distributed equitably.

Throughout the budget and welfare reform debates, the Administration has called for measures that will maximize the opportunities for families to work their way off welfare and out of poverty, and minimize the potential risk to children if they do not. Many of these improvements were included in the Senate-passed welfare reform bill. Others have been recommended repeatedly by the Administration in letters to Congress on welfare reform and budget reconciliation.

The following policies which the Administration has called for would significantly decrease the potential impact on children, and increase the prospect that people will bring their families out of poverty through work:

A. Maintain and Strengthen Improvements in the Senate Welfare Reform Bill

The Senate adopted a number of bipartisan improvements over the House bill that significantly increase the prospects for people to leave welfare for work and reduce the risks that children will be harmed. These include rejecting House provisions that would block grant child welfare and child nutrition programs and mandate the family cap and the cutoff of unwed teen mothers, and instead adopting the following measures to promote work and protect children:

- **Child Care.** The poverty effects of welfare changes depend in large part on how many people get jobs. In particular, welfare reform should provide the child care mothers need so they can leave welfare for work. The House bill cuts child care funding. The Senate increased child care funding by $3 billion over the next five years. But the impact of that improvement is not captured in this poverty analysis because the child care funding increase in the Senate bill expires after the year 2000. (This analysis is modeled on full implementation; generally 2002.) Making that increase in child care permanent would reduce the poverty impact in two ways: by improving the prospects for recipients to leave welfare for work, and by reducing the pressure on States to divert money away from benefits in order to pay for child care.

- **Contingency Fund and Maintenance of Effort.** Another critical variable is how States respond, especially in the event of an economic downturn that would increase caseloads and reduce revenues. The House bill includes an inadequate rainy day loan fund and no requirement for states to maintain their effort. The Senate bill includes a $1 billion

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contingency grant fund and an 80% maintenance of effort requirement. The Administration has sought to maintain and strengthen these improvements through a tightly drawn, permanent maintenance of effort provision and a contingency fund with a more effective trigger mechanism and a greater amount of funds in reserve. The Administration and CBO project that the current Senate contingency fund will run out in a few years even with a growing economy, so it should be strengthened to provide states and families greater protection in a serious recession.

- **Performance Bonuses.** For welfare reform to succeed in moving people from welfare to work, states will need to transform the culture of welfare to reward success instead of failure or the status quo. 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. The Senate added performance bonuses for states with successful work programs, but funded them out of the overall block grant. Providing additional money for performance bonuses -- rather than reducing the block grant to pay for them -- would increase the number of people who leave welfare for work and reduce the number of children at risk.

B. Other Improvements in Welfare Reform

The Administration has recommended two other improvements to the Senate welfare reform bill that would reduce the potential impact of the final legislation on children:

- **Vouchers for Children.** The Senate Democratic welfare reform bill, which the Administration endorsed, provided vouchers for children whose parents reach the 5-year time limit and cannot find work. Requiring or allowing states to provide vouchers in the amount of the child's benefit after the time limit would reduce any potential impact by ensuring that children receive adequate housing and other necessities.

- **Child support for AFDC families.** Families on welfare currently receive the first $50 of child support that their absent parents pay. The House and Senate bills would eliminate this provision.

C. A More Balanced Deficit Reduction Plan and Other Changes

A more balanced deficit reduction plan would leave children much better off than the House- and Senate-passed budget plans. In particular, the following changes would promote work and protect children:

- **Do not cut the EITC.** The House and Senate budget plans would undermine rewards to work by cutting assistance to people who work -- often at low wage jobs. The EITC changes in 1993 led to a significant reduction in poverty, while the EITC cuts in the Senate bill could lead to an additional 500,000 children moving below the poverty line. Retaining the current EITC rewards work and reduces poverty.

- **Cut fewer current SSI recipients from the rolls**. The Senate bill would cut off 160,000 children. Applying changes only on a prospective basis would lessen the poverty impact.

- **Moderate Food Stamp cuts.** The House cuts Food Stamps 26% by 2002; the Senate 19%. The House bill puts an inflexible cap on food stamp spending, which could leave working families vulnerable in an economic downturn. Moderating the cuts to the levels suggested by the Administration would substantially reduce the poverty effects.

- **Do not block grant Medicaid.** While proposed changes in Medicaid do not show up in the poverty tables, the distributional analysis points out that they could have dramatic impacts on children in low-income families, far beyond the cuts in AFDC. As the following distributional analysis shows, the 20% of families with children with the lowest incomes would lose health coverage worth $1,199 (Senate) to $1,271 (House). The Administration's plan, which rejects a Medicaid block grant, achieves a balanced budget in a more equitable way and minimizes the impact on children.

- **Increase the minimum wage**. The Administration has proposed to increase the minimum wage from $4.25 to $5.15 over two years. The real value of the minimum wage is now 27% below its value in 1979. If it is not increased this year, it will be worth less than at any time in the last 40 years. This continuing decline in the real value of the minimum wage makes it harder and harder for parents to rear their children out of poverty and makes it more and more difficult to move people from welfare to work. Increasing the minimum wage could decrease the poverty effect of the welfare and budget changes without significant budgetary costs.

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Table 1

THE IMPACT OF CONGRESSIONAL PROPOSALS ON POVERTY

Using a Comprehensive Post-Tax, Post-Transfer Definition of Income

Simulates effects of full implementation in 1993 dollars

	Effect of 1993 Changes		House Budget Plan		Senate Budget Plan		Senate Democratic Welfare Plan* (S.1117)
	Prior Law	Current Law	Entire Plan	Welfare Bill	Entire Plan	Welfare Bill	
Children Under 18							
Number in Poverty (Millions)	10.8	10.0	12.3	12.1	11.6	11.2	10.1 to 10.5
Change From Current Law			2.3	2.1	1.7	1.2	0.1 to 0.5
Poverty Rate (Percent)	15.5	14.4	17.6	17.4	16.8	16.2	
Change From Current Law			3.3	3.0	2.4	1.8	
Families With Children							
Number in Poverty (Millions)	18.3	17.0	20.9	20.6	19.9	19.2	17.2 to 18.0
Change From Current Law			3.9	3.7	2.9	2.2	0.2 to 1.0
Poverty Rate (Percent)	12.6	11.7	14.4	14.3	13.8	13.3	
Change From Current Law			2.7	2.5	2.0	1.5	
Poverty Gap (Billions)	17.6	16.2	24.8	24.3	21.5	20.6	
Change From Current Law			8.6	8.1	5.3	4.4	
All Persons							
Number in Poverty (Millions)	29.5	28.1	32.6	32.1	31.6	30.7	28.3 to 29.3
Change From Current Law			4.5	4.0	3.5	2.6	0.2 to 1.2
Poverty Rate (Percent)	11.3	10.8	12.6	12.4	12.2	11.8	
Change From Current Law			1.7	1.6	1.3	1.0	
Poverty Gap (Billions)	48.6	46.8	57.4	56.2	54.0	52.3	
Change From Current Law			10.6	9.3	7.2	5.5	

Notes: The Census Bureau publishes a family of poverty statistics using alternative definitions of income. The definition of income displayed here includes the effect of taxes (including EITC), Food Stamps, housing programs, and school meal programs. Changes in government-provided health coverage are not included, nor are there any adjustments for medical costs.

Source: HHS's microsimulation model, based on data from the March 1994 Current Population Survey.

*The Senate Democratic welfare reform bill is being modeled, but results are not ready yet. The poverty effects are much smaller than that of the bills that were passed because it ensures States have adequate funding for work programs and child care; ensures that children can receive vouchers for housing and other needs after their parents reach the time limit for receiving cash assistance; ensures States have adequate funding for benefits regardless of the economy; and has much smaller cuts in SSI and food programs.

Table 2

THE IMPACT OF CONGRESSIONAL PROPOSALS ON POVERTY

Under The Income Definition Used For Official Poverty Statistics

Simulates effects of full implementation in 1993 dollars

	Effect of 1993 Changes		House Budget Plan		Senate Budget Plan		Senate Democratic Welfare Plan* (S.1117)
	Prior Law	Current Law	Entire Plan	Welfare Bill	Entire Plan	Welfare Bill	
Children Under 18							
Number in Poverty (Millions)	15.5	15.5	16.0	16.0	15.8	15.8	15.3 to 15.7
Change From Current Law			0.5	0.5	0.3	0.3	-0.2 to 0.2
Poverty Rate (Percent)	22.3	22.3	23.1	23.1	22.8	22.8	
Change From Current Law			0.7	0.7	0.5	0.4	
Families With Children							
Number in Poverty (Millions)	26.5	26.5	27.5	27.5	27.2	27.2	26.1 to 26.9
Change From Current Law			1.0	1.0	0.7	0.6	-0.4 to 0.4
Poverty Rate (Percent)	18.3	18.3	19.0	19.0	18.8	18.8	
Change From Current Law			0.7	0.7	0.5	0.4	
Poverty Gap (Billions)	41.6	41.6	50.6	50.6	47.0	46.9	
Change From Current Law			9.0	9.0	5.4	5.3	
All Persons							
Number in Poverty (Millions)	38.8	38.8	39.9	39.9	39.6	39.6	38.4 to 39.4
Change From Current Law			1.1	1.1	0.9	0.8	-0.4 to 0.6
Poverty Rate (Percent)	14.9	14.9	15.4	15.4	15.3	15.2	
Change From Current Law			0.4	0.4	0.3	0.3	
Poverty Gap (Billions)	76.3	76.3	85.9	85.9	82.9	82.5	
Change From Current Law			9.6	9.6	6.6	6.2	

Notes: The definition used for official poverty statistics counts all cash income, but excludes the effect of taxes (and EITC), Food Stamps, housing programs, and other near-cash government assistance programs.

Source: HHS's microsimulation model, based on data from the March 1994 Current Population Survey.

The Senate Democratic welfare reform bill is being modeled, but results are not ready yet. The poverty effects are much smaller than that of the bills that were passed because it ensures States have adequate funding for work programs and child care; ensures that children can receive vouchers for housing and other needs after their parents reach the time limit for receiving cash assistance; ensures States have adequate funding for benefits regardless of the economy; and has much smaller cuts in SSI and food programs.

SENSITIVITY OF POVERTY ESTIMATES TO TECHNICAL ASSUMPTIONS

The following table (Table 3) shows how the estimates of the poverty effects of the Senate-passed welfare bill vary under alternate technical assumptions. The point estimates included in the comparison with other Congressional welfare bills and House and Senate-passed budget plans are in the column labeled "Intermediate Estimate".

Areas less sensitive to technical assumptions. Estimates of the effects of the cuts in Food Stamps, SSI, and the Earned Income Tax Credit are not very sensitive to technical assumptions. The effects of these cuts vary primarily by the population growth and economic assumptions that underlie the estimate of the budget savings, where Administration and CBO estimates are similar.

Areas more sensitive to technical assumptions. While a significant portion of poverty changes related to AFDC are a function of Federal budget cuts, the total AFDC estimate is rather sensitive to alternate assumptions. Three alternate technical assumptions have been modeled; alternate demographic and economic assumptions have not been modeled. As the table shows, the alternate assumptions modeled show the Senate-passed welfare bill moving from 0.9 million to 1.4 million children below the poverty line. If smaller deficits increase economic growth, States increase welfare funding, or there is a decline in the numbers of out-of-wedlock births and divorces, the effect could be considerably less than 0.9 million. On the other hand, if the Nation falls into a recession or States "race to the bottom" to cut assistance, as some fear, the effect could considerably more than 1.4 million.

ALTERNATE ASSUMPTIONS THAT HAVE NOT BEEN MODELED

In the long run, economic and demographic variables are among the most important determinates of welfare caseloads. Other than the differences between Administration and CBO baseline assumptions, alternative economic and demographic variables have not been modeled. The poverty effects are also sensitive to alternative State funding levels that have not been modeled.

- ***Economic Growth and Unemployment***. An extended period of strong economic growth would reduce the poverty effects. Since AFDC recipients usually are the least likely to find and keep jobs during a recession, and the House-passed bill in particular has almost no countercyclical protection, the poverty effects would be greater if unemployment rates increased substantially.

- ***State funding for benefits.*** The estimates assume States maintain current State funding levels for benefits until recipients reach the time limit, and then use the time limit savings to fund work programs and child care. Poverty effects would be greater if States reduced their funding in a "race to the bottom" as some fear, and smaller if States increased their funding to offset the loss of Federal dollars.

- ***Marriage and birth rates***. Some recent changes in birth rates -- such as the sudden increase in the late 1980's -- were not predicted, and had a tremendous impact on welfare caseloads. If work-based welfare reform, tough child support enforcement, and a national campaign against teen pregnancy can reduce teen pregnancy, out-of-wedlock births, and/or increase marriage rates, the poverty effects will be smaller. If out-of-wedlock birth rates continue to grow and marriage continues to decline, the poverty effects could be greater.

ALTERNATE ASSUMPTIONS THAT HAVE BEEN MODELED

Three variations have been modeled for the Senate welfare bill. No variations have been modeled for the House bill. These variations include:

- ***What effect does a time limit have on employment?*** The base estimate for the Senate analysis assumes 40 percent of parents reaching the time limit find some kind of employment. The range of hours worked and wages received is based on those of parents in the National Longitudinal Study of Youth who had been on AFDC for long periods of time.

  The more conservative labor supply column of the table assumes that only 20 percent of these parents find jobs, with most of those jobs being part-time. This assumption increases the number of children moved below the poverty line by 0.2 million. This assumption is consistent with those CBO used to price the welfare bills. (There is no data on which to base an estimate of the number finding employment. No parent has ever reached a time limit in any of the State welfare reform waivers that includes a time limit.)

- ***What would AFDC look like under current law in 2002 and 2005?*** CBO's baseline projects slower program growth under current law than the Administration's baseline includes. These types of projections are inexact. Were CBO's program growth assumptions incorporated into these estimates, the estimate of the number of children moved below the poverty line would be 0.1 million fewer.

- ***What do States do after the mandatory time limit?*** Waiver requests indicate a number of States will want to end assistance completely when the time limit ends. Some States, however, may choose to pay cash benefits with State funds or provide in-kind vouchers. If States with two-thirds the caseload provided housing and other vouchers worth the children's portion of the AFDC benefit, the number moved below the poverty line would be 0.1 million smaller.

Table 3

SENATE WELFARE BILL SENSITIVITY OF POVERTY ESTIMATES TO TECHNICAL ASSUMPTIONS

Using a Comprehensive Post-Tax, Post-Transfer Definition of Income

Simulates effects of full implementation in 1993 dollars

	Optimistic Assumptions	Assumptions Modeled				Pessimistic Assumptions
	States Increase Benefit Funding; Increased Economic Growth; and/or Non-Marital Birth Rates Decline	Two-Thirds of States Provide Child Benefit Vouchers After Time Limit; CBO Projection of Program Growth; Intermediate Labor Supply Effects	CBO Projection of Program Growth Under Current Law	**Intermediate Estimate**	More Conservative Labor Supply Effect of Time Limit	States "Race to the Bottom" and/or Decreased Economic Growth
Children Under 18						
Number in Poverty (Millions)	-?.?	10.9	11.1	**11.2**	11.4	+?.?
Change From Current Law	-?.?	0.9	1.1	**1.2**	1.4	+?.?
Poverty Rate (Percent)	-?.?	15.7	15.9	**16.2**	16.4	+?.?
Change From Current Law	-?.?	1.3	1.6	**1.8**	2.0	+?.?
Families With Children						
Number in Poverty (Millions)	-?.?	18.7	18.9	**19.2**	19.5	+?.?
Change From Current Law	-?.?	1.7	1.9	**2.2**	2.5	+?.?
Poverty Rate (Percent)	-?.?	12.9	13.1	**13.3**	13.5	+?.?
Change From Current Law	-?.?	1.2	1.3	**1.6**	1.8	+?.?
Poverty Gap (Billions)	-?.?	19.2	19.9	**20.6**	21.0	+?.?
Change From Current Law	-?.?	3.0	3.7	**4.4**	4.8	+?.?
All Persons						
Number in Poverty (Millions)	-?.?	30.2	30.4	**30.7**	31.0	+?.?
Change From Current Law	-?.?	2.1	2.3	**2.6**	2.9	+?.?
Poverty Rate (Percent)	-?.?	11.6	11.7	**11.8**	11.9	+?.?
Change From Current Law	-?.?	0.8	0.9	**1.0**	1.1	+?.?
Poverty Gap (Billions)	-?.?	50.9	51.6	**52.3**	52.7	+?.?
Change From Current Law	-?.?	4.1	4.8	**5.5**	5.9	+?.?

Notes: The Census Bureau publishes a family of poverty statistics using alternative definitions of income. The definition of income displayed here includes the effect of taxes (including EITC), Food Stamps, housing programs, ans school meal programs. Changes in government-provided health coverage is not included, nor are there any adjustments for medical costs.

Source: HHS's microsimulation model, based on data from the March 1994 Current Population Survey.

DISTRIBUTIONAL ANALYSIS OF THE BALANCED BUDGET PROPOSALS

Both the Administration and the Congress have plans to balance the budget. The proposals are similar in several ways: the plans eliminate the deficit, provide tax cuts, and require spending reductions. However, the plans are quite different in how they treat families at different income levels. By planning to vastly reduce benefits to middle and low income families with children while providing substantial tax break to those with high income, the proposals passed by the House and Senate shift the burden of balancing the budget to the most vulnerable families -- families with children and low or no wages. In contrast, the Administration reaches a balanced budget in a more equitable way by minimizing the impact of cuts on low and moderate income families with children and targeting tax relief to non-wealthy working families with children.

WHAT IS A DISTRIBUTIONAL ANALYSIS?

This analysis complements the study of potential poverty effects by providing detailed estimates of the various budget plans' impacts on families' incomes and health coverage. The Office of Management and Budget coordinated an effort in which the Department of Treasury and the Department of Health and Human Services used computer models to produce these estimates of the various budget alternatives. Many other agencies also contributed to the analyses of the provisions included in the budget plans.

Unlike the poverty study, this analysis describes how the effects of these plans would be distributed across families at a range different income levels. It illustrates which income groups will gain and which will lose under the various budget plans and estimates, in dollar terms, the change in income for each of these groups. The analysis is based on fully-implemented policy changes, and is presented in 1996 dollars.

WHAT IS INCLUDED AND WHAT IS NOT INCLUDED IN THE DISTRIBUTION?

There are two components included in the distribution analysis. One component measures the effect of the various tax plans on the after-tax income of households in different income brackets. The other is a benefit component, which shows proposed cuts in programs such as AFDC, SSI, Food Stamps, child nutrition, housing assistance, energy assistance, federal retirement benefits, and some health benefits.

The study focuses only on tax changes and changes in programs that provide direct income support and health coverage to individuals and families. Therefore, the study does not include some significant components of the budget plans now being debated by Congress that do not affect income or health coverage. For example, the analysis does not include the effect of proposed reductions in education, job training, transportation, and public health programs, or the reductions in provider payments in the Medicaid and Medicare programs.

A more complete explanation of what was measured and how the analysis was conducted is included in both the distribution tables and methodology section following this discussion.

RESULTS OF THE DISTRIBUTIONAL ANALYSIS

An analysis of the effects of the Senate passed and revised House passed budget plans shows a dramatic imbalance. With the combination of tax, income support and health benefit changes, families with income below $50,000 would lose while those with income $100,000 and over on average would gain substantially.

Changes in Taxes

The Administration's plan provides tax relief to middle income families while the Republican Congressional plans target upper income families. One comparison makes this clear. All three plans -- House, Senate and Administration -- provide an average tax cut of $250 for families with incomes between $30,000 and $50,000. The Republican plans, however, give 13 times as much in tax benefits to those with incomes of $200,000 and over as they give to those with incomes between $30,000 and $50,000, and, 40 times as large a tax cut as the Administration to those with incomes $200,000 and above. The Administration plan provides three times as much tax relief to those with incomes between $30,000 and $50,000 as it gives to those with incomes of $200,000 and above.

Earned Income Tax Credit. While the Administration's plan would give some tax relief to all income groups and maintain the EITC for working families, the House and Senate passed plans would increase taxes on lower income families through cuts in the EITC. The House-passed plan would raise taxes on average for families with incomes under $10,000. The Senate-passed plan goes even further, raising taxes on average for families with incomes under $30,000, while giving those with income of $200,000 and over an average tax break of $3,416.

Reductions in Benefits Affecting Income

Both the House and Senate passed budget plans have proposed very deep cuts in income and other assistance programs for low income families. To balance the budget, improve efficiency and encourage work, the Administration's plan also includes cuts to low-income benefit programs. While the benefit reductions in the Administration's plan for families with income below $30,000 would reduce their average annual income by only $73, these same families would suffer a $411 loss in income under the House plan, and a $252 loss under the Senate plan.
Worse yet, the deepest cuts passed by the House and Senate affect the poorest 20% of families with children (those at or below 121% of poverty). Their average income would decrease by $1,549 (10.8% of income) under the House plan and $825 per year (5.8% of income) under the Senate plan.

Reductions in Health Coverage

The contrast between the Administration plan and the House and Senate passed bills is even sharper when changes in health coverage are considered. The Administration plan would obtain the majority of its savings from reform of provider payments, and would expand coverage beyond everyone who is eligible under current law -- covering all poor children by 2002. As a result of these policies, there are only modest effects on families (States may reduce some optional services). In addition, the Administration plan would help people continue their health insurance when they lose a job that provides it. Medicare recipients would see their costs drop, as provider payment reforms will reduce co-payments.

The Republican Congressional plans, on the other hand, will increase costs for Medicare recipients and may end the Federal guarantee of Medicaid coverage for many low income children, disabled, and elderly. The House-passed bill would reduce annual health coverage by $493 for the average household below $30,000 -- and $1,271 for the lowest quintile of families with children (those below 121% of poverty). The Senate-passed cuts are as deep -- reducing the annual value of health coverage by $496 for the average household with income below $30,000, and by $1,199 for families with children below 121% of poverty.

COMPARISON OF TAX AND BENEFIT CUTS

While it is not entirely clear at what income level families on average are helped rather than hurt by the Republican Congressional plans, one thing is clear -- they hurt families below $50,000, and help those above $100,000.

Families below $30,000. The House-passed plan gives these families an average tax cut of $11 while cutting annual income and health assistance by $904. The Senate actually raises taxes on the average family in this income range, while cutting health and income assistance by $748.

Families between $30,000 and $50,000. The Administration and Republican Congressional plans would give these families approximately $250 on average in tax relief. However, the House-passed plan would on average cut their income and health assistance by more than that amount -- $294 -- and the Senate-passed plan would cut it more -- $385. And there are a lot of service cuts -- such as education and training -- that are not included in the analysis.

Households $100,000 and above. The House-passed plan would give these families an average of $1,613 in tax benefits, and the Senate-passed plan gives $1,642. At the same time, the Senate plan would reduce these upper income families' annual income and health coverage only $376, the House plan even less -- $155.

WHAT DO THE RESULTS OF THE DISTRIBUTIONAL ANALYSIS SHOW?

This study illustrates that the cuts in the Republican budget plans disproportionately affect low and middle income families -- especially families with children. This imbalanced impact is especially striking when looking at the cumulative tax and benefit cuts across different income levels. An overall picture of the House and Senate passed budget plans reveals that cuts in benefits get deeper and deeper as one looks at families with lower and lower incomes. Alternately, the tax breaks get larger as one goes up the income scale. For example, 20% of families with children with the lowest incomes would lose an average of $1,549 in annual income and $1,271 in annual health coverage under the House budget plan -- for total benefit cuts of $2,820. Under the same plan, families with income of $200,000 and over would receive an average of $3,269 in annual tax breaks. So while low income families with children would lose over $2,800 in assistance, those with high incomes would receive over $3,000 or more.

These plans, if enacted, would further exacerbate a troubling 20 year trend toward an increasing degree of income inequality. The results raise a fundamental question. Do we as a nation want to continue an effort to reward work and raise the incomes of low income families? Or do we want to move in the other direction, by cutting benefits and by limiting the rewards for work for low income families in order to give a tax break to the people at the top of the income distribution?

Table 4

Average Tax, Income, and Health Coverage Changes Per Household

House, Senate, and Administration Balanced Budget Plans

Family Economic Income	Percent of Families	House Budget Plan	Senate Budget Plan	Administration Plan
Benefit Cuts Affecting Income				
Less than $30,000	40%	-$411	-$252	-$95
$30,000 to $50,000	21%	-$122	-$97	-$38
$50,000 to $100,000	27%	-$70	-$92	-$26
Over $100,000	12%	-$55	-$97	-$20
Health Coverage Cuts				
Less than $30,000	40%	-$493	-$496	$22
$30,000 to $50,000	21%	-$172	-$288	$28
$50,000 to $100,000	27%	-$90	-$169	$8
Over $100,000	12%	-$100	-$279	$32
Total Income And Health Coverage Cuts				
Less than $30,000	40%	-$904	-$748	-$73
$30,000 to $50,000	21%	-$294	-$385	-$10
$50,000 to $100,000	27%	-$160	-$261	-$18
Over $100,000	12%	-$155	-$376	$12
Tax Benefits				
Less than $30,000	40%	$11	-$53	$36
$30,000 to $50,000	21%	$251	$249	$251
$50,000 to $100,000	27%	$648	$700	$473
Over $100,000	12%	$1,613	$1,642	$287
Over $200,000	3%	$3,269	$3,416	$82
Top 1%	1%	$5,422	$5,626	$63

Notes: See "Methodology" section of this paper for a description of the methodology and assumptions used in the analysis.

Family Economic Income (FEI) is a broad-based concept used in tax modeling that ranks household income by absolute dollar amounts. FEI is constructed by adding to AGI unreported and underreported income; IRA and Keogh deductions; nontaxable transfer payments such as Social Security and AFDC; employer-provided fringe benefits; inside build-up on pensions, IRA's, Keoghs, and life insurance; tax-exempt interest; and imputed rent on owner-occupied housing. Capital gains are computed on an accrual basis, adjusted for inflation to the extent reliable data allow. Inflationary losses of lenders are subtracted and gains of borrowers are added. There is also an adjustment for accelerated depreciation of noncorporate businesses. FEI is shown on a family rather than a tax return basis. The economic incomes of all members of a family unit are added to arrive at the family's economic income used in the distributions.

Table 5

Aggregate Changes in Tax Benefits, Income, and Health Coverage By Income Group

House, Senate, and Administration Balanced Budget Plans

Dollars in Billions

Family Economic Income	Percent of Families	House Budget Plan	Senate Budget Plan	Administration Plan
Benefit Cuts Affecting Income				
Less than $30,000	40%	-$18.0	-$11.0	-$4.1
$30,000 to $50,000	21%	-$2.8	-$2.2	-$0.9
$50,000 to $100,000	27%	-$2.0	-$2.7	-$0.8
Over $100,000	12%	-$0.7	-$1.3	-$0.3
Total	**100%**	**-$23.5**	**-$17.3**	**-$6.0**
Health Coverage Cuts				
Less than $30,000	40%	-$21.5	-$21.7	$1.0
$30,000 to $50,000	21%	-$3.9	-$6.6	$0.6
$50,000 to $100,000	27%	-$2.6	-$4.9	$0.2
Over $100,000	12%	-$1.3	-$3.7	$0.4
Total	**100%**	**-$29.5**	**-$36.9**	**$2.3**
Total Income And Health Coverage Cuts				
Less than $30,000	40%	-$39.5	-$32.7	-$3.1
$30,000 to $50,000	21%	-$6.7	-$8.8	-$0.3
$50,000 to $100,000	27%	-$4.6	-$7.6	-$0.6
Over $100,000	12%	-$2.0	-$5.0	$0.1
Total	**100%**	**-$53.0**	**-$54.2**	**-$3.7**
Tax Benefits				
Less than $30,000	40%	$0.5	-$2.3	$1.6
$30,000 to $50,000	21%	$5.7	$5.7	$5.7
$50,000 to $100,000	27%	$18.8	$20.4	$13.8
Over $100,000	12%	$21.6	$22.0	$3.8
Over $200,000	3%	$9.1	$9.5	$0.2
Top 1%	1%	$5.9	$6.2	$0.1
Total	**100%**	**$47.0**	**$45.8**	**$24.9**

Notes: See "Methodology" section of this paper for a description of the methodology and assumptions used in the analysis.

Table 6

Tax Benefits By Quintile

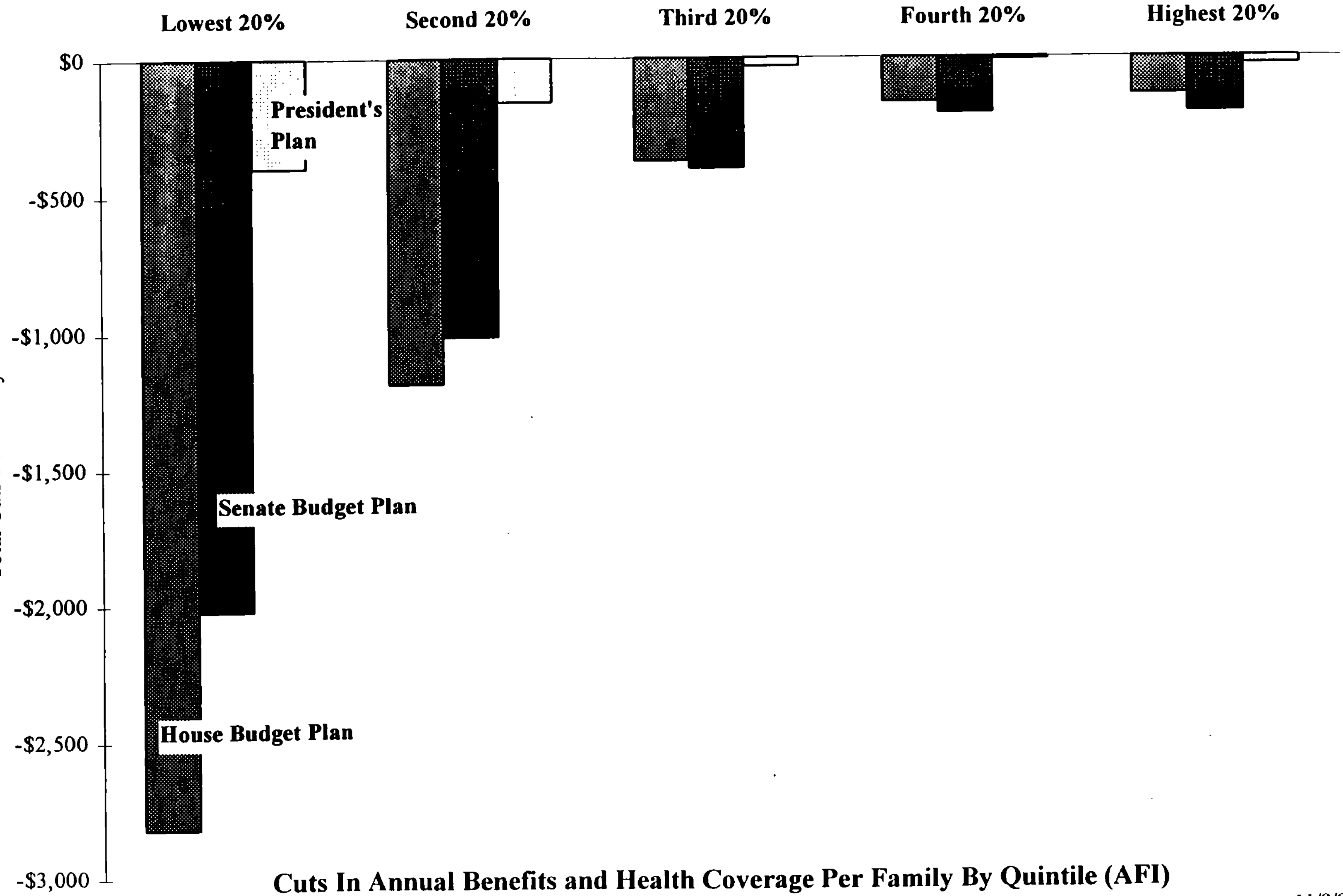
House, Senate, and Administration Balanced Budget Plans

Family Economic Income Quintile	House Budget Plan	Senate Budget Plan	Administration Plan
Average Tax Benefits Per Family (In Dollars)			
Lowest	-$12	-$26	$12
Second	$32	-$77	$57
Third	$242	$233	$242
Fourth	$530	$578	$430
Highest	$1,340	$1,380	$396
Top 10%	$1,752	$1,771	$243
Top 5%	$2,377	$2,416	$126
Top 1%	$5,422	$5,626	$63
Aggregate Tax Benefits By Income Group (In Billions of Dollars)			
Lowest	-$0.3	-$0.6	$0.3
Second	$0.7	-$1.7	$1.2
Third	$5.3	$5.1	$5.3
Fourth	$11.6	$12.7	$9.4
Highest	$29.3	$30.2	$8.7
Top 10%	$19.2	$19.4	$2.7
Top 5%	$13.0	$13.2	$0.7
Top 1%	$5.9	$6.2	$0.1

Notes: See "Methodology" section of this paper for a description of the methodology and assumptions used in the analysis.

DRAFT

Low Income Families With Children Are Hit Hard By Republican Budget Proposals
Total Income And Health Coverage Cuts Affecting Families With Children



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Under Congressional Budget Plans, Tax Benefits For Richest 5% Exceed Benefit Cuts That Reduce Income For Poorest 20% Of Families With Children

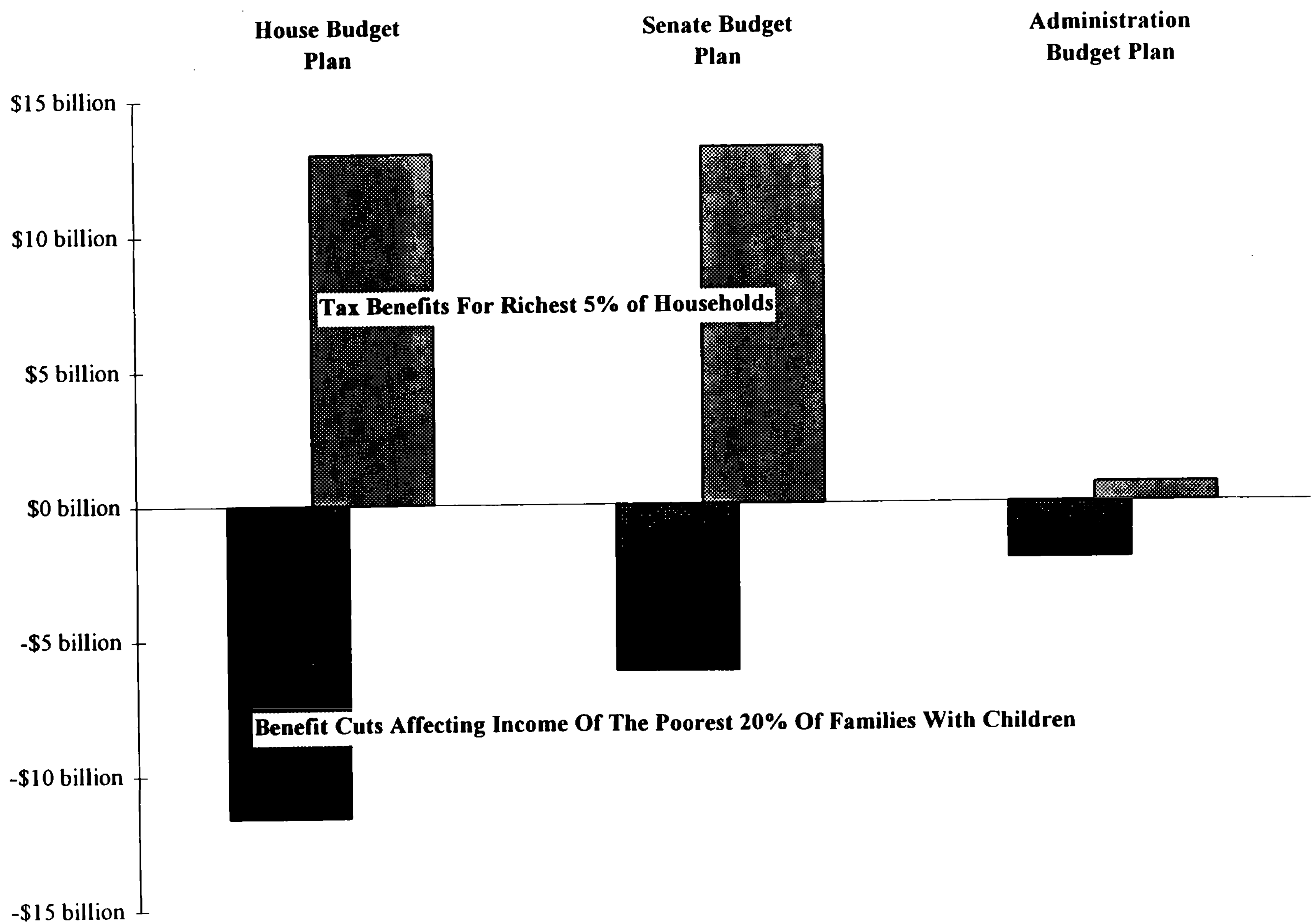

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Table 7

House, Senate, and Administration Balanced Budget Plans
Effects of Spending Cuts On Families with Children

Average Income and Health Coverage Loss Per Family By Quintile

Adjusted Family Income Quintile	House Budget Plan		Senate Budget Plan		Administration Plan	
	Dollars	% of Income	Dollars	% of Income	Dollars	% of Income
Benefit Cuts Affecting Income						
Lowest	-$1,549	-10.8%	-$825	-5.8%	-$276	-1.9%
Second	-$630	-2.7%	-$385	-1.6%	-$123	-0.5%
Third	-$191	-0.5%	-$160	-0.5%	-$55	-0.2%
Fourth	-$84	-0.2%	-$85	-0.2%	-$15	-0.0%
Highest	-$76	-0.1%	-$97	-0.1%	-$6	0.0%
Health Coverage Cuts						
Lowest	-$1,271		-$1,199		-$82	
Second	-$558		-$631		$17	
Third	-$181		-$240		$45	
Fourth	-$80		-$118		$25	
Highest	-$60		-$103		$5	
Total Income and Health Coverage Cuts						
Lowest	-$2,820		-$2,024		-$358	
Second	-$1,188		-$1,016		-$106	
Third	-$372		-$400		-$10	
Fourth	-$164		-$203		$10	
Highest	-$136		-$200		-$1	

Notes: Adjusted family income (AFI) ranks families based on their income as a percent of the poverty line. These results should not be added to the figures in Table 3 because family economic income does not include family size in the ranking factors.

See "Methodology" section of this paper for a description of the methodology and assumptions used in the analysis.

Table 8

House, Senate, and Administration Balanced Budget Plans
Effects of Spending Cuts On Families with Children

Aggregate Income and Health Coverage Loss By Quintile

Dollars In Billions

Adjusted Family Income Quintile	House Budget Plan	Senate Budget Plan	Administration Plan
Benefit Cuts Affecting Income			
Lowest	-$11.6	-$6.2	-$2.1
Second	-$4.8	-$3.0	-$0.9
Third	-$1.4	-$1.2	-$0.4
Fourth	-$0.6	-$0.6	-$0.1
Highest	-$0.6	-$0.8	$0.0
Total	**-$19.0**	**-$11.8**	**-$3.5**
Health Coverage Cuts			
Lowest	-$9.5	-$6.2	-$0.6
Second	-$4.3	-$2.6	$0.1
Third	-$1.4	-$0.8	$0.3
Fourth	-$0.6	-$0.5	$0.2
Highest	-$0.5	-$0.6	$0.0
Total	**-$16.3**	**-$17.4**	**$0.1**
Total Income and Health Coverage Cuts			
Lowest	-$21.1	-$15.2	-$2.7
Second	-$9.1	-$57.8	-$0.8
Third	-$2.8	-$3.0	-$0.1
Fourth	-$1.2	-$1.5	$0.1
Highest	-$1.1	-$1.6	$0.0
Total	**-$35.3**	**-$29.2**	**-$3.4**

Notes: Adjusted family income (AFI) ranks families based on their income as a percent of the poverty line. These results should not be added to the figures in Table 3 because family economic income does not include family size in the ranking factors.

See "Methodology" section of this paper for a description of the methodology and assumptions used in the analysis.

METHODOLOGY

RANKING HOUSEHOLDS AND DEFINITIONS OF INCOME

Ranking Households. There are two types of distributional analysis included in this document. Tables 1-3 which include changes in tax benefits are based on Family Economic Income (FEI), which does not include an adjustment for family size. Tables 4-5 which focus on spending cuts affecting families with children, are based on Adjusted Family Income (AFI), similar to analysis CBO has done in the past. Figures in tables based on FEI and AFI should not be added together, since they do not rank families in the same way. An FEI quintile table includes 20% of all families in each quintile, and ranks them by the absolute dollar level of income. An AFI table ranks families by their income as a percent of the poverty threshold for a family of that size. Since it adjusts for family size, it also places 20% of persons into each quintile, rather than 20% of families. In addition, the definitions of income are not identical.

Family Economic Income (FEI). Family Economic Income is a broad-based concept. FEI is constructed by adding to Adjusted Gross Income unreported and underreported income; IRA and Keogh deductions; nontaxable transfer payments such as Social Security and AFDC; employer-provided fringe benefits; inside build-up on pensions, IRA's, Keoghs, and life insurance; tax-exempt interest; and imputed rent on owner-occupied housing. Capital gains are computed on an accrual basis, adjusted for inflation to the extent reliable data allow. Inflationary losses of lenders are subtracted and gains of borrowers are added. There is also an adjustment for accelerated depreciation of non-corporate businesses. FEI is shown on a family rather than a tax return basis. The economic incomes of all members of a family unit are added to arrive at the family's economic income used in the distributions.

Adjusted family income (AFI). Adjusted family income is derived by dividing family income (after-tax cash income plus food, housing, school lunch, and other near-cash assistance provided by the government) by the poverty level for the appropriate family size.

MODELING OF TAX CHANGES

The change in Federal taxes under the House, Senate and Administration plans is estimated at 1996 income levels but assuming fully phased in law and long-run behavior. The effect of IRA proposals is measured as the present value of tax savings on one year's contributions. The effect of the prospective capital gains indexing proposal in the House plan is the fully phased in tax savings, multiplied by the ratio of the sum of the present value of prospective capital gains indexing over 17 years to the sum of the present value of fully phased in indexing over 17 years, holding realizations constant. The effect on tax burdens of the capital gains exclusion in the House and Senate plans and prospective indexing in the House plan are based on the level of capital gains realizations under current law. Provisions which expire before the end of the budget period and provisions which affect the timing of tax payments but not liabilities are not distributed. The incidence assumptions for tax changes is the same as for current law taxes.

MODELING OF SPENDING CUTS

This analysis estimates the impact of H.R. 4, the reconciliation bill, and appropriations bills as passed by the House and Senate. Provisions of H.R. 4 that are analyzed include the AFDC block grant and benefit prohibitions, and changes to the SSI and Food Stamp programs. Reconciliation actions that are analyzed include changes to housing assistance, Medicare, and Medicaid. A detailed list of the provisions that are included begins on the following page. The analysis also includes a preliminary estimate of the impact of policy proposals that are included in the Administration's budget -- which include changes to SSI eligibility for children, Food Stamp program changes, immigrant provisions and Medicaid proposals.

The analysis focuses on changes in policy that will directly affect family income. It does not include the effects of changes in services provided, such as more difficult access to health care services resulting from reductions in Medicare payments to health care providers, or reduced job training or Head Start funds.

As with most studies this complex involving numerous assumptions, it can be argued that some aspects of the assumptions overstate and others understate the impacts of the proposals. These estimates attempt to provide an accurate picture of the impact of the proposals on income. The goal of the study was to undertake a balanced analysis which would yield a credible as well as a relatively conservative estimate. Several factors and decisions have contributed to what, on balance, is a reasonable estimate. First, as described above not all provisions are modeled. Second, the data do not identify all persons who would potentially be affected by the program cuts. For example, the analysis assumes that none of the Medicare provider cuts affect beneficiaries and the study assumes that no states implement the option to block grant food stamps. These estimates do account for interactions between proposals.

Furthermore, the model makes relatively conservative assumptions regarding state maintenance of effort in the AFDC and Medicaid programs and the labor supply response of persons who lose AFDC benefits. The study assumes that states do not reduce state spending in response to the block granting of AFDC. Instead, it is assumed that states, at first, follow the Federal lead and keep benefits, on average, at the 1994 levels implicit in the block grant. The study assumes that later they reduce benefits and child care subsidies only enough to offset the decline in Federal dollars, while accounting for the savings resulting from the reduction in caseload and benefits from other provisions. Under the Medicaid block grant, state funds would be matched up to a Federal cap. The study assumes that states would spend only enough to receive their full Federal allotment (this assumption only affects the estimate of the value of health benefits and does not affect the poverty rates). Some states might actually increase their level of effort after a block grant. However, it is likely that the aggregate state maintenance of effort will decrease over time.

The study also incorporates a labor supply response to the time limit. For estimating the effects of the House proposal, the labor supply response (i.e. the subsequent work effort of persons who lose benefits) assumes that 20 percent of cases denied AFDC because of the time limit will go to work part-time at a wage rate equal to the median wage of women who formerly received AFDC and then went to work. These assumptions are based the limited skills and work experience, low scores on tests of aptitude, and chronic health and other problems of these long-term recipients.

The Senate assumptions are based on the work of academic researchers and the work efforts of single mothers who don't receive AFDC but have similar characteristics. The study estimates that more than 40 percent of long-term welfare recipients will work at least part-time when they lose AFDC benefits due to the time limit. The average earnings for all recipients, including those with no earnings, would be $4,700 per year, and the highest ten percent would earn an average of $24,500 per year.

The overall estimates in this analysis were obtained using the Department of Health and Human Services' TRIM microsimulation model. TRIM (for Transfer Income Model) is based on a nationally-representative sample of the non-institutionalized U.S. population, the March Supplement of the Current Population Survey. This survey of about 60,000 households is conducted monthly by the Census Bureau and the Bureau of Labor Statistics. Using the survey data, TRIM computes income, benefits, and taxes for each person under current law, then aggregates these individual amounts for U.S. totals. These current law totals can then be compared to similarly computed estimates for the alternative policies contained in the Congressional proposals.

The tables that show impacts by income quintile and family type use a definition of income similar to that of the Census Bureau in calculating the official poverty count, but the definition captures more fully the effects of government policies. For these tables, most cash and near-cash income as well as taxes are counted when determining income. That is, this definition of income counts all cash income as the Census does, but adds the value of food stamps, school lunches, the Earned Income Tax Credit (EITC), and housing assistance and deducts from income the employee portion of Social Security (FICA) and federal income taxes.

The tables compare the impact of the House and Senate Republican plans with current law and show a single-year impact of the proposals as if they were fully implemented in 1996 dollars. The following proposals were included in each analysis:

Analyses of the House Passed H.R. 4

AFDC

- Deny benefits to non-citizens, with certain exemptions
- Combine AFDC and related programs into a block grant and reduce spending, accounting for both Federal and state reductions
- Impose a 5-year lifetime limit on AFDC receipt, with a 10% hardship exemption
- Eliminate the $50 child support pass-through
- Deny cash benefits to parents younger than age 18 with children born out-of-wedlock
- Deny benefits for children born or conceived while the mother received AFDC

SSI

- Deny benefits to non-citizens, with certain exemptions
- Deny cash SSI Disability benefits to non-institutionalized children, with some exceptions

Food Stamps

- Deny benefits to non-citizens, with certain exemptions
- Limit the annual benefit increase to 2% per year
- Freeze the standard deduction at 1995 levels
- Reduce and freeze the excess shelter expense deduction at 1995 levels
- Count state and local energy assistance as income when determining eligibility and benefits
- Require single, childless adults to participate in work or training after 3 months of receipt
- Eliminate indexing of $10 minimum benefit for small households

Child Support

- Increase paternity, increase the establishment of support awards, and increase collections

Nutrition Programs

- Establish a school nutrition block grant at reduced funding levels
- Combine CACFP, WIC, and Summer Food into a single block grant at reduce funding

Analyses of House Actions

Includes all the provisions of H.R. 4 above plus:

Housing

- Impose a minimum rent of $50
- Increase the proportion of income paid for rent from 30% to 32% for Section 8
- Reduce the Fair Market Rent from the 45th percentile rent to the 40th percentile rent
- Eliminate new Section 8 certificates

Medicare

- Increase Part B premiums from 25% of program costs to 31.5% of program costs for all beneficiaries, except increase them to 100% of program costs for single beneficiaries with income over $100,000 and couples over $150,000 and increase them linearly from 31.5% to 100% of program costs for singles between $75,000 and $100,000 and couples between $100,000 and $150,000
- Reduce managed care benefits for beneficiaries currently enrolled in HMOs

Medicaid

- Eliminate entitlement and establish a block grant at reduced spending to save $182 billion between 1996 and 2002

Other Actions

- Eliminate the Low-Income Home Energy Assistance program (LIHEAP)
- Increase Federal employee contributions to pension funds
- Reduce the pension benefits of future Federal retirees
- Limit government contributions for Federal health benefits
- Reduce direct payments to farmers and cap total acreage in the Conservation Reserve Program

Analyses of Senate Passed H.R. 4

AFDC

- Limit participation and benefits of non-citizens, with certain exemptions
- Combine AFDC and related programs into a block grant and reduce spending, accounting for both Federal and state reductions
- Impose a 5-year lifetime limit on AFDC receipt, with a 20% hardship exemption
- Eliminate the $50 child support pass-through

SSI

- Deny benefits to non-citizens, including current recipients, with certain exemptions
- Restrict SSI Disability benefits to children meeting the medical listings

Food Stamps

- Limit participation and benefits of non-citizens, with certain exemptions
- Reduce and freeze the standard deduction
- Count all energy assistance received as income when determining eligibility and benefits
- Reduce the maximum benefit
- Require children 21 and younger in the household to file with parents
- Require single, childless adults to participate in work or training after 6 months of receipt
- Eliminate indexing of $10 minimum benefit for small households

Child Support

- Increase paternity, increase the establishment of support awards, and increase collections

Nutrition Programs

- Round down reimbursement rates and delay indexation
- Implement a two-tier means-test for benefits in family day care homes.

Analyses of Senate Actions

Includes all the provisions of the Senate passed H.R. 4 above plus:

Food Stamps
- Reduce and freeze the standard deduction further than in H.R. 4

Housing
- Impose a minimum rent of $25 in public housing
- Reduce the Fair Market Rent from the 45th percentile rent to the 40th percentile rent
- Reduce the number of new Section 8 certificates

Medicare
- Increase Part B premium to $89 in 2002
- Set income-related threshold for premiums to $50,000 for individuals and $100,000 for couples; premium hits 100% of program costs for individuals at $100,000 and for couples at $150,000
- Increase the Part B deductible to $210 in 2002
- Reduce managed care benefits for beneficiaries currently enrolled in HMOs

Medicaid
- Eliminate entitlement and establish a block grant at reduced spending to save $182 billion between 1996 and 2002

Other Actions
- Reduce funding for the Low-Income Home Energy Assistance program (LIHEAP)
- Increase Federal employee contributions to pension funds
- Delay the cost-of-living adjustment of Federal retirees
- Reduce direct payments to farmers and cap total acreage in the Conservation Reserve Program

Preliminary Analyses of Administration's Budget

SSI
- Tighten eligibility criteria for receiving SSI benefits.

Food Stamps
- Reduce spending while maintaining the federal entitlement, increasing state flexibility and cracking down on fraud.

Child and Adult Care Feeding Program (CACFP) Subsidies

- Target family day care home meal subsidies more towards lower income children.

Immigrant Provisions

- Tighten SSI, AFDC and Food Stamp eligibility rules for non-immigrants.
- Sponsors of legal aliens would bear greater responsibility for those whom they encourage to come to the U.S.

Medicare

- Reduce provider payments and hold Part B premiums at 25% of total costs.

Medicaid/Health Insurance for the Unemployed

- Continue Medicaid entitlements with --X-- percent reduction in total Medicaid spending
- Provide health insurance protections for the unemployed and their families.

George -
FYI
-Rahm

THE WHITE HOUSE

WASHINGTON

November 21, 1995

MEMORANDUM FOR THE PRESIDENT

FROM: Bruce Reed
Rahm Emanuel

SUBJECT: Welfare Reform Update

The budget negotiations give us an opportunity to try for a better deal on welfare reform than the version the Republicans included in reconciliation. But we still face the looming threat of getting jammed with a stand-alone bill if the budget talks sour or the Republicans want to put us on the spot.

For now, the Republicans remain divided on whether to negotiate toward an acceptable bill or try to force a veto. Dole has reportedly hinted that he would prefer a signing, and so would Shaw, but Gingrich is more inclined to force our hand. We have dodged the bullet so far because of the budget agreement and because Jeffords, Chafee, and Lugar went home for Thanksgiving without signing the conference report. But that won't last -- they will go along in exchange for minor concessions if Dole insists. That means the Republicans could pull the trigger on a stand-alone bill anytime over the next month -- and if the Dec. 15th deadline goes by without a budget deal, we should not be surprised to get a lousy welfare bill for Christmas.

To reduce that risk, Leon is going to call Dole and Shaw and let them know that we want to find common ground on welfare reform as part of the budget negotiations, but we're not afraid to attack them as cruel to children if they try to send us their current bill. (We should also ask Breaux to find out if Dole has any interest in dealing on welfare sooner rather than later.)

I. Summary of Tentative Conference Report

The welfare savings in reconciliation total $114 billion over 7 years -- $32 billion from EITC (halfway between the House and Senate budget plans) and $82 billion from welfare programs (House welfare bill was $100 billion; Senate bill was $68 billion).

The welfare bill itself was written carefully to leave us no easy targets. The two issues most likely to resonate as we hold out for further improvements are the cuts that affect child care and disabled children. In vetoing the reconciliation bill, we should say that we are ready to sit down and work toward a bipartisan welfare reform bill, but hurting disabled children and gutting child care isn't our idea of welfare reform. If we can get into bipartisan negotiations on welfare reform, we should be able to restore the Senate child care provisions, get the overall level of cuts somewhat closer to the Senate bill, and make changes on the contingency fund, performance bonus, and a few other areas that won't cost much money but can improve the final bill.

A. Welfare-to-Work Provisions

Most provisions of the Senate bill that are actually about welfare reform (as opposed to just budget cutting) survived the conference in some form. The conferees agreed to a permanent maintenance-of-effort provision at 75% instead of 80%, and a contingency grant fund at $800 million instead of $1 billion. The family cap and teen cutoff are essentially state options (family cap is opt-out; teen cutoff is opt-in). The conferees messed up the work performance bonus and dropped the personal responsibility agreements, but preserved other provisions we were worried about, like the displacement language and the child care guarantee.

But the conferees did weaken the work provisions in one important area -- child care. The changes are not enormous: The conference report stretches the additional $3 billion in child care money over 7 years instead of 5. But this amounts to an effective $1.2 billion cut over the 5-year period, which means thousands more mothers will stay on welfare instead of going to work. Since child care is the number-one work issue for the Senate moderates (and the press), we should be able to win back most of the child care provisions of the Senate bill.

In a negotiation with the conferees, we would want to strengthen other welfare-to-work provisions as well -- especially the contingency fund, the work bonus, and maintenance of effort. But in general, most of the true welfare reform elements of the conference report are at least in the ballpark, and the conferees deliberately avoided including any poison pills.

B. Budget Cuts

The major difference between the reconciliation conference report and the Senate welfare bill is deeper cuts in food stamps, child nutrition, child welfare, and SSI. The conferees followed the Senate's lead by maintaining the entitlements for food stamps, child nutrition, SSI, and child welfare, but made obscure, carefully targeted cuts in those programs.

The major cuts include:

1. Food Stamps: OMB's preliminary estimate is that the conference report cuts $35 billion over 7 years (Senate was $28.5 billion; House was $38 billion). We should try to reduce the overall level of cuts and get rid of the fixed cap on expeditures. The state option to block grant food stamps is one area where the conference report is better than the Senate bill (although it could still be improved). The Senate bill was a pure state option that allowed states to divert 20% of the money away from food. The conference report requires states to put EBT or stricter quality control measures in place before they can qualify for the state option, and makes them spend 100% of the money for food -- so the incentive for a state to take the block grant is reduced.

2. SSI Kids: The conference report cuts $3 billion more than the Senate bill. The conferees rejected the House block grant, and instead imposed a two-tier system under which the most severely disabled children would continue to receive full benefits, while less disabled children would have their benefits cut 25%.

3. Child Welfare: The conference report maintains the entitlement for foster care and adoption assistance, but cuts so-called administrative payments that many states use for child abuse prevention and child protection.

4. Child Nutrition: The House and Senate are still arguing over whether to give some states the option to block grant school lunch. If the House prevails, they will hand us a great issue, but we probably won't be that lucky.

5. Immigrants: Conferees eliminated the most objectionable Senate provision -- deeming beyond citizenship. But the cuts are still deep, and conferees eliminated an important exception from the House bill for the elderly (over 75) and disabled.

II. What Next

As part of the budget negotiations, we can seek overall savings targets in the neighborhood of the Senate bill. But if those talks break down, or the Republicans see an opening, we should be prepared for a few basic realities:

- Sooner or later welfare reform is likely to come to us as a stand-alone bill. Many of the welfare reform provisions (time limits, work requirements, etc.) cannot get around the Byrd rule, so unless there is a megadeal on the budget, a stand-alone bill will still be necessary. Such a bill could take many forms: 1) an omnibus bill that includes the budget cuts as well as the reform provisions; 2) a so-called Byrd-droppings bill that includes only the provisions stripped out by the Byrd rule; or 3) a smaller omnibus bill that includes the reforms we support but punts some or all of the budget cuts to the larger negotiation over budget reconciliation.

  The first scenario is the most likely, and would require further negotiations before we could sign it. If there is a way to interest the Republicans in the third scenario -- a stand-alone bill that is limited to real welfare reforms (time limits, work requirements, the AFDC block grant, child care money, teen pregnancy, child support enforcement, etc.) -- that would be ideal for us. But it is hard to see why they would consider such a deal now, unless they're worried about the Byrd rule or eager to put welfare reform in the bank.

- Vetoing welfare reform won't make it go away: We can have welfare reform without a budget deal, but we can't have a budget deal without welfare reform. Any budget deal is certain to include an AFDC block grant and budget cuts in the general neighborhood of the Senate welfare bill. Republicans will insist on it, and 35 Senate Democrats have joined us in signalling general acceptance. The only way to placate Moynihan, Marian Wright Edelman, and others on the left who have criticized us on welfare reform is to give up on both welfare reform and a deal to balance the budget.

- Welfare reform will do worst in budget negotiations if it's the last item on the table. If we want to soften the overall level of budget cuts in welfare reform, we should make it one of the first items of negotiation, rather than the last. There are two reasons to deal early on welfare reform. First, the gap between our position and the Republicans' is smaller on welfare reform than any other big-ticket item. We're at $68 billion, they're at $82 billion -- and all of the non-budgetary differences should be relatively easy to hammer out. Second, the programs we're trying to protect (food stamps, immigrants, etc.) have less political support than anything else in reconciliation -- even Medicaid. So if we solve Medicare, EITC, and other popular programs before we get around to welfare reform, we will end up right where the conferees did, with welfare cuts that hurt kids but don't generate political heat.

- In the end, we may have to choose between the majority of congressional Democrats who want welfare reform and outside groups on the left who don't. Our early soundings suggest that if the Republicans could force a stand-alone vote on the current conference report, we could lose at least 10-20 Democrats in the Senate and 20 in the House -- even with a Presidential veto threat. That would give the Republicans a veto-proof margin in the Senate, and with a few improvements in the direction of the Senate bill, they could potentially override a veto in the House. The only way we could keep many Democrats from voting for a stand-alone bill this time around is to assure them that they will get another bite at the apple soon so they don't have to run for re-election having killed welfare reform.

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

THE DIRECTOR

September 20, 1995

L
Please save for welfare meetings.
G

NOTE FOR LEON PANETTA
CAROL RASCO
LAURA TYSON
PAT GRIFFIN
JOE STIGLITZ

FROM: ALICE M. RIVLIN AMR

SUBJECT: Welfare Reform Memorandum

Attached is draft memorandum I have prepared for the President on key issues that confront us on welfare. I would welcome your comments.

George -
Alice asked me to get you a copy of this memo. The stakes really are high on this bill.

Ken Apfel

DRAFT

MEMORANDUM FOR THE PRESIDENT

FROM: Alice M. Rivlin

SUBJECT: Welfare Reform -- Conference Issues

Earlier this week, the Senate passed by 87 to 12 a welfare reform bill that represents a significant improvement over the bill the House passed last March. Senate conferees will be pressured to compromise on the bill's provisions with their House counterparts, undoing improvements in many areas, such as the added child care funding, a State maintenance of effort provision and fewer benefit restrictions. These would be serious losses. If there is to be a bill that the Administration can approve in good conscience, it is imperative that we act to prevent erosion of the Senate bill's gains and, wherever possible, make improvements. We should tell the conferees clearly that where the House and Senate bills differ on a major issue, the House provisions are unacceptable and that a move to adopt them jettisons the possibility that the bill can be signed.

But movement towards the House bill is not our only problem. The Senate bill still has serious shortcomings. Specifically, it includes a very modest countercyclical mechanism, limited resources for child care and job training, and deep cuts in the SSI kids and immigrant provisions. The food stamps block grant proposal also raises very serious concerns.

This memo highlights the key differences between the House and the Senate bill and flags key concerns.

MAGNITUDE OF THE BUDGET CUTS

After lengthy deliberations this summer, you proposed $38 billion in 7 year savings in all low income non-health entitlements. The Congressional Budget Resolution cuts far deeper in this area than the President's budget (about $110-120 billion over 7 years). The savings in the welfare bill represent the major component of these savings goals.

As this memo highlights, the budget cuts in the Senate bill, while major improvements, still create serious problems. If the conference moves closer to the House cuts, the problems worsen.

The following table summarizes the savings in the welfare bills.

If a welfare bill is enacted as a freestanding bill, then the Congress will be close to its budget targets for low income non-health entitlements (except for EITC, Social Services Block Grant, and some additional food stamps savings). It is clear that any final welfare bill will include considerably more cuts to these programs than you have proposed.

WELFARE BILL SAVINGS

($ billions over 7 years, CBO, net of discretionary cap adjustments)

	President's Plan*	Senate Bill*	House Bill*
AFDC/JOBS/Child Care/ CSE/Child Protection	0	-4	-16
Immigration, DA&A and SSI Kids	-13	-31	-44
Nutrition (excl. Immigrants)	-20	-31	-42
Total	-33	-66	-102

*Does not include EITC or Title XX Savings

THE AFDC BLOCK GRANT

The Senate bill made many major improvements. More resources are provided, particularly for child care, which is funded by a grant and a setaside in the Senate bill. States must maintain some level of effort to receive federal support. States would receive bonuses for moving recipients into jobs. The punitive mandates such as the family cap and teen moms restrictions included in the House bill are gone. The foster care program is not cut drastically. Work requirements are more responsible. A more realistic proportion of welfare moms are exempted from the work requirement. And states would have access to a contingency fund to provide added resources in an economic downturn. These are very important improvements to the House bill that should be retained.

While the Senate made the AFDC block grant much more acceptable, there are still two significant problems with the Senate bill:

Training and Child Care: The first problem deals with funding for training and child care. The Senate bill toughens work program requirements on States while providing nearly flat funding at the FY 1994 level for AFDC cash benefits and work programs, and significantly underfunds child care. The House bill cuts funding by $14 billion for these activities and the Senate cuts $4 billion. For a point of comparison, Senator Daschle's bill *adds* $14 billion over seven years to pay for implementation of work requirements. Given the low overall level of Federal funding for the proposed block grant, States will be forced to make tough choices -- either significantly increase their own resources, cut the level of cash benefits, mandate some of the punitive restrictions included as options in the Senate bill, forego child care for some children, and/or forego meeting the work requirements. The fiscal bind on States will worsen over time.

Contingency: The second problem with the Senate bill relates to the contingency fund. The Senate established a very important principle when it agreed to provide added resources during a recession. But the funding level is insufficient. Between 1989 and 1993, a period encompassing the last national economic downturn, AFDC caseloads grew by roughly 32%, and total Federal AFDC expenditures grew by $8 billion. The provision in the Senate bill provides a total of $1 billion in countercyclical assistance over five years. This is a pitifully small amount -- just 1% of Federal program spending for the proposed AFDC, JOBS and child care block grant over five years. Clearly, the contingency in the Senate bill would not have been adequate in the last recession, and it is extremely unlikely to provide a meaningful cushion in future downturns.

NUTRITION PROGRAMS

On three out of four counts, the changes to the nutrition programs in the Senate version of the bill are vastly preferable to the House version. The House welfare bill would:

(1) create block grants for the child nutrition programs including school lunch,

(2) cap the overall level of food stamps spending, so that a recession would cause a nationwide reduction in benefits,

(3) cut food stamps benefits by about $34 billion over 7 years, reducing benefits by almost 25% in FY2002 and about 35% by FY2005, and

(4) establish an optional food stamps block grant -- but only for those states with a fully established comprehensive electronic benefit system (EBT)to replace food coupons.

In the Senate, we were effective in our strong opposition to the House child nutrition block grants and the food stamps cap. The

Senate bill rejects these two policies and pared back food stamps only about two thirds as deeply as the House, but created an open-ended option for states to block grant food stamps.

Budget Cuts: The Administration's budget proposal was fashioned to reduce spending in the Food Stamp program while preserving uniform, national eligibility for most of those currently entitled to the program. Our seven year food stamps savings are $19 billion. While our spending cuts proposal is tough and the Senate proposal very tough, the House proposal can only be characterized as downright draconian. We need to try to hold the line here.

Food Stamps Block Grant: The one area where the House bill is preferable to the Senate relates to the food stamps block grant. We have always maintained that the preservation of a national food stamp entitlement program is critical if there is to be an AFDC block grant, since a national nutrition program helps to moderate the effects of the AFDC changes on low income families. The House provision requires that States be able to provide food stamps electronically via Electronic Benefit Transfer (EBT) and that they dedicate all of the benefit monies to food assistance. The EBT requirement will delay State's decisions to block grant food stamps for a couple of years. And by requiring that the block grant be for food assistance alone, States will be precluded from making whole a family's AFDC cuts by converting Food Stamps to cash. The House approach, while not perfect, basically keeps Food Stamps as a national program.

Unfortunately, the Senate's food stamp block grant option essentially endangers the national program by taking a big step towards abdication of the national role in combating nutritional deficiency. Because the Congress plans to cut the program so deeply, many States, at least initially, will receive less federal funds if they stay in the national program rather than opt into the block grant. And if a large number of states opt out of the uniform entitlement, political support for the program will fall. In addition, since the bill requires that only 80% of the block grant be used for food assistance, the current language would allow States to make even deeper nutrition cuts. The remaining 20% of the grant can be used for non-nutrition purposes, making up for fiscal pressures elsewhere.

In conference, we need to significantly tighten up the food stamps block grant, stop the House child nutrition block grants and the food stamps cap and try to keep overall savings in the range of the Senate bill.

BENEFITS FOR IMMIGRANTS

Both the House and Senate bills include very steep reductions in benefits to legal immigrants. If these proposals become law, billions of dollars in costs may be shifted to States with high immigrant populations unless the States also choose to restrict benefits. House and Senate immigration savings amount to $26 billion and $19 billion, respectively, over the next 7 years. Your budget plan, on the other hand, proposed only $5 billion in cuts affecting immigrants. The House bill -- the more severe of the two approaches -- would ban from the rolls over 1 million immigrants currently enrolled in either SSI, Medicaid, or food stamps.

While the Senate legislation on immigrants is somewhat softer than the House bill, it still makes dramatic changes. The Senate bill denies SSI benefits to approximately 400,000 elderly and disabled non-citizens currently receiving benefits -- almost all immigrants now on the SSI rolls. For all Federally funded, needs based programs, including Medicaid, the bill would limit access to benefits for many immigrants currently in the country and would ban most new immigrants from a wide range of benefits for 5 years after entering the country. The Senate bill would also deny benefits to naturalized citizens for up to seven years after they become Americans (the Vice-President has expressed the Administration's opposition to this provision). Under the Senate bill, a working poor legal immigrant who becomes disabled would be ineligible for any cash or non-emergency medical assistance.

A number of provisions could make the legislation more acceptable. First, benefits could be allowed for naturalized citizens. Second, benefit termination could be limited to cash benefits, thereby continuing Medicaid for poor immigrants. Finally, exemptions could be made for current SSI recipients and/or immigrants who become disabled after entering the country. All of these proposals have merit, but would significantly reduce savings. The Congress will strongly resist efforts to soften the immigrant provisions.

DISABLED KIDS

The Senate bill is vastly preferable to the House bill on its approach to reforming the SSI children's disability program. The House bill cuts $14 billion over 7 years and terminates all cash assistance to 170,000 kids now on the rolls and 875,000 by the year 2000 (only 20% of currently eligible kids would receive cash assistance). State provided support services would be provided to about half of the eligible kids denied cash benefits through a new Federal block grant.

The Senate bill does not cut eligibility as deeply and continues cash benefits for all eligible children. But the Senate bill would still terminate benefits for 170,000 disabled kids now on the SSI rolls and another 225,000 by the year 2000. The Senate bill saves nearly $9 billion over 7 years, compared with $5 billion in your plan. Both the House and Senate bills go too far;

we could argue for a final bill that makes special arrangements for kids already on the rolls, but this would reduce savings.

CONCLUSION

As outlined in this memo, we believe that the Senate bill, while vastly preferable, still has shortcomings, and most problems can't be fixed without added resources. We need to try to fix the Senate problems. But-- at a minimum-- if we aren't in a position to strengthen the Senate bill, we have to push hard to maintain the gains won in the Senate and to draw the line on additional cuts in low-income programs.

It is likely that the bill will move quickly to conference. The Administration needs to work quickly on its conference strategy in the hopes of influencing the final outcome of the bill. Since we need to articulate our positions clearly to the Congress, we will develop an Administration statement on the bill as soon as possible. We will draft such a statement for clearance within the White House.

September 14, 1995

MEMORANDUM FOR THE PRESIDENT

FROM: Bruce Reed
Rahm Emanuel

SUBJECT: Welfare Reform -- Senate Update

The Senate has approved several significant changes in the past 24 hours. While the bill is still far from perfect and we will have to fight in conference to hold onto the progress we have made, these bipartisan efforts go a long way toward addressing the key elements of welfare reform you have spelled out over the past year.

Without declaring victory, we should applaud the Senate for the changes they have made, and for reaching across party lines to come our way. At the same time, we should publicly enlist the nation's governors and other local officials in a bipartisan effort to hold onto this progress and seek further improvements to ensure that state and local taxpayers don't get left holding the bag. The NGA reached a bipartisan agreement yesterday on a formal position calling for many of the changes we sought and have now won in the Senate bill: more money for child care, a contingency grant fund, performance bonuses, and no punitive mandates. We will need the governors' help in holding onto those victories in conference.

Here is a brief summary of the Senate changes. We have asked HHS to produce a detailed side-by-side of the House and Senate bills once the Senate completes action.

1. Maintenance of Effort: Dole agreed to adopt a Chafee amendment requiring states to maintain 80% of their FY94 effort, and to fight for it in conference. The definition of effort is reasonably tight -- it no longer includes the loophole that states could count their Medicaid spending toward the maintenance of effort requirement. In conference, the House will try to lower the percentage and weaken the definition, but a conference report would have trouble passing the Senate without something real.

2. Child Care: HHS estimated that states will need $11 billion in child care over 5 years to meet the work requirements; CBO's estimate was only $8.8 billion. The Senate agreed to $8 billion in a capped state entitlement dedicated to child care. The Senate bill also guarantees that mothers can't be required to work unless child care is available. Before these changes, CBO said that 35 to 40 states would fail to meet the work requirements. That assessment should improve now that there's more child care money to go around. The shortfall won't hit until the year 2000, when the work requirement rises to 50%.

3. Performance Bonus: The Senate unanimously accepted the Lieberman-Roth job placement performance bonus, which provides $2 billion over 5 years to reward states for placing welfare recipients in private sector jobs. This was our idea, and a central part of the Daschle bill. You have spoken out about rewarding states for putting people to work, not cutting them off. The House has no comparable provision, but America Works, the leading welfare-to-work placement company, is close to Gingrich and will lobby conservatives.

4. Contingency Fund: The Senate agreed to set up a contingency grant fund of $1 billion, in addition to a $1.7 billion loan fund. To qualify, states must meet a 100% maintenance of FY94 effort requirement, and must match the grant money at the Medicaid rate. The House contingency fund is a loan, not a grant.

5. No Punitive Mandates: The most contentious issues in conference, along with maintenance of effort, will be the family cap and teen cutoff. The Senate voted 66-34 to strike Dole's mandatory family cap -- it's now a state option, as in our bill -- and 76-24 to defeat Faircloth's amendment to require states to cut off young unwed mothers. (The Senate bill requires teen mothers to live at home and stay in school instead.) Senate conferees will argue that no bill with the family cap and teen cutoff can pass the Senate; House conservatives may insist on a face-saving compromise, such as requiring that assistance for additional children and unwed teen mothers be provided in vouchers rather than cash.

Both the House and Senate bill include an illegitimacy bonus fund to reward states for reducing out-of-wedlock births. The provision is not well-drafted, but it doesn't mandate any particular state behavior (right-to-life groups and the Catholic Church have withdrawn their objections) and it does create a hefty pool of money to reward states whose illegitimacy rates happen to go down.

6. Job Training: The Senate agreed to drop the Kassebaum training bill from the welfare reform package, and take it up separately in October. That will give Breaux and Kennedy leverage to seek changes on skill grants and other provisions of the Kassebaum bill.

7. Child Support Enforcement: The tough child support enforcement provisions from our bill have now been passed in the House and Senate.

8. Food Stamp Block Grant: The Senate bill still includes a state option to block grant food stamps, but the Senate defeated 66-34 an Ashcroft amendment to block grant food stamps. The House bill has deep cuts in food stamps, but does not block grant the program.

9. Personal Responsibility Contract: Our bill last year required welfare recipients to sign a contract spelling out the responsibilities they must fulfill in return for assistance. The Senate accepted a Harkin amendment to incorporate this concept into the Dole bill.

The Senate also added a Democratic amendment allowing states to exempt 20% of recipients who hit the 5-year time limit. Two other important differences between the House and Senate: The House bill block grants child welfare and the school lunch program; the Senate bill does not.

White House Seeks Areas of Welfare Accord With G.O.P.

By ROBERT PEAR

Stephen Crowley/The New York T...

The Senate majority leader, Bob Dole, presiding over a rare Saturday session dealing largely with welfare, found a few minutes yesterday to stroll from the floor back to his office.

WASHINGTON, Aug. 5 — Clinton Administration officials today itemized their objections to the welfare bill backed by Senate Republican leaders and proposed changes to make the bill more palatable to President Clinton.

Mr. Clinton, who promised in the 1992 campaign to "end welfare as we know it," said he opposed the Republican bill in its current form and strongly preferred an alternative devised by the Senate Democratic leader, Tom Daschle of South Dakota.

But in documents analyzing the Republican bill, Administration officials suggested that it might be made acceptable with some significant changes. As the Senate prepared for major debate on the issue, Mr. Clinton said today in his weekly radio address that he hoped to see "a bipartisan agreement."

Cataloguing its objections to the bill, the Administration said it would not guarantee child care for people forced to work and could encourage states to save money by throwing people off welfare.

The bill would set a time limit on welfare, stipulating that no child could receive cash assistance for a total of more than five years. The Administration said that this restriction would eventually terminate Federal welfare benefits for 3.9 million of the 10 million children receiving such aid. Those estimates are within the range suggested by the Congressional Budget Office.

In a draft of the official statement of Administration policy, the White House suggests four amendments to the bill. The amendments would encourage states to continue spending their own money on welfare and would earmark money for child care and job programs, which in the bill are lumped together with cash assistance for poor people.

In addition, the White House says Congress should reward states that move people from welfare to work, and should guarantee more money for states that experience increases in unemployment or population. The bill would set aside some money for such purposes, but the White House said it was inadequate.

The House passed a comprehensive bill to redesign the nation's welfare programs in March, and Senate Republicans have been trying to write a companion bill since then. The Republican bill, introduced by the Senate majority leader, Bob Dole of Kansas, has 31 of 54 Republican Senators as co-sponsors.

"When all the talking is done," Mr. Dole said, "I believe we will pass legislation that will transform the welfare system from a failed system into one that succeeds in providing work, hope and opportunity to Americans in need." He predicted that some Democrats would ultimately vote for his bill.

But at the moment, Mr. Dole finds himself in a crossfire of criticism from Republicans who are more conservative than he is and from Democrats who are more liberal.

In the draft of its official comments, the White House said it opposed Mr. Dole's bill in its current form because the bill "falls short of the central goal of real welfare reform, moving people from welfare to work." Moreover, it said, the bill "does not provide the level of child care resources necessary to support the imposition of tough work requirements."

Mr. Clinton does not explicitly threaten to veto the welfare bill, as he has threatened to veto other Republican bills. Nor does he insist that Congress preserve welfare as an open-ended entitlement, available to any families that meet criteria set by Federal and state laws.

Mr. Dole's bill would give each state a fixed amount of Federal money, or block grant, to aid the poor. From 1996 through 2000, the total amount of Federal cash assistance would be frozen at $16.8 billion a year, the same amount spent in 1994.

Mr. Dole's bill would require states to move half of their adult welfare recipients into jobs by 2000. At present, fewer than 10 percent of the five million adults on welfare are employed.

"Child care is not guaranteed under the Republican plan," the Administration says in its analysis of the Dole bill. As a result, it says, states that choose to provide child care so welfare recipients can take jobs would have less money available to provide cash benefits for their poorest citizens.

In short, the Administration says, "states will have to make tough choices between providing child care, enforcing work requirements and insuring a safety net for poor families." But Mr. Dole and other Republicans say that state officials will make much better choices than Federal officials have made.

States and counties now contribute 43 percent of all the money spent on the main cash welfare program, Aid to Families With Dependent Children. Mr. Dole's bill would eliminate a longstanding requirement that states spend their own money as a condition of getting Federal welfare money.

Without such a requirement, the White House says, "many states could be expected to withdraw their own funds, cut benefits, purge large numbers of current recipients from the rolls and avoid the burden of helping people become self-sufficient."

In his own welfare bill last year, President Clinton proposed terminating welfare benefits for people who refused to work. But the White House says the time limit in Mr. Dole's bill is "unduly harsh" because it "would not provide any protection for children when their parents are unable to work due to illness, disability, the need to care for a disabled child or high local unemployment."

Catholic Charities USA expressed a similar concern. In a letter sent today to all Senators, the Rev. Fred Kammer, president of Catholic Charities, said, "We are very concerned that the new work requirements and time limits will leave children without adequate adult supervision while their parents are working or looking for work."

Mr. Dole's bill would tighten eligibility criteria for children seeking disability benefits under the Supplemental Security Income program. The Administration says that 157,000 children, or 18 percent of those on the rolls, would lose cash and medical benefits. In addition, it says, over the next five years, Mr. Dole's bill would deny benefits to 226,000 applicants, or 21 percent of those who would qualify under current law.

In recommending tougher standards, the Senate Finance Committee said that "only needy children with severe disabilities" should receive benefits.

The Administration said it opposed a section of Mr. Dole's bill that would let states take their food stamp money in the form of block grants, with hardly any Federal regulation. States could use the money for food assistance or work programs.

In Looking at Gingrich, a Freshman Sees Himself