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# POLICY BRIEF

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## Welfare Reform & Beyond #25

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### Achieving Compromise on Welfare Reform Reauthorization

RON HASKINS AND PAUL OFFNER

**C**ongress intended to reauthorize the 1996 welfare reform legislation in 2002, but failed to reach agreement on a final bill. After the Bush administration released its proposal in February, the House of Representatives endorsed a slightly-amended version in May, and the Democratically-controlled Senate Finance Committee passed a substantially different bill in June with the support of three of the committee's Republicans.

But that's where the progress stopped. Liberals attacked the committee bill for under-funding child care (the Children's Defense Fund called it a "disgrace") and President Bush lambasted it for straying too far from his proposal (comments interpreted by many Democrats as a veto threat), and in the end, the Democratic leadership decided against bringing it up for a vote. Now it's a year later, and Congress is back at it. The House has passed a bill nearly identical to last year's version, and once again all eyes are on the Senate.

There are several reasons why Congress should reauthorize the welfare reform legislation this year. To begin with, one of the basic criteria for evaluating any Congress is whether spending bills are passed and important programs are reauthorized on schedule. Although Congress failed this test last year, it should be able to do better this year since the same political party controls both houses of Congress as well as the presidency.

The second reason for enacting a reauthorization bill this year is that states

deserve to know both what is expected of them and the level of federal funding available to them over the next five years. The primary programs that must be reauthorized are the Temporary Assistance for Needy Families (TANF) block grant and the Child Care and Development Block Grant (CCDBG), both of which place primary responsibility for effective and efficient operation on states. These programs have contributed significantly to the decline of welfare dependency, the rise of employment among low-income mothers, and the reduction in child poverty,



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especially among African American children, that has occurred since the mid-1990s. Based on this record, it would be hard to justify making major changes in either one, and the federal government should continue to give states broad flexibility in implementing them.

A related point is that innovation at the state and local levels depends on certainty of expectations and funding. As Richard Nathan and Tom Gais of the State University of New York at Albany have shown, states and localities have demonstrated great ingenuity in implementing the block grants, and there is no reason to believe that state and local innovation has been exhausted. But if state and local government are to continue playing this role, they cannot spend their time worrying about an uncertain federal funding stream and changes in program rules. In this case, then, statutory and budgetary certainty is the mother of invention.

## TOWARD COMPROMISE

### Work Requirements

Perhaps the thorniest issue that must be resolved involves the work requirement. By this, we mean the provisions that specify what states must do to ensure that recipients move away from welfare dependency and into employment. The main ones are the definition of what qualifies as work, the percentage of the caseload that must participate in work activities, the type and amount of credit toward fulfilling the work requirement

that states can receive for good performance, and the number of hours per week recipients must participate to count toward fulfilling the requirement.

The first question is how much education can count toward the work requirement. The 1996 welfare reform law placed sharp limits on the states in this area. Teen mothers who maintained good school attendance counted toward fulfilling the work requirement, as did individuals in vocational education (for a maximum of one year), but the total of these two categories was capped at 30 percent. The administration and the House would continue counting high school education as work, but would limit vocational education to a maximum of four months every two years. States could also use part-time education for up to sixteen hours per week for those engaged in work at least twenty-four hours per week. By contrast, the bill passed by the Senate Finance Committee (and supported by two current Republican Committee members) permitted up to two years of vocational education for a maximum of 30 percent of those required to meet the work requirement. In addition, at the urging of Republican Sen. Olympia Snowe (R-Maine), the Committee would have allowed up to four years or more of education to count toward the work requirement for up to 10 percent of the caseload. So the gap between the House and Senate bills was substantial.

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The second question involves the participation standard. While current law requires states to involve 50 percent of their caseload in work activities, the Bush administration proposed increasing this to 70 percent. Surprisingly, there was agreement from all sides that 70 percent was a reasonable standard, perhaps because there was also agreement that states would receive some sort of credit for good performance that would reduce the standard below that level. In any case, the 70 percent standard is likely to be part of the final compromise.

The third component of the work requirement is the “caseload reduction credit,” which has the effect of reducing the work requirement for good state performance. The 1996 law allowed states to reduce the 50 percent work requirement by the number of percentage points that the welfare caseload had declined in any given year compared to 1995. Thus, if a state’s caseload had dropped by 30 percent between 1995 and 2002, the work requirement in 2002 would be 50 percent minus 30 percent, or 20 percent. Since the average state has reduced its caseload by nearly 50 percent since 1995, the current requirement has lost most of its bite, and must be rewritten.

During the 2002 debate, however, the two parties disagreed about how to do this. At the time Congress adjourned last year, there was fairly general agreement that the effect of the credit in the average

state should be to reduce the work requirement from 70 percent to 50 percent, and the goal this year should be to figure out how to design a credit that has this effect. There is also the question of whether the credit should reward caseload reduction (the House position), or the employment of those leaving the rolls (the Bush administration and Senate position). The latter’s proponents argue that states should be helping recipients find jobs, preferably jobs that pay well, rather than simply rewarding caseload reduction, however that is accomplished. The House response is that there is lots of turnover in the welfare rolls, and a credit based on those leaving the rolls for work would reduce the work requirement even in cases where the overall caseload is growing. Moreover, a caseload reduction credit rewards declines due to state efforts (or other factors) to divert potential welfare clients from entering welfare in the first place.

The fourth question is the number of hours per week recipients must work to count toward the work requirement. Current law requires thirty hours per week, at least twenty of which must be devoted to actual work (as opposed to education or training), for parents with no children under age six, and twenty hours for parents with a child under six. The administration recommended that total hours be raised from thirty to forty for all parents, with at least twenty-four being actual work (because of the formula for counting hours, the

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#### ADDITIONAL READING

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LaLonde, Robert J. 1995. “The Promise of Public Sector-Sponsored Training Programs.” *Journal of Economic Perspectives*, 9(2), 149-168.

Knox, Virginia, Cynthia Miller, and Lisa A. Gennetian. 2000. *Reforming Welfare and Rewarding Work: A Summary of the Final Report on the Minnesota Family Investment Program*. New York: MDRC.

Nathan, Richard, and Tom Gais. 1999. *Implementing the Personal Responsibility Act of 1996: A First Look*. Albany, NY: State University of New York.

Stanley, Scott, and others. 2001. “Community Based Premarital Prevention: Clergy and Lay Leaders on the Front Lines.” *Family Relations*, 50, 67-76.



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requirement was really closer to thirty-seven hours than forty hours). The administration's recommendation, which also narrowed the list of activities that could count as work, was adopted by the House last year. By contrast, the Finance Committee bill accepted the twenty-four hours of actual work but retained the current law requirement of 30 total hours for parents with no children under age six and twenty hours for parents with a child under age six. A bill introduced by Senate Democrats, including Tom Carper of Delaware, Evan Bayh of Indiana, and Hillary Clinton of New York, included the forty-hour requirement, but combined this with a big increase in funding for child care and work programs that the bill's authors believed would be required to achieve the forty-hour standard.

Although the debate on these work issues was sometimes contentious in 2002, it should be possible to reach agreement on them if Congress can consider all four components of the work requirement together. The twenty-four hours of actual work, the 70-percent standard, and a caseload or employment credit of some sort that would reduce the 70 percent requirement to about 50 percent in the typical state seem to have broad support, leaving total hours and the amount of education counted toward the work requirement as the outstanding issues. The administration's justification for forty hours is that, because of the low wages they typically earn (around \$7.50 per hour), low-income mothers must work

forty hours or more per week to bring their families out of poverty. In addition, many taxpaying Americans (including single mothers) work forty hours per week, so welfare recipients should do no less. The response from the other side is that there is no evidence that a forty-hour requirement improves a welfare recipient's prospects of finding a job, or that, having found a job, recipients participating in such programs are more likely to escape poverty. Moreover, many available jobs do not offer forty hours, thereby necessitating a second placement, and funding both the forty-hour programs and the associated child care would be a poor use of state resources. The Congressional Budget Office estimated that it would cost between \$8 and \$11 billion more over five years for child care and employment services to implement the administration's work requirements. Clearly, both sides have good arguments.

The same is true about the debate over education. In his thorough 1995 review of the research, Robert LaLonde of the University of Chicago concluded that most education and training programs produced few if any impacts on the employment and earnings of disadvantaged youth and young adults. Only programs that make substantial investments and last for a considerable period of time, such as the Job Corps (cost: about \$17,000 per recipient), produced significant impacts. A 2002 Department of Health and Human Services study

comparing programs that emphasized immediate employment with those that emphasized education and training before employment concluded that recipients in the former found jobs more quickly, earned more money, and reduced their welfare income more than those in the education groups. While a program in Portland, Oregon, that used short-term education for some recipients had big impacts on employment, earnings, and welfare use, most recipients who participated in education did so for less than four months, and thus would have met the four-month standard of the House bill.

The Democratic response is that research shows that some recipients benefit from education or training, and states should have the flexibility to determine how much education is needed by particular recipients. After all, states have every incentive to get people off the rolls as quickly as possible. If they decide that some recipients would do better with training, why should federal law prohibit it? States are at financial risk if the training effort fails to pay off, not the federal government. The states have done a good job in implementing welfare reform, and this is not the time to limit their flexibility.

If Democrats and Republicans are willing to give a little, it should not be difficult to construct a compromise

involving all four aspects of the work requirement. Here is one possibility:

- Phase in the 70 percent participation standard over four years.
- Implement a caseload reduction credit that, on average, reduces the work requirement to 50 percent (the details to be worked out by the committees of jurisdiction along with the Department of Health and Human Services). The Senate seems to agree with the 50 percent requirement, but prefers a credit that rewards placing and retaining recipients in jobs rather than simply getting them off the caseload. One possibility would be to allow states to receive either a caseload reduction credit or an employment credit, or perhaps some combination of the two, with the stipulation that the participation requirement cannot go below 50 percent.
- Give both sides part of what they want on the hours requirement. The Senate wants thirty total hours of participation while the House wants forty hours. The compromise is somewhere in between, perhaps 35 hours. There is already agreement that twenty-four of these hours should be actual work, and this requirement seems to be much more important, especially for Republicans, than the requirement for total hours. A compromise on reduced hours for mothers with children under

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age six is also necessary. Perhaps both sides would accept twenty-five hours for these mothers.

● Maintain current law on the education requirement. The Senate wants two years of education while the House and the Bush administration want a limit of four months. Current law permits up to one year of education with a cap of 30 percent on recipients meeting the work requirement through education. The one-year provision of current law approximately splits the difference between the two sides, while the 30 percent cap ensures that the overwhelming majority of recipients would meet the participation requirement through actual work.

● Include in the new legislation a two- or three-state pilot project that would allow up to 10 percent of the work requirement to be fulfilled by recipients attending college for up to four years if they are maintaining passing grades. Senator Snowe (R-Maine) wants to allow four years or more of college. Given the importance of her vote, a compromise in this area could prove essential to passing the bill.

● Allow non-custodial fathers who are working in a TANF-funded program and paying child support to count toward the work participation requirement. This policy would promote state flexibility as well as address the concern that poor fathers have been ignored by welfare reform.

### Child Care Funding

The second most difficult issue in last year's debate was child care funding. Most Republicans are willing to increase mandatory child care spending by \$1 billion over five years, whereas most Democrats want considerably more. Last year, several Senate Democrats proposed spending \$10-15 billion over five years on child care. However, as the year went on and budget realities set in, Democrats on the Finance Committee, joined by two Republicans who are on the Committee this year, settled for \$5.5 billion over five years, although Sen. Tom Daschle (D-S.D.) implied that he might introduce a floor amendment raising that amount.

This year, the projected budget deficit is even larger than last year's. Moreover, there is likely to be a tax cut, homeland security costs are likely to grow, and the war in Iraq will cost considerably more than the \$80 billion already appropriated. Even so, there is no question that states are now using all the available federal child care dollars, are spending about \$4 billion in TANF dollars on child care, are fully meeting their matching requirements of about \$3 billion, and are spending nearly \$3 billion of their own funds on preschool education programs that help reduce child care needs. Unfortunately, given the severity of their budget problems, states will probably have to reduce the number of dollars being spent on child care. On the other hand, given the rapid decline in TANF caseloads, Republicans argue that states

will have more than twice as much money per cash recipient as they had in 1996. Democrats respond that most low-income working families, especially those that have not been on welfare, are not helped with child care, a fact that raises equity issues.

The dispute is typical of debates between Republicans and Democrats, and resolving it is hardly impossible. Republicans want \$1 billion; Democrats want \$5.5 billion. The mid-point between the two is \$3.25 billion. Of course, these were last year's figures, and since then the Republicans have taken over the Senate, so the numbers may need to come down a little. The compromise is somewhere between \$2 and \$3 billion over five years in new money. This is significantly less than the Congressional Budget Office says is needed, but the final compromise could address that problem by reducing the number of hours of required work, which in turn will reduce the need for child care.

### Marriage

Initially, there was much sound and fury over President Bush's marriage proposal, which involved \$1 billion over five years in federal funds, to be matched by \$.5 billion in state funds. But Finance Committee negotiations between Republicans and Democrats resulted in a provision fairly close to the administration's request last year and Finance Committee Chairman Grassley appears ready to incorporate the President's

original provision this year. The goal is to mount state and local demonstration projects designed to promote healthy marriages, especially among poor couples. Both scholars and politicians now agree that married two-parent families are good for children, and that poverty could be greatly reduced if marriage could be increased.

The problem is that there is little evidence on how to increase marriage among the poor. The Minnesota Family Investment Program, which increased work rates as well as incomes, showed a substantial decline in divorce and a slight increase in marriage, but these results have not been replicated elsewhere. Analyses of the PREP marriage education curriculum developed primarily by Scott Stanley at the University of Denver have produced evidence that couples who take the course have lower divorce rates, but these studies involve middle-class couples and it is not clear that the results would apply to low-income families.

In this situation, it makes sense to follow the administration's lead and mount some large-scale demonstrations that are carefully evaluated to see if marriage among poor families can be promoted without incurring negative side effects such as increased domestic violence. Democrats in the Senate were willing to go along with a marriage initiative last year, but they wanted to broaden the possible uses of the money to include a

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replication of the Minnesota program as well as domestic violence prevention and teen pregnancy prevention efforts. There is no question that pregnancy reduction, especially among teens, deserves a place in an overall strategy to promote marriage (research shows that once young women have a baby outside wedlock, their odds of marrying fall substantially). Similarly, helping low-income fathers gain and retain employment should be part of an overall strategy. Since the administration and the House of Representatives want to guarantee that at least \$200 million in federal money is spent on marriage each year, Congress will have to allocate

additional funds for pregnancy reduction and assistance to fathers.

## SUMMARY

Although Congress did not reach a compromise last year, Republicans and Democrats and the House and Senate are not that far apart. The House and Senate regularly resolve differences much greater than those that stopped last year's reauthorization bill. The next step is for the Senate to pass a bill that can get broad support and avoid a filibuster, at which point the odds of reaching a final compromise, perhaps along the lines we have suggested, would be high.



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