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The Welfare Balloon: Squeeze Hard on One Side and the Other Side Will Just Expand

By DOUGLAS J. BESHAROV

In the bad old days, welfare had what was called the "man-in-the-house" rule. Mothers and children were prohibited from receiving benefits if any man was in the home. Now, a little noticed provision in the Senate Republican welfare reform bill may encourage states to push the children out as well. The bill, coming to a vote as early as this week, inadvertently creates a financial incentive for states to take some children of welfare mothers and place them with relatives (who would be required to exclude the mother from their homes).

Don't blame this one on Newt Gingrich even though it looks like a stripped-down version of his orphanage idea. Rather, it stems from the failure of key senators to understand that a successful welfare block grant requires that other federal entitlements, such as foster care, be modified in tandem. President Clinton could have helped educate Congress about the need to take a broader view of welfare reform, but he and his people have been largely absent from the negotiating table.

Make a change in one welfare program and it will inevitably be felt in a slew of other programs providing aid to the states. If reimbursement rules are tightened for one program, states simply make claims under others. "It's like a balloon," says Karen Spar, an analyst for the Congressional Research Service. "When you squeeze spending in one place, you put pressure for expansion in another."

For example, current law is now essentially cost-neutral on whether a state places a child on welfare or in foster care. That's because states receive the same reimbursement (an average of 55 percent of their expenditures) on the basic welfare program, on Aid to Families with Dependent Children (AFDC) and on the AFDC-eligible children who are placed in foster care.

Capping federal payments for AFDC but not foster care would end this neutrality. In some cases, states will have a financial incentive to move children living with their mothers into foster care. For example, in one-child welfare households, placing the child with a relative would cut state costs by as much as 30 percent. (The financial advantage only arises with relative placements, which cost less than other placements, but these are already 40 percent of all placements in some states.)

Experts disagree about the size and impact of this foster care incentive. For a given state, it depends on the future size of the state's AFDC caseload, the relative costs of AFDC and foster care and the financial pressure on the state to reduce welfare-related spending. But as the Congressional Budget Office confirmed on Friday, the incentive exists—and could result in children being taken from their mothers.

Federal dollars wouldn't be the only incentive. Those one-child welfare cases tend to be headed by unwed teen mothers, and there is already strong pressure to place their children in structured settings or with older, more mature relatives. Some states, like Wisconsin, have formally proposed using the uncapped federal foster care program to fund residential care for both teen mothers and their children.

Ironically, the Senate bill would also make it more expensive for states to place or keep other children in foster care. Federal reimbursement for foster care is now based on AFDC eligibility. Leave that rule unchanged, and children whose mothers are denied benefits (either because of a time limit or because they are dropped from the rolls for non-cooperation with a work requirement) will also lose eligibility for federally reimbursed foster care. That could cost states hundreds of millions of dollars.

More likely is that states will find ways to outsmart the federal budget-cutters. (A whole industry of consultants has sprung up to teach states how to claim every last federal dollar.) Rep. Clay Shaw (R-Fla.), a drafter of the House bill, warns that leaving foster care uncapped "invites game playing by states that could cost taxpayers billions of dollars." States will quickly learn how to broaden eligibility under the AFDC block grant without actually making payments to the added children and thus gain foster care reimbursement for more children already in their care.

The House-passed welfare reform bill avoids these problems by converting foster care into a block grant as well. Senate Finance Committee Chairman Bob Packwood initially proposed a similar provision in his bill but withdrew it in the face of intense lobbying from child welfare interest groups who claimed a cap would endanger abused children—and after the defection of Sen. John Chafee (R-R.I.), whose vote he needed to report the full bill out of committee. Because Packwood could not work out a compromise with his fellow Republicans, his bill now leaves the foster care program untouched even as it makes radical changes in welfare.

Most members of the Finance Committee were apparently unaware of the perverse foster care incentive their bill creates. Now, a number of senators have vowed to try to fix the bill with floor amendments. Always an awkward process, this is sure to be more so in the partisan atmosphere that surrounds this bill.

But even if they manage to iron out the foster care wrinkle, both the House and Senate bills fail to address dozens of other interactions among various elements of "greater welfare"—the interlocking constellation of federal programs that includes food stamps, Medicaid, job training, child care and housing assistance, as well as AFDC and foster care.

Consider food stamps, a $ 25 billion program that, as of now, will not be block-granted. The structure of the food stamp program already tempts states to cut AFDC benefits. Since food stamp allocations are based on a recipient's income, a decline in welfare benefits automatically entitles a recipient to more food stamps: A one dollar drop in welfare results in a food stamp increase of from 30 cents to 45 cents. States know that the food stamp program cushions the effect of cuts in AFDC, making them politically more palatable—and less inhumane. The ploy saves states money in another way: Food stamp benefits are 100 percent federally funded, compared to AFDC's 55 percent.

In 1991, for example, California adopted cuts in its AFDC program that would, over five years, reduce state spending by $ 10.8 billion. State budget analysts calculated that this reduction would trigger a $ 4 billion rise in food stamp payments—a major, but hidden, boost in federal aid to California—so the net loss to the poor dropped to $ 6.8 billion. Still, the poor lost even as the state saved.

Similarly, in 1991, District of Columbia officials acknowledged in a D.C. Council report the role of the food stamp cushion in their decision to cut AFDC benefits by 4.5 percent. Although federal law currently prohibits states from cutting welfare in order to increase food stamps, a court upheld the D.C. cuts because they were largely motivated by budgetary woes, not cost-shifting.

If the welfare block grant is enacted without any safeguards, states would be even more tempted to use the uncapped food stamp program to save state dollars by cutting AFDC benefits. "You can't block-grant just the basic welfare program without creating all sorts of unintended incentives," acknowledges one lobbyist actively opposing the welfare block grant. The easiest fix, of course, is simply to block-grant all of the other related welfare programs.

But capping other entitlements is not the only solution. As one senior analyst in the administration explains, "There are many other ways to mesh welfare programs that reduce the chances of state game-playing." That's certainly what most social welfare advocates would prefer, and that's where the president's self-imposed estrangement from the drafting process has been most harmful.

The basic shape of the welfare block grant bill has been known since early January. With the support of most governors, its passage seems all but certain. But while Clinton says he has many problems with the bill, he has not proposed an alternative. Nor has he assigned his staff to work with Republicans in Congress or, apparently, even with Democrats, who have a bill of their own—to develop a measure more to his liking.

His hesitancy is understandable. After all, the GOP bill is an outright rejection of his own ill-starred proposal. Yet, he could render an indispensable educational service. Only the president is in a position to look across programs and committee jurisdictions, and only he has the entire Department of Health and Human Services to identify all the programmatic interactions resulting from a welfare block grant. What's more, by promising to deliver Democratic votes, Clinton could have real leverage on a number of key issues.

Perhaps Clinton's strategy is to wait until the Senate acts and then throw down the gauntlet—veto threat and all—as he did with the budget rescission bill. By then it will be too late. Scores of interlocking compromises have already been made in the House and Senate bills that will tend to form the basis of later ones; what is negotiated in June will be, for all intents and purposes, off the table by July. At best, a last-minute veto threat will win the president only minor concessions. Moreover, there is nothing to prevent the Republicans from putting their final bill into the budget reconciliation package, making it virtually veto-proof.

If Clinton wants to achieve more than cosmetic changes in what is sure to be a revolution in welfare policy, this is his last window of opportunity. And if he waits any longer, we may end up getting what many people thought was impossible: an even worse and more expensive welfare system.

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