WELFARE BLOCK GRANT/FISCAL RELIEF PROPOSAL

HEARING

BEFORE THE

SUBCOMMITTEE ON PUBLIC ASSISTANCE

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-FIFTH CONGRESS

SECOND SESSION

ON

S. 3470

TO AMEND THE SOCIAL SECURITY ACT TO IMPROVE THE OPERATION OF THE AID TO FAMILIES WITH DEPENDENT CHILDREN PROGRAM AND THEREBY PROVIDE FISCAL RELIEF FOR STATE AND LOCAL WELFARE COSTS

SEPTEMBER 12, 1978

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WELFARE BLOCK GRANT/FISCAL RELIEF PROPOSAL

TUESDAY, SEPTEMBER 12, 1978

UNITED STATES SENATE,
SUBCOMMITTEE ON PUBLIC ASSISTANCE
OF THE COMMITTEE ON FINANCE,
Washington, D.C.

The subcommittee met, pursuant to notice at 3 p.m., in room 2228, Dirksen Senate Office Building, Hon. Daniel P. Moynihan (chairman of the subcommittee) presiding.

Present: Senators Moynihan and Danforth.

[The committee press releases announcing this hearing and the bill, S. 3470 follow:]

FINANCE SUBCOMMITTEE ON PUBLIC ASSISTANCE SETS HEARING ON. S. 3470, A BILL TO FINANCE THE AID TO FAMILIES WITH DEPENDENT CHILDREN PROGRAM THROUGH A BLOCK GRANT PROVIDING FISCAL RELIEF FOR STATE AND LOCAL WELFARE COSTS

The Honorable Daniel Patrick Moynihan (D., N.Y.), Chairman of the Subcommittee on Public Assistance of the Finance Committee, announced that a public hearing will be held on S. 3470, a bill which would utilize the block grant approach to the funding of the aid to families with dependent children (AFDC) program and would provide increased Federal funding for that program in order to relieve State and local welfare costs. The hearing will be held on Tuesday, September 12, 1978. The hearing will begin at 5:00 p.m., and will be held in Room 2221, Dirksen Senate Office Building.

S. 3470 was introduced on August 25, 1978, by Senator Moynihan on behalf of himself and Senators Russell B. Long (D., La.) and Alan Cranston (D., Ca.). Effective July 1, 1979, the bill would eliminate the present AFDC funding mechanism which is based on Federal payment of a percentage of each State's AFDC costs. Instead, the bill would substitute a two-part block grant. The first part of the block grant to each State would be based on the actual Federal funding provided to that State for its AFDC costs in fiscal 1978. The second part of the block grant would be a fiscal relief element allocated among the States in proportion to their June , 1978, AFDC expenditures and in proportion to their general revenue sharing allocations. (This is essentially the same formula as was used to allocate the fiscal relief payment provided for in the 1977 Social Security Amendments.) Both elements of the block grant would be updated annually to reflect changes in the cost of living. For fiscal year 1980 (the first full fiscal year), the fiscal relief element is estimated to total $1.5 billion.

"Although press accounts have termed welfare reform 'dead' in the 95th Congress," Senator Moynihan said, "the sponsors of S. 3470 believe that an opportunity is at hand to take a significant step toward the constructive reform of the American welfare system. Before doing so, however, it is important to give interested persons and organizations the opportunity to share with us their view of the proposal and other changes in the AFDC program that deserve consideration.

"The Social Security Amendments enacted last year signalled the intent of Congress to provide fiscal relief for hard-presesd state and local governments burdened with the costs of public assistance. The Finance Committee amendments to H.R. 7200 underscore that intention, while also making a series of changes in the operation of the programs themselves. Separate measures to

provide welfare fiscal relief are under active consideration in the House of Representatives. The forthcoming hearings will enable us to consider such proposals, as well as to receive suggestions and observations on a major structural reform embodied in S. 3470, the conversion of the AFDC program from federal matching payments into block grants to the States."

Witnesses who desire to testify at the hearing should submit a written request to Michael Stern, Staff Director, Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D.C. 20510 by no later than the close of business on Tuesday, September 5, 1978.

Consolidated testimony.—Senator Moynihan also stated that the Subcommittee urges all witnesses who have a common position or with the same general interest to consolidate their testimony and designate a single spokesman to present their common viewpoint orally to the Subcommittee. This procedure will enable the Subcommittee to receive a wider expression of views than it might otherwise obtain. The Chairman urged very strongly that all witnesses exert a maximum effort to consolidate and coordinate their statements.

Legislative Reorganization Act.—Senator Moynihan stated that the Legislative Reorganization Act of 1946, as amended, requires all witnesses appearing before the Committees of Congress "to file in advance written statements of their proposed testimony, and to limit their oral presentations to brief summaries of their argument."

Witnesses scheduled to testify must comply with the following rules:

(1) A copy of the statement must be filed by the close of business two days before the day the witness is scheduled to testify.

(2) All witnesses must include with their written statement a summary of the principal points included in the statement.

(3) The written statements must be typed on letter-size paper (not legal size) and at least 75 copies must be submitted by noon on the day before the witness is scheduled to testify.

(4) Witnesses are not to read their written statements to the Committee, but are to confine their ten-minute oral presentation to a summary of the points included in the statement.

(5) Not more than ten minutes will be allowed for oral presentation.

Written testimony.—Senator Moynihan stated that the Subcommittee would be pleased to receive written testimony from those persons or organizations who wish to submit statements for the record. Statements submitted for inclusion in the record should be typewritten, not more than 25 double-spaced pages in length and mailed with five (5) copies by September 15, 1978, to Michael Stern, Staff Director, Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D.C. 20510.

FINANCE COMMITTEE SUBCOMMITTEE ON PUBLIC ASSISTANCE ANNOUNCES CHANGE OF TIME AND LOCATION FOR SEPTEMBER 12 HEARING ON S. 3470

The Honorable Daniel Patrick Moynihan (D., N.Y.), Chairman of the Subcommittee on Public Assistance of the Finance Committee, announced today that the Subcommittee's hearing previously scheduled for 5:00 P.M. on September 12, 1978 will instead be held at 3:00 P.M. on that same day.

In addition, the room in which the hearing will be held has been changed from Room 2221 to Room 2228, Dirksen Senate Office Building.

Additional information concerning this hearing was provided in Press release No. 67 of August 28, 1978. A copy of this press release is available at the Committee offices.

[S. 3470, 95th Cong., 2d Sess.]

A BILL To amend the Social Security Act to improve the operation of the aid to families with dependent children program and thereby provide fiscal relief for State and local welfare costs

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "State and Local Welfare Reform and Fiscal Relief Act of 1978".

BLOCK GRANTS TO STATES

SEC. 2. (a) Section 403(a) of the Social Security Act is amended by striking out all which precedes paragraph (2) and inserting in lieu thereof the following:

"SEC. 403 (a) From the sums appropriated therefor, the Secretary of the Treasury shall pay to each State which has an approved plan for aid and services to needy families with children, for each quarter beginning after June 30, 1979—

"(1) in the case of any State other than Puerto Rico, the Virgin Islands, and Guam, an amount equal to one-fourth of the adjusted base period amount for such State (as determined under section 412);".

(b) Part A of title IV of the Social Security Act is amended by adding at the end thereof the following new section:

"ADJUSTED BASE PERIOD AMOUNT

"SEC. 412. (a) (1) The base period amount for any State shall be equal to—

"(A) the total amount which the Secretary determines would have been payable to such State for the fiscal year beginning October 1, 1977 (hereinafter in this section referred to as the 'base period') under paragraphs (1), (3), and (5) of section 403(a), taking into account the provisions of section 1118 of this Act and section 9 of the Act of April 19, 1950 (64 Stat. 47), but without regard to subsections (c) through (j) of section 403 (as in effect during such period), and excluding the amounts payable to such State with respect to social and supportive services provided pursuant to section 402(a) (19) (G); plus

"(B) an amount which bears the same ratio to $660,000,000 as the amount expended as aid to families with dependent children under the State plan of such State during the month of June 1978, bears to the amount expended as aid to families with dependent children under the State plans of all States (other than Puerto Rico, Guam, and the Virgin Islands) during such month, plus

"(C) an amount which bears the same ratio to $660,000,000 as the amount allocated to such State under section 106 of the State and Local Fiscal Assistance Act of 1972, for the most recent entitlement period for which allocations have been made under such section prior to the date of the enactment of this subsection, bears to the total of the amounts allocated to all States under such section 106 for such period.

"(2) The adjusted base period amount for any State for the fiscal year beginning October 1, 1977, shall be equal to the base period amount.

"(3) The adjusted base period amount for any State for the fiscal year beginning October 1, 1978, and each fiscal year thereafter, shall be equal to the base period amount as adjusted in accordance with subsection (b).

"(b) The adjusted base period amount as determined under subsection (a) shall be increased for each fiscal year, starting with the fiscal year beginning on October 1, 1978, by an amount equal to the product of—

"(1) the adjusted base period amount is determined for the preceding fiscal year, and

"(2) a percentage equal to the percentage increase (if any) in the Consumer Price Index prepared by the Department of Labor, and used in determining cost-of-living increases under section 215(i) of this Act, for the second quarter of the preceding fiscal year as compared to such index for the second quarter of the second preceding fiscal year (rounded to the nearest one-tenth of 1 percent).

For purposes of this subsection the Consumer Price Index for any quarter shall be the arithmetical mean of such index for the three months in such quarter.".

PASS-THROUGH TO LOCAL JURISDICTIONS

SEC. 3. Section 402(a) of the Social Security Act is amended—

(1) by striking out "and" at the end of paragraph (28);

(2) by striking out the period at the end of paragraph (29) and inserting in lieu thereof "; and"; and

(3) by adding at the end thereof the following new paragraph:

"(30) provide that the State shall pay to any political subdivision thereof so much of the amount paid to such State under section 403(a) for each quarter as does not exceed 100 percent of the amount contributed by such political subdivision for such quarter under the State plan.".

LIMITATION ON USE OF GRANT

SEC. 4. Section 403 of the Social Security Act is amended by adding at the end thereof the following new sentence: "Grants made to any State under the

provisions of subsection (a)(1) may be used by such State only for social welfare purposes, except that increases resulting from the cost of living adjustment in section 412(b) must be passed on to recipients of aid under the State plan unless there is a finding by the State agency, conveyed in writing to the Secretary, that additional payments are not necessary in order to provide adequate benefits to such recipients.".

CONFORMING CHANGES

SEC. 5. (a) Section 403(a)(3) of the Social Security Act, except as it applies to Puerto Rico, the Virgin Islands, and Guam, is repealed.

(b) Paragraph (5) of section 403(a) of the Social Security Act is amended by striking out "in the case of any State" and inserting in lieu thereof "in the case of Puerto Rico, the Virgin Islands, and Guam".

(c) Section 1118 of such Act is amended—

(1) by striking out "403(a),"; and

(2) by inserting after "1603(a)" the following:

", and paragraph (2) of section 403(a),".

(d) Section 403(a) of such Act is amended in the first sentence following paragraph (5) by striking out "paragraph (1) or (2)" and inserting in lieu thereof "paragraph (2)".

(e) Section 408(c) of such Act is repealed.

(f) Section 431(a) of such Act is amended by inserting ", including the making of payments to States for social and supportive services provided pursuant to section 403(a)(19)(G)" before the period at the end of the first sentence thereof.

EFFECTIVE DATE

SEC. 6. The amendments made by this Act shall become effective on July 1, 1979.

Senator MOYNIHAN. The hour of 3 o'clock having arrived, I would like to open this hearing on Senate bill S. 3470, the State and Local Welfare Reform and Fiscal Relief Act of 1978.

I would like to welcome our guests and our witnesses, members of the press, and of course, the majority whip, the distinguished senior Senator from California, Senator Cranston.

We have a long list of witnesses but if there are other persons who would like to be heard we will try to make room for them following the appointed witnesses.

If my good friend, the Senator from California, would bear with me for just a moment, I would like to make a few opening remarks. The first is to say—and I think he will confirm this—that we meet in disappointing circumstances. The hopes which were held so high just a year and a month ago for the President's welfare reform program have come to little in this Congress. Although a very great effort was made by the administration and by leaders of the House—an ad hoc committee was established in the House—unfortunately, the President's legislation was never taken up by any of the standing committees of the House. We must face the fact that, this time, welfare reform did not even reach the committee stage.

I would like to suggest that there are many of us who have grown old in the service of welfare reform. We live in a real world, and there are two aspects of that reality that I would like to mention. A decade has passed since these matters first came to the national agenda, in roughly the same form in which they are now being considered. We were not successful a decade ago, as the legislation was too much for some and too little for others. Between that set of conflicting judgments, we got nothing.

In the interval, the city of New York went bankrupt—not technically, not finally, but its fiscal solvency has disappeared so that now it has become a ward of the State and Federal Government. And in the interval since that great city went through that debilitating experience, we have had a situation arise without precedent in our history. Because welfare payments have been frozen, the actual income available to a mother with dependent children has dropped by 28 percent in New York. There is a real world where the fiscal capacities of State and local governments can be exhausted and there is a real world where the failure to maintain the level of equal benefits results in an astonishing decline in resources available to a dependent family.

There are three specific points I would like to make about this bill. Since we introduced this legislation, a technical deficiency has been discovered. The bill appears to require the States to pass through to localities more than the additional Federal funding provided. We have a technical amendment to fix that.

Second, the legislation presently does not include a provision for increasing Federal support when unemployment rates increase. It is my desire to correct that drafting oversight. The inclusion of an unemployment trigger was part of our original planning.

Third, we have unaccountably left out a mechanism to adjust for shifts in population for those States which are growing. That clearly must be provided for.

Finally, there are those who will question why we have introduced a bill which appears to limit fiscal relief in the coming years to $1.2 billion. That simply is how much money the House of Representatives has indicated we may reasonably expect for that purpose.

There is nothing theoretical, much less ideological, about that sum. It is just what is available to us now.

The great pleasure of this subcommittee now is to have the distinguished Senator from California before us. We welcome you, sir, and ask you to proceed as you will.

STATEMENT OF HON. ALAN CRANSTON, A U.S. SENATOR FROM THE STATE OF CALIFORNIA

Senator Cranston. Thank you very much, Mr. Chairman. I followed your remarks with great interest and am particularly glad that attention has been brought to bear on the matter of States with growing populations, since California is again in that category after a time of uncertainty, and it is important, I think, to take account of that fact.

I am delighted to be here to speak in support of S. 3470 which you, Mr. Chairman, and Senator Long, have jointly introduced and I thank you for your long leadership in the effort to achieve welfare reform. You have been the catalyst in the leader in this particular effort to now move forward with the modest step that can be, I think, very significant, and it is a great pleasure to work with you on it as it is with Senator Long who has likewise played a vital role in this field.

The joint efforts that we have made in developing this legislation have, I think, been very rewarding. I think it is important to begin by stressing that I do not believe that S. 3470 provides the answer to

the concerns of many about the problems inherent in our current welfare system. I know that you, Mr. Chairman, recognize and share my view that this proposal is only a first step toward the kinds of reforms which are needed in the present system.

It does not contain all of the measures I would like to see enacted, but it is an important and significant first step in that direction that we can, and should, take now in this session and I trust we can accomplish it in this session with your help and that of Senator Long and others.

There are many who are opposed to providing fiscal relief to States and localities without comprehensive reform of the whole welfare system. I cannot accept that position, as I know you cannot. Unless strong action is taken now, right now, to relieve the local communities, States, and individual taxpayers from the intolerable welfare burden by providing relief in a fiscally responsible manner, I am convinced that welfare recipients—the mothers and children who need assistance from the AFDC program for their basic survival—will be the ones who will suffer from the results of congressional inaction.

There are already signs throughout the country of widespread dissatisfaction over the cost of welfare programs for local and State governments. I have also heard some of our colleagues in the Senate voice very serious concerns about continuing the present open ended Federal commitment to an ever-expanding AFDC caseload.

This dissatisfaction may soon find itself expressed in the form of reduction of benefits for those who most need help unless steps are taken now to provide relief in a manner that will induce and stimulate cost-effective administration of welfare programs.

You have spoken now of the cutback in your own State and all of us are aware of the Proposition 13-type sentiment in California that has spread elsewhere, that is strong elsewhere, that reflects a grave concern about welfare, about too much spending, too much taxation, and plainly steps like this are necessary if we are to continue to provide assistance to those who need help.

I know that there are many individuals who have expressed concern and reservations about the proposal to provide Federal assistance through the bloc grant approach. While I think we certainly must be careful to examine the full implications of this change and to be sure that sufficient flexibility is built into such a bloc grant to meet needs in future years, I nevertheless feel that this approach merits very careful consideration. It provides an incentive for States and localities to develop innovative, cost-effective programs on the local level within the existing Federal framework.

Perhaps by stimulating various constructive activities on the State and local levels, we can develop models to guide our future efforts on the Federal level in the area of welfare reform. This bloc grant approach also provides real incentives for local governments to find jobs for welfare recipients who can, and should, work and leave more resources available to support those who truly need our help.

Mr. Chairman, because the bloc grant approach is so new, it would be agreeable to me to try it out for 2 fiscal years—fiscal year 1980 and 1981—so that we can find out its true impact and effect. I urge the committee to consider that approach.

Mr. Chairman, in our original plans for this legislation, as you well know, we included strong provisions to strengthen the existing welfare recipient employment tax credit and the earned income tax credit. Expansion and improvement of these programs is vital to achieving welfare reform, but it can also serve other important public policy purposes.

That is why I joined with Senator Nelson in his proposal to expand the categories of individuals covered by the new targeted employment tax credit for AFDC and disabled SSI recipients, to include as well economically disadvantaged Vietnam era veterans and youths between the ages of 18 and 24 and handicapped individuals.

I think this kind of effort to encourage employment through the private sector is critical to our efforts to reduce dependency on public assistance and other federally subsidized programs.

In conclusion, Mr. Chairman, let me reiterate my view that we must take a first step now toward providing State and local governments fiscal relief in a manner designed to stimulate reduction of welfare costs, eliminate unnecessary expenditures, and allow us to provide adequate support in a humane and caring fashion, for those who truly need our help.

I strongly believe that unless we take these first steps now, those most in need may, in the very near future, be the ones who would suffer the most by our inaction. We cannot continue to hold this relief hostage for the broader, comprehensive reforms which must also be addressed.

Senator MOYNIHAN. I thank you, sir.

May I first remark that I omitted to welcome your very able associate, Suzanne Martinez to the committee. We are very happy to have you here, Ms. Martinez.

Perhaps I could just make a few observations and get your response to them. As you note, the Senate Finance Committee is marking up, at this very moment, the revised versions of the earned income tax credit and the job tax credit to which you referred. I know you are particularly interested in meeting the needs of Vietnam era veterans through these credit proposals. They will be considered very seriously by the committee, I assure you.

Senator CRANSTON. I am glad to hear that, Mr. Chairman.

Senator MOYNIHAN. We will do it and we will do it because we know you want us to do it. Where veterans are concerned, your voice is heard with great respect.

I would like to emphasize something that you said concerning the question of incentives. One of the major issues in making big government work in a big country involves establishing effective incentives. One of the things that commends this approach to us is that the cost of welfare has been distributed between three levels of government. In many States, one of them contributes much more than half of the costs. Therefore, the incentive to keep costs down never includes a consideration that the full cost of an increase must be borne by one party. In addition, the reward for reductions is never the full reward.

One of the objects of this block grant proposal is to create the situation whereby any increases in welfare costs are incurred by the State government and any savings are entirely those of the State government.

You suggested a 2-year experiment. I wonder if I could ask if 2 years is quite long enough? It seems to me that we might get a better sense of an economic cycle if we can plan over a 4- or 5-year period.

Senator CRANSTON. I think you are right. I think 2 years is too short a time.

Senator MOYNIHAN. To commissioners for social welfare—it may be a little too short.

But I think it is important that we stress the idea of choice. We ought to be open and experimental about this program.

As you know, the question of incentives is a real one. We have to think in those terms if we are going to build confidence in this approach. It is your understanding in California, for example, that the prospects of really keeping welfare assistance abreast of inflation is threatened now by the conditions of local and State finance?

Senator CRANSTON. Yes, I think so. I know that is true in other parts of the country and to get back to that 2-year thing, I think you are right—2 years would be too short a time to have a real experiment. We should have a longer time, 4 or 5 years.

Senator MOYNIHAN. The primary concern of a welfare program is the welfare of the dependent adults and children who are supported by it. Surely that is the case.

Are we not now facing, without our having quite come to this realization, the fact that in a thoroughly affluent country such as ours, we are cutting the actual resources available to women and children?

Senator CRANSTON. Yes.

Senator MOYNIHAN. How did that happen? Well, it happened in part because local governments have run out of money.

Senator CRANSTON. One immediate reaction in California after Proposition 13 passed was to stop the cost-of-living increases for welfare recipients.

Senator MOYNIHAN. I think your legislature had to do that, did it not?

Senator CRANSTON. Yes.

Senator MOYNIHAN. And so, of course, there is less money.

Senator CRANSTON. Right.

Senator MOYNIHAN. Has the cost of living been reduced for any other group in the population that you know of? In New York, it has not.

Senator CRANSTON. I do not think so. The people that are hurt are the people who cannot buy anything. They cannot pay the higher prices because they do not have the money to buy anything at all.

Senator MOYNIHAN. That is the responsibility of persons in government. It does not matter what we have read over the years. People who are dependent are weak, and we have a responsibility to them. Many of them—most of them—are children. Is that not the fact?

Senator CRANSTON. Yes, sir.

Senator MOYNIHAN. Most of the people we are talking about are children.

Senator CRANSTON. Yes. Not people who are qualified to go out and get a full-time job.

Senator MOYNIHAN. They do not vote and a fixed percentage of them under the age of 5 cannot read and they do not go to hearings and—

well, many of them do not walk very well yet. They are infants. These years are the most crucial in their lives. They are entitled to some decent provision, and that is what this hearing is about.

I want to share with you, sir, the feeling that this is but a first step. It is not a final step. We have a responsibility to people who are dependent on us, right now. That responsibility requires that we do something that perhaps is not as neat or as comprehensive or as sweeping as we would like, but we must do what we are able to do.

Senator CRANSTON. If we can achieve full-fledged total welfare reform, fine. But we know we are not going to achieve that right now, and we could achieve this right now and at least do something quite significant.

Senator MOYNIHAN. Could I ask you an obviously leading question? If we do get something done in this session, is it not a sign that we are going to do something more next session?

Senator CRANSTON. I think it is. It is a sign that steps can be taken and it certainly would not discourage—I think it would encourage—efforts to do more.

Senator MOYNIHAN. It will demonstrate that we care about welfare reform, that we have not given up on it. Well, obviously, you and I agree.

May I say that it is very good of you to come here. I know you are busy with a crisis in the Senate about natural gas matters and you are very generous to come and take this time. We appreciate it very much and we are honored to have you join formally the ranks of what, we hope is a growing constituency for welfare reform.

Senator CRANSTON. Thank you very much. I appreciate the opportunity to work with you on this and I am delighted you are moving ahead with these hearings.

Senator MOYNIHAN. Thank you, Senator and Ms. Martinez.

Now we have a panel of good friends in this cause: Hon. Frank Jungas, who is the Commissioner of Cottonwood County, Minn., on behalf of the National Association of Counties; Hon. Mary Marshall, who is a Delegate of the Virginia House of Delegates, on behalf of the Conference of State Legislatures; and Mr. Stephen Farber, who is the director of the newly designated National Governors Association.

Would the panel have the kindness? I would like to recess for just a moment.

[A brief recess was taken.]

Senator MOYNIHAN. The hearing will commence.

I would like to ask, just for purposes of getting our discussion going, if the witnesses would have the goodness to confine themselves to a 5-minute opening statement, after which we can open discussion.

Am I correct, Commissioner, that you would like to begin?

Mr. JUNGAS. I think I would honor the colleague on my left here, Mary, from the State legislatures.

Senator MOYNIHAN. Rank has its privileges.

Ms. MARSHALL. Thank you, sir.

Senator MOYNIHAN. Ms. Marshall?

Ms. MARSHALL. I was afraid you were going to say "ladies first," and knowing your view on ERA, I was delighted.

STATEMENT OF HON. MARY MARSHALL, DELEGATE, VIRGINIA HOUSE OF DELEGATES, ON BEHALF OF THE CONFERENCE OF STATE LEGISLATURES

Ms. MARSHALL. Mr. Chairman, my name is Mary Marshall. I am a Delegate to the Virginia House of Delegates, I have been a legislator for 10 years and presently serve as the chairperson of the Human Resources Committee of the National Conference of State Legislatures.

Over the last 16 months, NCSL has joined with the National Governors Association, the National Association of Counties, the U.S. Conference of Mayors, and the National League of Cities, through a vehicle known as the New Coalition, to examine the welfare structure and develop a set of common principles for welfare reform.

The principles of this agreement on welfare reform have been presented to you before in detail. I know you are quite familiar with them.

[The following was subsequently supplied for the record:]

THE NATIONAL CONFERENCE OF STATE LEGISLATURES PRINCIPLES ON WELFARE REFORM

A. OVERVIEW OF DEVELOPMENTS IN WELFARE REFORM FROM NCSL'S PRESPECTIVE

Over 16 months ago, NCSL jointed with organizations representing Governors, County Officials, and Mayors, through a vehicle known as the "New Coalition," to examine the present welfare structure and develop a set of common principles for welfare reform. That effort was a most successful one. Representatives from the five organizations that comprise the "New Coalition" agreed on a set of common goals which welfare reform ought to address. These goals include:

Equity among the states in benefit levels provided;

Adequate benefits for those in need;

Fiscal relief for state and local government;

A strong work requirement for those who can work, with an emphasis on job creation;

Consolidation of existing programs, and the resulting elimination of categorical distinctions; and

Streamlining of administration and reduction of administrative costs.

State Legislators recognize that true reform will not come about unless all of us—you at the national level and we within the states and local governments are prepared to exercise real leadership. Inherent within our elected offices are the powers to educate and to persuade. If we wish to redirect the system, it is critical that we continue the process of building a fundamental consensus as to the goals and structure a reformed welfare program ought to incorporate. Those of us within the state legislatures offer our cooperation and pledge our best efforts toward shaping that consensus.

B. SPECIFIC RECOMMENDATIONS BY NCSL FOR WELFARE REFORM

NCSL has identified several specific guidelines and recommendations which, we believe, should be incorporated in welfare réform legislation enacted by Congress.

1. Cash Assistance Programs

Consolidation.—NCSL remains firmly committed to the concept of consolidating the existing categorical welfare programs into a single cash assistance program that provides basic cash grants to needy families, including 2-parent families, single individuals and childless couples.

Financial of floor and supplements.—NCSL believes that there should be a basic minimum floor of $4,200 (for a family of 4), funded entirely by the federal government. There should be 75 percent federal participation in state supplementation between $4,200 and $4,700, and 50 percent participation in state supplementation between $4,700 and the maximum allowable supplementation (either the present payment level in the particular state or the regionally adjusted poverty level).

State expenditures should be frozen at 90 percent of the level spent during an indexed year. States would then be required to maintain their effort for welfare expenditures at the 90 percent level and be held harmless against any additional expenditures in future years.

Federal increases in the basic cash assistance payments should exceed the cost of living index, so that states will experience a gradual reduction in their share of supplementation costs.

The federal government should seek to reduce, over time, through systematic increases to the federal benefit standard, the differences between high and low benefit states.

State supplements of the basic benefit must be designed in such a way that they will preserve work incentives without reducing basic benefit levels.

Benefits.—Present and future recipients should not receive lower benefits than they receive under current AFDC, SSI and general assistance programs, adjusted annually for inflation. Current beneficiaries, as well as classes of beneficiaries, should be held-harmless against reductions in benefits.

Payments to newly eligible recipients should be provided from additional revenues to the program, not by reducing benefits to current recipients.

All benefits levels should be adjusted periodically based on the cost-of-living index.

Attention should be given to the special needs of disabled children. Federal funding of benefits for foster children should be continued.

2. Jobs Program

Groups of Recipients.—The low income population should be separated into two groups: those who may work but should not be required to do so and those who are expected to work as a condition for receiving benefits. Those not required to work should receive a basic cash payment. Those required to work should be provided with access to a private sector job.

Public versus Private Employment.—While employment within the private sector is preferable, a strong public service employment program must be provided to assure jobs if they are unavailable within the private sector. Priority placement for jobs within the public sector should go to families with children. However, public sector employment should eventually be extended to single individuals and childless couples.

Ultimately, those eligible for public sector employment should not be limited exclusively to welfare clients, but should also incude persons who are capable of working and unemployed.

Measures must be taken to ensure that new public sector jobs do not displace current wage earners.

Treatment of Public Sector Employees.—Reasonable and adequate wages should be provided to those employed in a public sector job.

Individuals performing essentially equivalent public service job tasks, with the same degree of seniority, ought to receive the same wage rate.

Countercyclical aid.—If CETA funds currently supporting counter-cyclical employment opportunities are to be diverted to support public service employment under the reform plan, federal funds should continue to be available to address counter-cyclical needs as they occur.

Day care.—An increase in the earned income disregard or an expansion in the title XX program will be necessary to assure the provision of needed day care services for working cash assistance recipients.

3. Eligibility Determination

Filing unit.—The filing, unit, i.e., the group of persons who jointly apply for and receive benefits, should approximate the nuclear family definition as applied by the AFDC and SSI programs. The aged, blind, and disabled should be considered as separate filing units. Within the filing unit, attention should be given to the special needs of disabled children.

Accountable period.—For the purpose of determining eligibility under the program, the accountable period, i.e., the length of time over which the need for assistance is measured, should be no longer than one month, retrospectively.

Asset test.—Greater reliance should be placed on an assets test designed to exclude individuals with liquid or convertible assets sufficient to meet need. Items such as real property used as a home and burial plots should not be considered as assets.

4. Administration

Flexible options for the state's role in the administration of the welfare program should be preserved.

5. Medicaid

States must be protected against any increased costs in the Medicaid program which directly result from a new welfare reform program. Medicaid benefits should, however, be extended to new recipients based on an income related spend down provison. The federal government should bear the full costs of the expanded program.

C. NCSL'S POSITION ON FISCAL LIABILITY OF THE STATES

The states can play an effective role in the state/federal partnership required to carry out a reformed welfare program, only if the states know ahead of time what their share of the costs will be. This knowledge is essential if the fiscal integrity of the states is to be preserved.

We would like to stress that despite arguments, presently heard in Washington, the state budgets have extraordinary surpluses, the fact of the matter is that more demands than ever are being placed on these budgets. As you are aware, retirement financing obligations are growing in many states. School finance reform is taxing state budgets in many states, including New York and Ohio, to mention just a few. State costs involved in maintaining inter-state highways also consume significant state funds.

Under any new welfare program, states need to be protected from unanticipated or uncalculated costs resulting directly from the new program. Only in this way can the states be fiscally responsible.

There are several mechanisms for providing this protection to states. Emergency assistance and federal funding of the newly eligible welfare recipients have already been discussed. Fiscal relief and "hold harmless" provisions are two other mechanisms that warrant our attention.

Fiscal relief to states for welfare costs must be one of the issues of paramount concern to be addressed in any proposal for welfare reform. Any reform must recognize fiscal relief early in the life of a new welfare program. The following estimates have been made for actual dollar amounts of fiscal aid to states under each of the plans:

	Billion
Carter plan	$3.4
Corman Subcommittee	2.2
Ullman bill	1.2
Baker/Bellmon bill	3.0
Moynihan/Cranston/Long bill	1.5

NCSL belie[illegible] that a strong fiscal relief provision must be included as part of any welfar[illegible] proposal enacted by Congress.

"Hold Harmless": Another mechanism for ensuring that states know ahead of time the limit of their fiscal liability under any new welfare program is the enactment of strong "hold harmless" provisions.

Ms. MARSHALL. The first point I want to stress is that the bill before us in no way addresses the major concerns of welfare reform—and I know you feel that way, too. Calling this a welfare reform bill is, in my opinion, a case of false advertising.

NSCL stands determined to advocate for needed, comprehensive reform of the welfare system and will not permit the title of this bill to lead us away from that effort.

What this bill does provide, or intends to provide, is a measure of fiscal relief—and this is the issue I wish to address today.

The proposed fiscal relief applies to the State and local costs of the aid to families with dependent children program. The costs of this program are, unquestionably, a burden to the States.

Between 1972 and 1976, Federal expenditures for AFDC alone increased 44 percent while the State and local share increased 51 percent.

NCSL supports your intention to relieve the pressure of these rising expenditures. However, I must point out to you the dangers inherent in the form you have chosen to provide this relief. While a bloc grant program allows the State or local government the freedom to make choices among programs regarding expenditures, two other conditions are implied: First, that the bloc grant provides as much money as was available under the early agreement and, second, that there be no more efficient method available for the transfer of these funds.

Neither of these conditions is met by S. 3470.

While the bill does include an additional authorization of $1.5 billion in the first year and cost-of-living increases in the following years, the needs which the program addresses are not so static or conveniently ordered. In the first 2 or 3 years, States may benefit from this design because of the increase in Federal support.

However, with a decision at the State level to increase benefits, with the onset of recession—you have, I understand, amended the bill to include some factor for a rise in unemployment and a rise in population?

Senator MOYNIHAN. Yes, ma'am. That is our purpose.

Ms. MARSHALL. We have not seen your amendment, so I do not really know whether they meet our problem.

Senator MOYNIHAN. Yes.

Ms. MARSHALL. But we understand you see it, too, just as we do.

Continuing then, with a decision at the State level to develop new programs, some encouraged by the Federal Government, such as aid to dependent children of unemployed fathers, the States' caseloads and expenditures can increase. At such a time the cost-of-living increase is of no help in covering these costs should all of these situations be deemed the responsibilities of the States alone.

It is a fact that this bill would soon be a disincentive to States to provide welfare programs and benefits. It forces them, at a point in the not too distant future, to be held entirely responsibile for any increases in expenditures. Just because the number of Federal dollars is increasing, it does not follow that the Federal participation in a program is increasing. There is no doubt but that it can be decreasing.

Thus, there is Federal fiscal relief, not State and local fiscal relief.

And I would like to call your attention to the situation with title XX where, in constant dollars, the States are actually receiving less than they did when the program was begun.

The second point regards a more efficient mechanism for the transfer of funds. Let us look at the current situation.

Today, for whatever documented caseload is enrolled in AFDC, my State, Virginia, receives from the Federal Government a percentage of the cost of the benefits paid. Any increase in the number of cases, or the cost per case, within the restraints of the program, be it due to the institution of a new program, such as an unemployed fathers program, or an increase in the average size of the families enrolled, or a rise in unemployment, is met by increased State expenses and increased Federal contributions within the mechanics of the matching formula.

Thus, Virginia has an incentive, through its share of the costs, to keep these costs down, and I would like you to know that we have

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done a spectacular job of reducing our error rate. We have almost the lowest in the entire country, and it was done partly to save State money and partly through a liking of efficiency—to keep these costs down, and yet the burden of welfare, which the authors of this bill have stated is a national responsibility, is shared by the Federal Government.

If you were to ask me what alternatives were available to provide State and local relief for AFDC costs, I would answer that we already have one. By increasing the Federal share of the current matching formula, all the States would share in the relief, and by appending some form of a passthrough provision, the local governments would also feel this relief.

I want to point out here that the work of the New Coalition has developed a more effective split matching system, and this proposal will be more fully explained by our colleagues from the National Governors Association.

Further, we do not want to embark upon an experiment with the bloc grants. As you know, we are doubtful as to whether it is a wise program, and to redo our entire administrative structure with the thought that we might have to redo it again in about 2 years is a rather dismaying thought.

And finally, let me say that I am a politician, as many of us here are. I do generally believe that one must be happy with half loaves when whole loaves are not available, but I think this may be half of the wrong loaf.

Senator MOYNIHAN. Half of the wrong loaf. All right.

Thank you.

We will get through the panel, and then we will talk.

Commissioner?

Mr. JUNGAS. Thank you, Senator. In the interest of time, I am not going to read my testimony. I am just going to highlight some points and wait for questions.

STATEMENT OF HON. FRANK JUNGAS, COMMISSIONER, COTTONWOOD COUNTY, MINN., ON BEHALF OF NATIONAL ASSOCIATION OF COUNTIES

Mr. JUNGAS. We really appreciate your inviting us to testify again on fiscal relief for welfare costs, because that is a very grave matter with the counties of this Nation. I come from a small farming county in southern Minnesota where we know that we have to bank on many different things to receive our crop—the weather or temperatures. So I understand that you take what you can get sometimes, and I am looking at this fiscal relief very, very hard.

Welfare reform is not just fiscal relief. I want to restate that. As the National Association of Counties has said many times, we support welfare reform. We were in there in the 95th Congress and we did not achieve the success we wanted. Neither the House nor the Senate acted on it this year, so we are going to be back next year in the 96th Congress to try and achieve more of the welfare reform that we are pushing for.

Expenditures of county governments for welfare amounts to over $7 billion and of the 18 States that are still administering welfare

through the county system, we have over 50 percent of the AFDC load. All of this money has to be raised on property taxes, and I want to make that clear to the panel today.

We support the 100 percent funding of welfare costs by the Federal Government. Naco urges that Federal matching to be increased at least 75 percent to all States as an interim measure. The bloc grant approach is used as a protection against future higher welfare costs for the Federal Government. While fiscal relief must be provided, I would like to support a 2-year rather than the 5-year bloc grant because in 5 years we are down the road too far to try and change things that we could in 2 years. We may already have some of these changes going on out in the States.

My State has a program started through welfare funded by the Federal Government, to put people to work. And States that have these programs would be a good place to get some of this information.

Now, just a few statistics. I am from a small farming community in Minnesota. I am not from New York and Los Angeles which you hear so much about, having trouble with welfare costs. We have our troubles, too. To bring you up to date, Senator, in 1977, we had to increase our welfare budget 23 percent. In 1978 we had to increase our welfare budget 34 percent. We are setting the budget up for next year, 1979, and by October 1, we have to have it ready and, at the very least, we anticipate another 20 percent increase, possibly 30 percent.

So here we are talking of almost a 100-percent increase in 3 years' time for a county to pick up welfare costs. And, as I said before, this all comes off the property tax and the property taxes are at saturation level now. So I do not know how we can go back to the taxpayers and put any more burden on them.

These costs come in many different forms—in social services, medical assistance, AFDC and general assistance. The State of Minnesota had a fiscal relief program in 1975 that did grant us a little bit more money, but that has all been used up in one program alone, the medical assistance program. That has eaten up the whole increase that they gave us in 1975, so we are right back to zero again.

We have also found it necessary to rely on other agencies to help us out of our dilemma, such as CETA and community action agencies but they are only temporary, because we do not know how long they are going to last.

We have applied for homemaker grants, homemaker services and transportation grants and many different things just to try and offset the fiscal burden that is on us right now.

I would like to add a little bit more before I close. If we had control over some of these things, we would feel more comfortable as a county board, but we do not. We get dictates from the Federal and State governments—and now the court system is getting into the act, saying you have to cover this person, you have to give them so much. It doesn't matter if it does not fit in with our idea of welfare at our local level, we still have to carry it out, and it is all coming out of 100 percent county money.

I have just a few more remarks, and then I will finish, Senator.

Senator MOYNIHAN. Please, sir.

Mr. JUNGAS. I may be painting a very black picture to you today, but it is true. The taxpayers of the Nation are in revolt. I am from just a small county—all you have to do is multiply by the number of people you have all over the United States and they will bring out the dark picture that you are facing here in welfare costs. We are heading down the road on a collision course, if something is not done in two forms—fiscal relief that we are talking about today and welfare reform further down the road. I do not know where this is going to all end.

I want to reiterate that county governments have been leading efforts for welfare reform for a number of years now and we want the partnership effort. We are begging for the partnership from the Federal, State, and local levels to reform the welfare system. Together I am sure we can come out of this predicament we are in.

Thank you, Mr. Senator.

Senator MOYNIHAN. Thank you, Mr. Commissioner.

Before we go to Mr. Farber, I wonder if you would have the goodness to introduce your associates who are here today with you.

With me today is Aliceann Fritschler, associate director for welfare and social services of the National Association of Counties. She staffs the committee that I chair for NAC.

Senator MOYNIHAN. We welcome you here today.

Ms. MARSHALL. Mr. Richard Merritt who is staff for many things, including human services, of the National Conference of State Legislatures.

Senator MOYNIHAN. We welcome you, sir.

Ms. MARSHALL. And, if I may, I want to leave with you this statement from Speaker Steingut of the State of New York who is also chairman of the State Federal Assembly of the National Conference of State Legislatures.

Senator MOYNIHAN. That is always an impressive name before this subcommittee and his statement will be placed into the record in full.

[The material referred to follows:]

STATEMENT OF HON. STANLEY STEINGUT, SPEAKER, NEW YORK STATE ASSEMBLY

We welcome all efforts to provide fiscal relief to states to help them meet the cost of funding public assistance. It has become apparent that welfare rolls and welfare costs rise or decline on a national basis and we are therefore led to conclude that it is the state of the national economy, not local peaks and valleys which, to a great extent, acts as the determinant of state and local welfare expenditures.

In our mind no fiscal relief program goes far enough if it does not establish a national benefit for overwhelmingly federally funded; a mechanism for states to supplement the floor, with federal participation, and a limitation on state costs through a hold harmless clause. These are the principles we fought for over the last fifteen months in our efforts to enact the Administration's welfare reform program as finally fashioned in H.R. 10950.

The bill before us, S. 3470, ends the system of matching payments and creates a block grant funding mechanism, to be adjusted by the cost of living. In its initial year, $1.32 billion is distributed to the states above the federal cost of AFDC for fiscal year 1978. This add on amount does not increase except by the cost of living. New York State will get a substantial percentage of the $1.32 billion which must pass on to local governments. I do not know the amount today.

My first concern, of course, is who will bear the cost of AFDC payments if those payments rise above the "adjusted base period amount" due to caseload increase. In New York State, costs for rent may increase in excess of the na-

tional cost of living, driving up welfare grants beyond the amount payable to the state by the federal government. States will be exposed to higher costs to be borne wholly by the states if the rolls or if costs go up beyond the block grant amount. States are not "held harmless" at a level certain under this proposal.

I, as much as anyone, recognize the need to strive for savings through increased efficiency and better overall management. The incentive for pursuing savings through this approach has been with us as long as there has been a non-federal share of welfare costs. What is lost in this proposal is the incentive for the federal government to effect savings and efficiencies through the considerable rulemaking, monitoring and grant power it has. The federal government has sponsored numerous projects and programs designed to achieve accuracy and efficiency in the Administration of AFDC because the federal government stood to save money as well as the states.

My preference is that interim fiscal relief be secured through continuation of the matching grant program. The additional funds could be mêted out as this bill calls for, with the cost of living added to the additional funds.

This is not the time for the partnership between the state and federal government on welfare grants to come to an end. This proposal holds the federal government harmless above fiscal year 1978 payments plus the known cost of the add-on and passes all the risks to the state government. The federal government will know the full measure of their fiscal liability each year; the states will not. The federal government will no longer save money by promoting efficiency. The states will save or spend money based on efficiency and national economic conditions.

I am pleased to have this opportunity to express my thoughts and commend Senators Moynihan, Cranston, and Long for their willingness to continue the struggle for welfare reform.

Senator MOYNIHAN. Mr. Farber, your associates?

Mr. FARBER. Yes. Mr. Chairman, with me is Scott Bunton, who is staff director for the Committee on Human Resources of the National Governors' Association.

Senator MOYNIHAN. He is well and favorably known to this committee. Good afternoon, sir.

Mr. Farber?

STATEMENT OF STEPHEN B. FARBER, DIRECTOR, NATIONAL GOVERNORS' ASSOCIATION

Mr. FARBER. Thank you, Mr. Chairman. It is a pleasure to be here today with you, and with you, Senator Danforth.

Mr. Chairman, I will summarize my testimony and we will submit the full text for the record.

The National Governors' Association, like the sponsors of this legislation, has worked long and hard to achieve welfare reform, and I would like to say, Mr. Chairman, that your own efforts, over many, many years, have been an extremely powerful force in the battle to reform the welfare system and we greatly appreciate your strong and consistent leadership.

Among the Governors in the past who have led our efforts, going back a number of years, are Cecil Andrus of Idaho, Dan Evans of Washington, Richard Kneip of South Dakota, and others. And among those now taking a leadership role and providing really outstanding leadership are Michael Dukakis of Massachusetts, Hugh Carey of New York, and Bob Straub of Oregon, among many others who have developed our policy position which the Governors themselves endorsed strongly, first in 1976 and again in 1977.

The National Governors' Association strongly supports the enactment of comprehensive welfare reform. Our policy position calls,

among other things, for equity among the States, adequate benefits for those in need, fiscal relief for State and local governments, a strong work requirement with an emphasis on job creation, consolidation of existing programs, elimination of categorical distinctions, and streamlining of administration.

Now, the focus of S. 3470 is clearly on fiscal relief, which the association strongly supports. It is imperative, however, that I strongly assert the commitment of the National Governors' Association to secure the enactment of legislation which will meet all of our objectives for welfare reform. The association has worked diligently for such legislation during the current session of Congress.

We strongly supported the administration's proposal, which we had originally helped to develop. Then, when it became clear that the administration's bill would not be passed this session, the association worked with the national associations of State and local elected officials, through the New Coalition, to produce a compromise proposal.

Unfortunately, it appears, that even this carefully drawn, reasonable, and beneficial proposal will not be enacted this session.

The National Governors' Association, and the New Coalition, will return at the beginning of the next session of Congress, with the administration, to seek welfare reform which meets the objectives I have outlined and these, Mr. Chairman and Senator Danforth, are objectives that I am confident that you, as well, share in the large sense in which we have endorsed them and embraced them in the past.

With regard to fiscal relief, which is one of the essential ingredients of welfare reform, and is the principal focus of S. 3470, the burden of financing welfare programs, as you know, has fallen increasingly on State and local governments, and fiscal relief must be provided. We support such relief in the context of systemic reform. We will be working hard with Congress again next session, as I noted, to achieve comprehensive reform, but if a sound program for badly needed fiscal relief can be developed this year, it should be enacted.

Next, I would like to mention the approach to the distribution of fiscal relief that is taken by S. 3470. We do have several concerns in this regard. We believe, for example, that the approach taken in the bill would ossify current differences among the States in levels of Federal contributions to the AFDC program.

A high benefit State would continue to receive Federal funds based on that benefit level, but a lower benefit State which wishes in future years to raise its benefit levels to the current level of the first State, would not be able to obtain the same level of Federal matching payments.

A similar problem, we believe, would arise with regard to the unemployed fathers program. This approach would be inequitable. It would also serve as a distinct disincentive to achieving the interstate equity of benefit levels which the Governors seek.

In addition, the bill makes no provision for the increased expenses resulting from increased caseloads, even for those caused by court decisions, economic recession, or population increases. I do note, Mr. Chairman, that you made reference to unemployment rate and population increase factors, in particular. We commend you for that, and would like to look harder at those amendments.

Nonetheless, there are other elements which those particular amendments would not accommodate.

Finally, the bill does provide for an adjustment in the block grant for each State, based on each year's increase in the Consumer Price Index, but we believe that problems with regard to State funding will arise from the particular formulation adopted in the bill, as outlined in my testimony.

We do believe, as was previously indicated, that an alternative does exist. It is the so-called split match formula that was adopted by the New Coalition in its compromise proposal of several months ago, and we would commend that, quite seriously, Mr. Chairman, to the committee's attention.

These, then, are the main points that we would make on behalf of the National Governors' Association. We would like to continue our close working relationship with the committee as you consider the legislation because, for you as for us, welfare reform has been for many years, and continues to be, a matter of the very highest priority.

We are eager to provide whatever assistance we can as you attempt to achieve action on our common objectives.

Thank you.

Senator MOYNIHAN. We thank you, Mr. Farber. We thank each of you.

May I just make a statement to our witnesses and to our guests this afternoon? You may wonder at the unusual hour which we chose to commence a hearing. The reason for it is that in the closing weeks of the 95th Congress, we are all required to be at about four places at once. This was the 1 hour during which we could get a hearing room.

Even so, we are, each of us, required to be in several places at once. I dare not think of the number of places Senator Danforth is supposed to be at this moment. It was very good of him to find the time.

I know, Senator Danforth, that you have a meeting that you have to be at later, so why do not I turn over the floor to you this moment.

Senator DANFORTH. Well, thank you, Mr. Chairman. I want to apologize, both for getting here late and leaving early.

In the jargon of welfare reform there is something called comprehensive welfare reform and something called incremental welfare reform and I am not sure that anybody knows where one ends and the other begins, but it my understanding that the judgment call in moving toward welfare reform is how much can you accomplish? How much is disgestible? And that one of the problems with the administration's proposal is that it is just too comprehensive, that there is just too much of it, and that there is little or no likelihood that it will be adopted.

And therefore, there have been a variety of proposals for a more incremental approach and one of those was a proposal which was made by Senators Baker, Bellmon, Ribicoff, and myself.

Now, the question that I have for you with respect to this bill is, is it too incremental? Does it shoot too low?

Is it possible that it is not enough of a welfare reform and, is it possible that if you just offer fiscal relief, you have sort of blown the goody. I assume that any welfare reform proposal is going to be expensive and that it is going to call for Congress to pay something in addition to

what we are paying now for welfare. And is it possible that if we go the route of this bill that we will have pretty well foregone the possibility for any significant welfare reform?

Does this do sort of the opposite of what the administration's proposal did?

Ms. MARSHALL. Senator, thank you for asking that. I think that is, in part, the objection that the National Conference of State Legislatures is raising to this bill, that by freezing the Federal contribution into a bloc grant, you freeze a State in its present welfare posture and you freeze the inequities between the States.

I come from a State which tends to have rather low benefits and a rather strict eligibility. There are people in that State who would like to change that.

I think the effect of this bill would be to put a damper on their ability to effect a change.

Mr. JUNGAS. Senator, when we first looked at this problem the National Association of Counties, and the committee that I chair on welfare realized that we might not get comprehensive welfare reform done in 1 year, 2 years, or even 5 years. But we had to start someplace. So what we are looking at now is getting part of it done. If we can get it done this year, fine. If not, we will work at it next year. We will work at it the year after that or the year after that.

Fiscal relief is part of welfare reform to counties. In my thinking, we have to have both. But we cannot settle just for fiscal relief.

I do not believe that the people out over this great land of ours will let the officials here in Washington, or my county and my State legislature rest where we are at the present time with the welfare mess.

Senator DANFORTH. Could you be a little more specific in answer to the question? In your opinion, in this bill, would we go immediately to the dessert and just sort of leave the brussel sprouts, and red cabbage, and stuff that nobody likes to eat until next year?

Mr. JUNGAS. Welfare reform, the way I see it, will not come about until next year or the year after, as far as comprehensive welfare reform. We are just dealing with parts of it right now.

Senator DANFORTH. Yes, but if we do what this bill proposes to do, would we just go immediately to the more present aspects of welfare reform without dealing with the tough stuff and then leave all the tough stuff—I mean, would we just forego the possibility of getting anything?

Mr. JUNGAS. No, I do not foresee that. That is my opinion.

Welfare reform will take time. We have built up this welfare system since the thirties and we cannot go up one side of the mountain and jump off a cliff. We have to come down gradually on the other side to get it straightened around, and that is where we are looking at.

The National Association of Counties and County Commissioners across this great land are not going to be dissatisfied with fiscal relief. We have to have that. That is part of it. But we are not going to be satisfied with just fiscal relief. We are still going to go in there and try to correct some of the inequities of the welfare system in the reform that we are seeking. The people are demanding changes in our elections coming this fall.

I would like to tell you this little story. I was in the office of our welfare department a few months ago when we had a State inspec-

tion. A team was going over all the records. I happened to talk to the captain of the inspecting team and he said: "You have a very good, tight ship here. You have very few inequities and you do not have to correct very much."

I stood back and I said: "All right. You have told us we have done everything right." Then I pulled a case out of the filing system and I said to him, "Look in there now and tell me if we have done this person any good." It stopped him cold. There is no way that you can do that.

If we added 2 and 2 and got 4 right, and got all the forms in there that they want, we are still not performing our task as a welfare department or a commissioner that sits on the welfare board in my local county unless we help those in need. So we have to continue to push for the reform that we need. Comprehensive reform may have to be done in segments.

Senator DANFORTH. Could I ask the third panel member for his opinion?

Mr. FARBER. Senator Danforth, you may recall on May 16, you were good enough to come—as Senator Moynihan did—to our New Coalition meeting. And you came to the Hall of the States where all of our organizations were represented there at the New Coalition and you addressed particularly issues of management improvement because that is an area in which we are working with you extremely closely, day by day, and we really appreciate your efforts there.

I think that your sense of management focuses well on some of the key issues that Senator Moynihan raised that day as well with the New Coalition, and that really was a seminal day in the development of the New Coalition compromise.

Our concern is not with the provision of fiscal relief this year as against a comprehensive welfare reform program. We support the provision of fiscal relief because it is necessary, but we support it in the context of systemic reform and we do believe that this particular bill, from a management standpoint and from a fiscal standpoint, does have some infirmities are troubling. We feel that those would have to be addressed before we had a sound fiscal relief bill that should be enacted.

So that is the way we look at it, and from your own experience on the management improvement side where we have been working with you, I think those arguments should be ones that you are familiar with.

Ms. MARSHALL. Mr. Chairman, may I add just a sentence?

Senator MOYNIHAN. Please.

Ms. MARSHALL. My answer illustrated a good deal of the problem. It was parochial, of course. I was talking about freezing the inequities in Virginia, and the opportunity to improve without being penalized by a ceiling is very important, but for the National Conference of State Legislatures, job opportunities are just as important as fiscal relief.

I come from a State with a fairly high employment and we do not have the bitter problems that some of you all do, but that is a very important part of the whole project.

Senator DANFORTH. Thank you very much.

Mr. Chairman, thank you for letting me ask the questions.

Senator MOYNIHAN. Before the Senator leaves, I would like him to know that I have happened upon an important new analysis of Senator Danforth, Baker, and Bellmon's legislation, published recently in Human Events.

It is shocking. It reads, "Baker and Bellmon Push Guaranteed Income Plan." How come they——

Senator DANFORTH. This is not a bad article. It does not have my picture in it, nor does it have my name in the headlines.

Senator MOYNIHAN. This article will not be submitted for the record.

Thank you very much, Senator Danforth.

Let me make just a couple of observations in the spirit of openness and cooperation that is evidenced by this distinguished panel. I would like to say to Ms. Marshall who makes the important point about whether States with low-benefit levels will find themselves frozen into those levels that I appreciate, and understand, her point. But, if I may, I would like to refer back to my opening statement. We began these efforts 15 years ago during the deliberations of President Kennedy's on poverty. When President Johnson came to the Presidency, he endorsed these efforts as his kind of program. I want that momentum to continue.

I was a member of that task force and, as Mr. Farber has been generous enough to say, I have grown gray in service to its aims. But when we first talked about this issue, the city of New York was not bankrupt. Welfare payments to the people of the city of New York were not shriveling in value.

You speak of the levels of payments in Virginia. Well, in the State of Virginia, there are 169,000 people receiving AFDC payments. In the city of New York, there are six times as many, although our city is not much larger in total population than Virginia.

Now, let me ask you a question which you do not have to answer, but see if you would like to answer it. We are trying to pass a bill.

Ms. MARSHALL. Yes, sir.

Senator MOYNIHAN. We have been trying to do so for 15 years. We want to help Virginia. Let me interject I have great regard for the Senators from Virginia and the Senators from Minnesota. They are wonderful people. I have known them for a long time.

They are fine people, they are fine people.

And the senior Senator from Virginia is one of the great gentlemen of the Senate and the watchdog of our Finance Committee. He is an invaluable man on our Finance Committee.

Ms. Marshall, the President sent up a bill this last August. He sent us a bill 1 year ago, not dissimilar from the bill President Nixon had sent years ago, nor to the bill which President Ford more or less agreed to support.

Supposing that bill had passed the U.S. House of Representatives, had come to the Senate and was on the floor of the Senate. Would either Senator from Virginia vote for that bill?

Ms. MARSHALL. Well, I do not represent the Senators from Virginia. They represent me.

Senator MOYNIHAN. That is right. That is my point.

Ms. MARSHALL. Not always as I would wish them to. No, I do not think they would.

Senator MOHNIHAN. No, ma'am, they would not.

Ms. MARSHALL. And I was saying, quite candidly, that in the State of Virginia now, welfare benefits are not what many of us would like them to be, but it would be harder to change them if this bill was in effect.

Senator MOYNIHAN. This bill did not pass 10 years ago because on, the one side, there were those people who did not think it was enough, and they came from my part of the country. On the other side, were those people who thought it was much too much, and they came from your part of the country.

Ms. MARSHALL. Yes.

Senator MOYNIHAN. I think there are more of the latter, in all truth. It is no secret that there are people in the Congress who have said, in no circumstances do I want the poor in my constituency getting that kind of money, that kind of support. That is why the bill did not even get to the committee stage in the House of Representatives this year. A House which is Democratic, did not permit a bill which had strong Presidential support to reach the committee stage.

Those States which, by most standards, have fulfilled their commitment to the poor, or tried to, may have bankrupted themselves in the process. You know, of course, that we have lost our liberties in New York City. We are wards of the State and of the Federal Government. We will account to them for everything we do into the 21st century.

Do we not, at some point, have to think about ourselves?

Ms. MARSHALL. Oh, I should think you should, and I should think you should do it for the sake of the people you represent and for the sake of the whole country. New York is a very important part of this country, just as a financial center, as a symbol—I am all for the relief for New York.

I am afraid I have been misunderstood. I am not opposed to fiscal relief. It is this method. I go back to my original statement—I think we got half of the wrong loaf, and that going to this new method will, in fact, undue some of the good things we have attained and make it harder to do good things in the future.

I do not want you to think that I am opposing it because I think badly of New York in anyway. I think the people in New York have done a wonderful job in a lot of ways, and we all owe them a lot, and I mean that sincerely. They have done a lot for the whole country, not just for themselves, and they have been compassionate, and they have hard problems and cities are expensive these days. I am one of the people involved in building the Metro; I know how expensive a city can get.

But still, I do not think this method gets us to where we want to go, where you and I both want to go.

Senator MOYNIHAN. But you see, this does not get us to where I wanted to go. And in the process of not getting there, the city of New York went bankrupt. I am not speaking just of New York. I am talking about those counties which, as Commissioner Jungas has pointed out very clearly, pay a large share of welfare costs and where one-half the welfare recipients of this country live. We are talking about the incomes of that one-half of the population. So it is a real dilemma.

There comes a time, however, when the people who are represented in the Senate by persons who do not feel that their States desire higher levels of benefits may have to give some thought to the circumstances of the States which have a different problem. That is, that they can no longer manage to pay for the levels of benefits that they believe their welfare recipients need.

Ms. MARSHALL. That is a reasonable position on your part, but I still think that this is the wrong mechanism to get us where we want to go, I really do, for the reasons I recited, not because it gives money to New York, because New York needs money. I agree with that.

Senator MOYNIHAN. There is the situation that the commissioner described in Cottonwood County. You can almost divide this country in two, as it were. There are those places that could pay for more and will not and there are those who would provide for more, but cannot pay for it. That is why fiscal relief is a source of real concern for Naco.

Ms. MARSHALL. Well, let me say a word in defense of my beloved State. Our average annual income is considerably lower than that of the State of New York. We do not have the financial ability.

Now, it is true, we have not incurred the costs, but I do feel I should speak up for my State.

Senator MOYNIHAN. This is a big and complex country and that is one of the arguments for letting States run their programs.

Mr. Commissioner, do you have a comment?

Mr. JUNGAS. Mr. Senator, in our comprehensive approach to the county welfare reform that we have printed up, we addressed looking at regions. We realize that you could not set a standard for New York that would be the standard for some other State.

Senator MOYNIHAN. No, of course not.

Mr. JUNGAS. So we are just addressing this by regions and I hope in the long run, on the comprehensive reform, that that part will be looked at.

One point that I want to make for the record, Senator, is that I just spoke of Cottonwood County, my home county, but in my travels over the State of Minnesota and dealing with the different committees that I chair, I have talked to many commissioners of both large, like Minneapolis and St. Paul counties and so forth, and all of them are in the same boat that we are as far as being faced with fiscal relief, and I wanted to get that point across.

Senator MOYNIHAN. One of the convulsions that shook the State of California as a result of Proposition 13 was the realization that this vote represented a large, unfavorable, popular reaction to these welfare expenditures. In California, they are built into the property tax system.

Mr. Farber, get us out of the fix we are in. Say something that solves this problem for us.

Mr. FARBER. I am not sure I could top you, Mr. Chairman.

I do think, Mr. Chairman, that there are, in respect to the approach taken in this bill, some positive elements. We have tried to adduce those. There are, however, some liabilities, as my colleagues have pointed out, and I think it is a matter, really, of trying to address those to see whether a sounder approach can be taken and I think

perhaps it is also a matter, Mr. Chairman, of focusing on where we really are at this juncture.

It is correct that the administration's bill, unfortunately, did not make much progress this year. But it is also true, following that really remarkable meeting that we had on May 16 when you joined the New Coalition, that, after that time, we made some real progress.

Now, it is true that we did not cross the goal line, but I think it is a fair statement that the so-called New Coalition compromise attempted to embrace many of the thoughts that you have articulated over some time, many of the ideas contained in the administration's bill, many of the ideas expressed in the other House. We did make a great deal of progress, we took the ball a long way down the field, and it seems to me that, while it is true that we did run out of time, we are going to be able to start at the beginning of the next session of Congress with a very firm foothold, a very firm basis for action.

And I think that we should take that bill, we should look at its assets, which are many; we should look at its imperfections and try to improve those, but it does seem to me that we should have a considerable degree of optimism on the basis of what we were able to take a good part of the way this year. I think we should have a good feeling about the distance that we were able to come even though, clearly, we were not able to take it all the way.

And I think that thought, in terms of the longer term prospects for systemic welfare reform, to which you have been devoted for so long, that approach ought to give us some encouragement—quite apart from the action we take with respect to this particular bill.

Senator MOYNIHAN. Mr. Farber, you give me encouragement, but we are not yet finished. What you said about that bill was sound. We need to follow this through.

By having this hearing, by winning support for this bill, we are demonstrating that welfare reform is not dead.

I have one more remark concerning the State of Virginia. It is true that New York State has a higher per capita income, but only very slightly. The State of Vigrinia's per capita income, in round figures, is $6,300 a year; the State of New York's is $7,100. Our figure is about 12 percent or 13 percent higher than yours.

Our AFDC payments are twice yours. You have an AFDC payment for a family of four of $191 a month. That means a family of four gets about $46 a week to live on. Not much.

In New York, we provide about $85 a week. Not much, but more.

Virginia is no longer a land of wornout tobacco fields and abandoned plantations. Rather, it is the home of most of the Federal Government's employees. The State has a high per capita income.

I think you would find, in addition, that Virginians have higher disposable incomes than New Yorkers. We have our State income tax of 15 percent, and high city taxes on top of that.

I just want to make a point that despite our lower disposable incomes, we provide twice the levels of payments to our welfare recipients and those payments are not high enough, in some respects. It is hard for a mother with three kids to get by on $85 a week.

It is possible—I say it is possible only because 1 million people in New York City are doing it.

I know you agree.

Ms. MARSHALL. I agree with it completely, and it is one of the reasons that I am sure that you do not really want to make it less likely that Virginia will improve.

Senator MOYNIHAN. Why did I have to get into that?

This portion of this hearing is hereby brought to a very grateful and——

Mr. JUNGAS. May I just add one thing, Senator?

Senator MOYNIHAN. Yes; of course.

Mr. JUNGAS. I would like to pledge the National Association of Counties staff to work with your staff to improve this formula for fiscal relief.

If there is anything we can do to help, we will——

Senator MOYNIHAN. We have some work to do, and we are going to count on all of you.

Mr. JUNGAS. I am sure that all of us at this table would offer the same help. We are always available.

Senator MOYNIHAN. I know you are. On behalf of the subcommittee, I would like to thank you for coming and for your unfailing support and effort in this interminable enterprise.

Ms. MARSHALL. Thank you, very much.

Mr. JUNGAS. Thank you.

[The prepared statements of the preceding panel follow:]

STATEMENT OF FRANK JUNGAS, COMMISSIONER OF COTTONWOOD COUNTY, MINN., ON BEHALF OF THE NATIONAL ASSOCIATION OF COUNTIES [1]

SUMMARY

The National Association of Counties' number one legislative priority in the 95th Congress was welfare reform. Since neither the House nor the Senate will act this year, we support immediate fiscal relief for welfare costs in this Congress. County officials will continue efforts to achieve reform in the 96th Congress.

Welfare is the largest single expenditure of county governments—$7 billion. County governments administer welfare in 18 states which contain 50 percent of the total welfare recipients in the Aid to Families with Dependent Children (AFDC) program. Counties are required to fund their share of welfare costs from the property tax.

While the National Association of Counties supports 100 percent federal funding of welfare costs, NACo urges that federal matching be increased to at least 75 percent for all states as an interim measure. If a block grant approach is used, protection against future higher welfare costs for states and counties must be provided.

STATEMENT

Mr. Chairman, Members of the Subcommittee, I am Frank Jungas, Commissioner of Cottonwood County, Minnesota, and Chairman of the Welfare and Social Services Steering Committee of the National Association of Counties (NACo). I am accompanied by Aliceann Fritschler, NACo's Associate Director for Welfare and Social Services.

NACo has worked long and hard to achieve comprehensive welfare reform. Other county officials and I have appeared before this and other committees of the Congress on behalf of NACo to urge reform of a system that we all know is inequitable, inhumane and almost unworkable. Welfare reform was the number one legislative priority of county officials in the 95th Congress. It will certainly

[1] The National Association of Counties is the only national organization representing county government in the United States. Through its membership, urban, suburban and rural counties join together to build effective, responsive county government. The goals of the organization are: to improve county governments; to serve as the national spokesman for county governments; to act as a liaison between the nation's counties and other levels of government; and to achieve public understanding of the role of counties in the federal system.

be one of county governments' top priorities in the 96th Congress, and we will be back here next year working with the Senate and House to bring about these needed changes in the welfare system. Attached to this statement is the resolution adopted by our NACo committee in July which articulates our interim policy.

We applaud the efforts of Senators Moynihan, Long and Cranston to provide states and counties with immediate fiscal relief for welfare costs.

These senators and the Senate Finance Committee have the key role to play in welfare these last weeks of the Congress. We intend to give the sponsors and the Committee all the support we can to see that fiscal relief is provided now. We know that they (like us) will be here next year to continue *our* efforts to reform the present system. Providing some fiscal relief this year will not deter us from our efforts to work for changes in the system at the earliest date.

NACo supports a more fair and rational program of jobs and income support for the needy; and a more fair and rational distribution of the dollars that fund it. County officials propose that a greater federal share of costs is essential in order to achieve a rational jobs and welfare system that would be fair to all the states and that will lift some of the burden off local property taxpayers.

But I want to make it very clear to this subcommittee that welfare reform is not just a fiscal matter to us. We want major revisions in the systems that serve our poor and jobless constituents. We want a jobs and welfare system that better serves the needs of recipients. NACo's approach to comprehensive reform recognizes the need to phase in key elements of the overall policy. It makes sense to move ahead with fiscal relief now.

The annual cost to county government for welfare programs including general assistance for those not covered by AFDC exceeds $7 billion, which is funded entirely from property taxes. The current cost of welfare programs and their impact on county government is staggering in many states.

County governments in the United States have greater involvement in welfare programs than is generally understood. Forty percent of all counties in the nation directly administer welfare programs and must tax the local property taxpayers for the county's share of required federal matching. Eighteen states have county administered programs, including my own state, Minnesota. Since the most populous states like New York, California, and Ohio are among this group, over 65 percent of all the federal welfare costs and approximately 50 percent of the welfare recipients are in states where counties run the programs. In those states counties bear a share of the cost of AFDC ranging from .5 percent to 50 percent. Many county governments across the nation are in trouble due to the rising costs of federal medical and welfare costs over which the counties have no control or policy making power whatsoever.

Besides funding and running welfare programs that we have no say in, our county welfare departments have to cope increasingly with the problems of unemployment. People on welfare who can work and want to can't get off because there are no jobs or training. People who have worked and supported their families find that in extended periods of unemployment, the only place to turn is welfare—an already complex and overburdened system which can't help them effectively.

Senator Moynihan described NACo's policy perfectly when he introduced S. 3470: "Welfare is a national responsibility and the national government should bear the primary burden of paying for it." He also noted that, "local governments should no longer be required to bear the burden of welfare costs." We are pleased that S. 3470 requires a 100 percent passthrough of fiscal relief funds to counties and other local governments in those states where they contribute to AFDC costs. Certainly the property tax should not be used to fund national welfare programs.

NACo supports Senator Moynihan's goal of providing a federal share of AFDC costs of at least 75 percent. However, we are concerned that the specific formula provisions of S. 3470 will not result in this 75 percent federal matching level, and in some states it will not buy out the local government share as the bill's authors intend.

We must express strong concerns that a permanent change in the AFDC funding formula will forever preclude us from reaching the 75 percent goal, to say nothing of full federal financing of welfare costs. We understand that the authors have designed the bill to provide relief to state and local property

taxpayers. But by permanently establishing the base period as of June 1978, state and local costs will not be capped while federal costs will be.

States and counties have very little control over the welfare programs they administer. Court decisions on issues such as eligibility, amount of payments and administrative procedures have had dramatic impact on welfare roles in the past. In addition, any major downturn in the national or local economy can significantly increase caseload or result in much longer periods on assistance for individuals, with the resulting cost increases to be borne by the states and counties.

While we can understand federal budget constraints, we ask that you not discontinue federal matching on state and local funds for a fixed amount because once again county property taxpayers will be forced to provide any increase in welfare costs.

In many federal matching programs, a block grant is the best mechanism because it allows localities to be flexible and to respond to local needs. However, in AFDC there is no flexibility or means to control the numbers of recipients. While a county government may be able to postpone road repair or decide not to improve a recreational facility, or even cut back on police patrols, this is not true in the AFDC program. Counties and states cannot refuse to admit eligible persons to welfare rolls.

Consistent with the matching concept, the federal costs should decrease as welfare rolls decrease just as the state and local costs do. We appreciate the bill's authors' concern for the fiscal health of all partners in our federal system and believe a guaranteed sharing of increases and reductions in welfare costs is more equitable to all citizens. We believe general fiscal assistance should be provided through revenue sharing and countercyclical assistance. We prefer that welfare funding remain a matching program.

However, if fiscal relief is provided through a block grant, it is essential to build in certain protections against the fiscal relief funds being absorbed entirely by caseload growth, changes in federal or state eligibility requirements, excessive unemployment and other factors beyond the control of states and counties which increase costs. The block grant should be adjusted accordingly to provide federal sharing of these higher welfare costs.

We also urge the committee to provide other changes in the tax system which have been proposed by Senators Cranston, Long and Moynihan to aid welfare recipients and the working poor. Namely, we urge an increase in earned income tax credit and an increase in the existing tax credit for private employers who hire welfare recipients.

On behalf of the nation's county officials let me again extend our sincere appreciation to Senators Long, Cranston and Moynihan for providing leadership on this vital legislation.

Our NACo staff would like to work with your staffs to discuss our concerns and to develop a strategy for enacting fiscal relief legislation this year.

WELFARE AND SOCIAL SERVICES STEERING COMMITTEE RESOLUTION ON INTERIM FISCAL RELIEF AND WELFARE REFORM

Whereas, the 95th Congress is not going to complete action on welfare reform; and

Whereas, the conditions that require major overhaul of the welfare system are unchanged; and

Whereas, the financial constraints that place unreasonable burdens on the local property taxpayers are intensifying; therefore be it

Resolved, That the National Association of Counties continue to press for comprehensive welfare reform in the 96th Congress; and be it further

Resolved, That in the remainder of the 95th Congress, NACo supports immediate passage of elements of welfare reform which contribute to improved federal/state/local funding of welfare programs and to jobs and employment tax credits to enable families to become or to remain self-sufficient;

Resolved, That federal matching of the costs of welfare programs be increased to at least 75 percent, to insure substantial fiscal relief to states and counties;

Resolved, That the earned income tax credit be extended and expanded; and

Resolved, That tax credit incentives for employers to hire welfare recipients be enacted.

Adopted July 8, 1978.

STATEMENT OF STEPHEN B. FARBER, DIRECTOR OF THE NATIONAL GOVERNORS' ASSOCIATION

I appreciate the opportunity to testify today on S. 3470, the State and Local Welfare Reform and Fiscal Relief Act of 1978, on behalf of the National Governors' Association, the policy instrument of the nation's Governors. Appearing with me today are Scott Bunton, staff director for the Association's Committee on Human Resources, and Joan Willis, director of the Association's Employment and Training Program.

The National Governors' Association, like the sponsors of this legislation, has worked long and hard to achieve welfare reform. Development of our current policy began more than four years ago under the leadership of the former chairman and vice president of the NCA Committee on Human Resources, former Governors Cecil Andrus of Idaho and Dan Evans of Washington. In July 1976 the Governors adopted a policy statement calling for comprehensive welfare reform, and in September 1977 the Governors refined and expanded that policy statement.

The National Governors' Association has worked closely with the Administration to develop the Better Jobs and Income Act and with members of the House and Senate to examine alternative proposals. Outstanding leadership in these efforts has been provided by Governor Michael Dukakis of Massachusetts, chairman of the NCA Committee on Human Resources; Governor Hugh Carey of New York, chairman of the Subcommittee on Welfare Reform; Governor Robert Straub of Oregon, who is a member of the Committee on Human Resources; former Governor Richard Kneip of South Dakota, former chairman of the Committee on Human Resources; and other Governors. Our efforts to achieve welfare reform are long-standing and intensive, and we appreciate the deep concern and hard work in this difficult field over many years by the sponsors of this legislation—Senator Long, Senator Cranston, and Senator Moynihan.

I wish to make four points concerning S. 3470 which the National Governors' Association believes must be carefully weighed as you consider this legislation.

First, the Association strongly supports the enactment of comprehensive welfare reform. I will summarize the major points of our position:

Income maintenance should be available under a unified program to all eligible persons below an established minimum income level.

A national minimum payment level based on a national poverty level should be established with provision for regional variations in this level to reflect differences in costs of living.

All recipients expected to work should be required to register to work and accept employment which is within a reasonable distance of their homes.

Sufficient funds should be available to provide employment and training opportunities for persons expected to work who are unable to obtain private sector employment.

The policy statement also clearly identifies the Governors' primary goals in any reformed welfare system:

Equity among the states;

Adequate benefits to those in need;

Fiscal relief for state and local governments;

A strong work requirement with an emphasis on job creation;

Consolidation of existing programs;

Elimination of categorical distinctions; and

Streamlining of administration.

The focus of S. 3470 is clearly on fiscal relief, which the Association strongly supports. It is imperative, however, that I strongly reassert the commitment of the National Governors' Association to securing the enactment of legislation which will meet all of our objectives welfare reform. The Association has worked diligently for such legislation during this session of the Congress. We strongly supported the Administration's proposal. Then, when it became clear that the Administration's bill could not be passed this session, the Association worked with the national organization of state and local elected officials through the New Coalition to produce a compromise proposal. Unfortunately, it appears that even this carefully drawn, reasonable, and beneficial proposal will not be enacted this session.

The National Governors' Association—and the New Coalition—will return at the beginning of the next session of the Congress, with the Administration, to seek welfare reform which meets the objectives I have outlined. Such comprehen-

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sive reform is long overdue for a system which, as Governor Dukakis says, is frequently "anti-family and anti-work" and which frustrates recipients, administering governments, and taxpayers alike.

My second point deals with fiscal relief, which is one of the essential ingredients of welfare reform and is the principal focus of S. 3470. The burden of financing welfare programs has fallen with increasing severity on state and local governments, and fiscal relief must be provided. The National Governors' Association supports such relief in the context of systemic reform. As I noted, we will be working hard with the Congress again next session to achieve comprehensive welfare reform. But if a sound program for badly needed fiscal relief can be developed this year, it should be enacted.

My third point deals with the approach to the distribution of fiscal relief taken by S. 3470. The National Governors' Association has several important concerns in this regard:

1. The approach contained in S. 3470 would ossify current differences among states in levels of federal contributions to the AFDC program. A high-benefit state would continue to receive federal funds based on that benefit level; but a low-benefit state which wishes in future years to raise its benefit levels to the current level of the first state would not be able to obtain the same level of federal matching payments. Moreover, half the fiscal relief would be computed on a basis taking benefit levels into account, which would reward higher-benefit states at the expense of lower-benefit states.

Furthermore, the block grant received by the 28 states which currently participate in the optional unemployed fathers program under AFDC would take into account the states' current expenditures under that program. A state not now offering UF benefits, but choosing to do so in the future, would receive no additional federal funds at that time. And again, half the fiscal relief would be computed in a manner taking the current AFDC–UF benefits into account.

This approach would be inequitable. It would also serve as a distinct disincentive to achieving the interstate equity of benefit levels which the Governors seek.

2. S. 3470 makes no provision for the increased expenses resulting from increased caseloads. All new cases above the current caseload level added by any benefit increases would receive no additional federal participation. Perhaps even more critical, no increased federal participation would be provided for caseload increases which states are powerless to prevent.

For example, the bill makes no provision for the increased expenses in the program caused by increased caseloads resulting from court decisions. One recent decision would require a state participating in the unemployed fathers program to extend identical benefits to unemployed mothers in identical circumstances. Thsi decision, if upheld, will have a significant caseload impact. But all the costs of this increase would have to be taken from the affected state's fiscal relief, or from the state treasury if that relief were exhausted.

Moreover, if a state experienced increased caseloads resulting from economic recession, it would have to bear the entire fiscal burden. Similarly the state would have to bear the cost of increased state caseloads resulting from increases in population.

3. The bill does provide for an adjustment in the block grant to each state based on each year's increase in the Consumer Price Index (CPI). It further provides that this increase must be "passed on" to recipients in the form of increased benefits unless a finding is made that this course is not necessary to provide an "adequate" benefit level.

If a state wishes to pass on the increment, however, it is caught in an unavoidable bind that requires expenditure of its own funds—beyond the funds necessary to pay its portion of the increase of each individual grant based on the percentage it pays at the time of transition to the block grant. For each dollar the grant increases, the bonus value of food stamps for which a recipient is eligible is reduced. Under the bill, no federal participation—in the CPI adjustor or otherwise—would be available to share in, much less fully pay for, the costs of replacing that lost food stamp value cash in order to provide a full CPI adjustment to the benefit level. A state would have to bear that cost entirely on its own. In a state such as New York, with relatively high benefits and a large caseload. this additional expenditure alone could absorb over time much of the fiscal relief provided by S. 3470.

My fourth point is that other approaches to the distribution of fiscal relief can avoid the problems I have outlined. The particular approach I would like to suggest is one of the primary components of the New Coalition compromise, which was first proposed last May. The New Coalition compromise calls for a "split matching system" without otherwise changing the procedure by which federal funds are paid to states for the AFDC program. The New Coalition proposal is for the federal government to cover 90 percent of each state's total AFDC expenditures up to a benefit level of $4200 annually for a family of four, and 70 percent of all AFDC expenditures for that portion of benefits exceeding $4200 (family of four), to a ceiling of the poverty level past which no federal participation would be provided.

It is likely that use of the particular match percentages contained in this proposal would provide more than the $1.5 billion proposed in S. 3470. But this Committee can clearly adjust the total amount of fiscal relief, and the distribution of that relief among the states, along the lines you consider most appropriate. In addition, the approach taken by the New Coalition proposal would avoid the problems caused by the approach contained in S. 3470. It would also facilitate adoption of the substantive reforms which the National Governors' Association advocates.

Two further issues deserves comment in this regard. First, if the Committee wishes to retain the formula for determining the amount of each state's fiscal relief contained in S. 3470—computing half the amount on the basis of relative AFDC expenditures and the other half on the basis of relative General Revenue Sharing allocations—this formula could be used independent of the permanent changes in the AFDC federal funding process proposed in the bill. Fiscal relief could be provided for a specific number of years—one or more. But there is no need to alter the method of providing federal financing assistance, as S. 3470 does, and there are compelling reasons against doing so.

Second, S. 3470 would require a full pass-through of fiscal relief to local governments which participate in funding the AFDC program. Such local participation now exists in 11 states. By contrast the New Coalition proposal calls for a pass-through of fiscal relief proportionate to the percentage of total program costs borne by the local governments. We commend this New Coalition approach to your attention.

In summary, let me restate our four major points:

1. S. 3470 is a vehicle for providing fiscal relief. The National Governors' Association, the New Coalition, and others will join the Administration in returning early in the next session of the Congress to work with you for comprehensive welfare reform, the basic objective to which we remain deeply committed.

2. State and local governments *do* need fiscal relief—badly and soon. We appreciate the efforts of Senator Long, Senator Cranston, and Senator Moynihan to address squarely the need for fiscal relief. If a sound program for badly needed fiscal relief can be developed this year, it should be enacted.

3. There are many different ways by which any given amount of fiscal relief can be distributed to state and local governments. The method proposed in S. 3470 presents several difficult problems for state governments. We do not believe that this approach should be employed when preferable methods are available.

4. We commend for the Committee's consideration the means of providing fiscal relief proposed last May by the New Coalition—the so-called "split match" method. This method can be adjusted to provide the total amount of fiscal relief, and the allocation of fiscal relief among the states, which the Committee deems appropriate.

The National Governors' Association wants to continue its close working relationship with this Committee as you consider this legislation. For you, as for us, welfare reform has been for many years, and continues to be, a matter of highest priority. We are eager to provide whatever assistance we can as you attempt to achieve action on our common objectives.

Senator MOYNIHAN. And now we have the pleasure of hearing from Mr. Barry VanLare who is the Associate Commissioner of Social Security, and I understand he will be accompanied by Mr. Daniel Marcus, who is the Deputy General Counsel.

Mr. VanLare, good afternoon. Mr. Marcus, good afternoon to you. Would you proceed, sir?

STATEMENT OF BARRY VANLARE, ASSOCIATE COMMISSIONER OF SOCIAL SECURITY FOR FAMILY ASSISTANCE, ACCOMPANIED BY DANIEL MARCUS, DEPUTY GENERAL COUNSEL, DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

Mr. VanLare. Senator, as the other witnesses this afternoon have indicated, the welfare issue—as you have so appropriately noted—is an extremely complex issue, and the welfare system is badly in need of change. Among the most compelling changes needed we believe, are those designed to enhance the lives of the neediest persons, to help them attain steady, productive employment, to provide them with more adequate economic assistance, and to reform the administration of welfare programs to promote greater efficiency and effectiveness.

While fiscal relief is one component of welfare reform, we believe that these other vital changes are critical to successful structural changes. Moreover, large-scale fiscal relief in the absence of structural reform is not, in our view, feasible given the acute budget stringencies the Federal Government faces in the coming years.

As a result, and as indicated by Undersecretary Hale Champion before this subcommittee in August, the administration opposes fiscal relief as it would be provided in S. 3470.

We are also concerned about the implications of the proposed bloc grant approach in the proposed legislation. The President and Secretary Califano have identified what the administration sees as the basic goals for restructuring of the welfare system. These include a national minimum benefit, increased employment opportunities for the low-income population, coverage of two-parent families in the cash assistance program and expansion of the earned income tax credit, simplified administration, and fiscal relief to State and local government.

The administration has recognized the need for interim fiscal relief and, I believe, has demonstrated its commitment to reducing the burden of welfare costs on State and local governments, both in the provision of President Carter's proposal and in its support for interim fiscal relief, pending implementation of structural reforms in the welfare system.

However, as the goals for welfare reform clearly indicate, we believe that fiscal relief is only one element of the welfare problem and it cannot, and should not, be separated from structural reform. The enactment of structural reform requires the cooperation, as you so appropriately noted, of a wide variety of groups—State and local governments, public employees, labor unions, recipients, and others.

The separate enactment of fiscal relief will, we believe, seriously jeopardize the broad coalition of support needed for the vital changes sought by the administration and other interest groups and could merely serve to reduce tax burdens without clearly assisting needy families.

While legislation to achive these goals is no longer possible this year, the negotiations and discussions of the past spring and summer have, I think, demonstrated a growing consensus. As a result, we believe that congressional action to achieve these goals is possible next year.

Apart from our concern about the impact of enacting fiscal relief legislation, we are deeply concerned about the bloc grant concept embodied in S. 3470. The bloc grant approach has, we think, several serious drawbacks.

First—I think the chairman addressed this in his comments earlier, and the problem may have well been corrected—it establishes a cap on Federal expenditures so that the cost of caseload increases, or benefits increases due to reduced earnings, must be borne solely by the States.

Second, it could encourage the maintenance of current benefit levels in low-payment States by eliminating Federal matching for the real-benefit increases needed to establish some reasonable minimum national payment. Thus, compared to the current match system, the State cost of increasing welfare benefits would increase almost sevenfold in Mississippi, and by similar percentages in other jurisdictions.

The block grant may discourage the extension of the AFDC–U program which aids two-parent families by forcing States which do not now have such a program to assume 100 percent of these costs. It may also slow Federal efforts to coordinate and simplify eligibility standards and processing between the AFDC, food stamps, and medicaid programs.

It virtually eliminates the capability of the Federal Government to use the administrative matching requirements to promote more efficient administration and cost reduction, since States would be entitled to specific amounts for AFDC benefits whether or not the beneficiary payments are accurate.

It gives States discretion to retain cost-of-living increases rather than passing them through to recipients and appears to allow these funds to be used to cover additional caseload rather than increases in benefits.

In addition, it penalizes States that have increased real benefits during fiscal 1978. Some 29 States have approved fiscal benefit increases that went into effect during the present fiscal year. Since only a portion of these expenditures would be included in the base year under the formula presently provided in S. 3470, the Federal share of AFDC expenditures for future years will not reflect the full costs of these increases.

It rewards States, or appears to reward States, that have done the least to reduce errors while penalizing those States which have already made substantial progress.

For example, Illinois, whose error rate currently stands at approximately 16 percent would, if it is able to reduce that rate, be able to keep the full Federal share of such expenditures. This comes about because Illinois' erroneous payments would be included in the base for calculating the block grants.

California, on the other hand—which has already made substantial progress to reduce its error rates—would have to share those savings with the Federal Government.

While incentives for error rates are important, it is also important, we believe, to keep in proper perspective the legitimate needs of each State and to recognize the progress that has been made by the States that have already considerably reduced errors.

The bloc grant also increases the difficulty of enforcing Federal regulations for the AFDC program. The proposed changes would, as we read them, force HEW to rely solely upon the compliance provisions of the statute. This would mean that any infraction of the State plan would jeopardize completely all Federal reimbursement to the State. It is unlikely that this penalty would be used to force compliance in any but the most serious situations.

Most important though, we believe that scrapping the current matching formula for the block grant approach has broad implications for needy families and would provide a substantial roadblock to further structural reform. It moves away from national standards and uniformity in the treatment of welfare recipients and thus holds, we think, the potential for complexity and greater disparities between State programs and with greater inequities in the treatment of individuals.

In summary, S. 3470 would offer substantial and permanent fiscal relief without substantive welfare improvement. In fact, if enacted, we are concerned that it could pose a substantial barrier to reform by potentially weakening the coalition of support and increasing the potential for destructive conflict between individual State programs and legitimate and important Federal concerns.

For these reasons, as noted before, we urge that S. 3470 not be approved. Instead, we would urge that action be deferred so that work can continue on legislation that will combine fiscal relief with badly needed and important structural reform.

The administration plans to continue active discussions this fall with interested parties both inside and outside Congress in an effort to develop the consensus that is needed for action early next year. We are optimistic, based on the experience this spring, that these discussions will result in substantive reform legislation that can be considered by the next Congress.

Senator MOYNIHAN. Thank you, Mr. VanLare. That is a very helpful view.

Let me just say a few things. You are here representing the Secretary of HEW?

Mr. VANLARE. That is correct.

Senator MOYNIHAN. Secretary Califano.

Mr. VANLARE. That is correct.

Senator MOYNIHAN. Could you tell us where Secretary Califano is?

Mr. VANLARE. I am sorry. I do not know that, Senator.

Senator MOYNIHAN. You do not know where Secretary Califano is? Could you tell us where Undersecretary Champion is?

Mr. VANLARE. It is my understanding that the Undersecretary is on leave this week.

Senator MOYNIHAN. He is on leave. And the Assistant Secretary, Mr. Aaron. Where is he?

Mr. VANLARE. I am sorry. I do not know.

Senator MOYNIHAN. Well, you know what people think, do you not? They think that the Carter administration has dumped welfare reform and has no intention of adopting anything at all because of budget

considerations. They think the administration is saying, do not bother with this legislation, because we are going to have a great big bill in the next Congress—knowing full well that there will be none if you lose the initiative now.

Do you know that the President has told us that we must have a natural gas bill. Why? Because there will be none next year. The Congress will not get back to it.

Certainly, this has been our experience. You should know that in this committee there are those who think that the refusal of Secretary Califano either to come, or to indicate why he could not come, is a sign that the administration has dumped welfare reform.

Let me just read a line from your testimony and ask you to explain this to me. You say on page 1,

> Moreover, large scale fiscal relief in the absence of major structural reform is not feasible given the acute budget stringency the Federal budget faces in the coming years.

Could you explain that sentence to me, Mr. VanLare?

Mr. VANLARE. Certainly, Mr. Chairman. I am sorry that the committee has interpreted the Department's choice of individuals to testify as they have.

Senator MOYNIHAN. I am sorry. It is not the committee's interpretation that is of primary concern. It is the Senate's interpretation that worries me. When the word comes out that the President has dumped welfare reform, trying to revive it will be difficult.

Mr. VANLARE. I think, as indicated by the statement, there is a firm commitment by the administration to work on the development of legislation.

Senator MOYNIHAN. That is what you, poor man, have been sent here to say.

Would you explain that sentence to me?

Mr. VANLARE. Yes, Senator. I think what we are saying in that sentence is that we believe that in assessing priorities that the expenditure of funds on welfare can best be justified when we are able to combine both badly needed fiscal relief with programmatic changes that will make a more equitable and more appropriate system across this country.

Senator MOYNIHAN. I did not understand the sentence at the start, and now you have made it three times as long.

Let's go through this again. Let me see if I cannot help you. We will parse the sentence.

"Large-scale fiscal relief"—and then we will leave out a clause—"is not feasible, given the acute budget stringency the Federal Government faces in the coming years." The Democratic platform pledges fiscal relief, but this statement says, "it is not feasible."

But then there is a clause that suggests that it might be, given one fact, which is, "in the absence of major structural reform."

Now, does that mean that, in your judgment, major structural reform will save the Federal Government money? It will spend less money and, therefore, funds will be available for fiscal relief?

Mr. VANLARE. I do not believe that is the intention of that sentence, Senator.

Senator MOYNIHAN. Well, read it again. "Large-scale fiscal relief in the absence of major structural reform is not feasible, given the acute budget stringencies the Federal Government faces in the coming years."

That means to me one thing: The only possible way to read that sentence, would be to assume that major structural reform would provide the money to make large-scale fiscal relief possible.

Now, you note sir—Mr. Marcus is scribbling away. Mr. Marcus, you are welcome to contribute too.

Mr. VANLARE. Senator, what is intended—and I apologize if the sentence does not convey that meaning fully—is to convey that, in the view of the administration there are advantages in terms of services to individuals, benefits to needy individuals, the development of job opportunities, that can come about by combining fiscal relief with other changes in the welfare system, and that——

Senator MOYNIHAN. For less money?

Mr. VANLARE. No. I think that produces more than merely tax relief for State and local government with the use of the same dollars is what we are trying to convey.

Senator MOYNIHAN. Not just tax relief, sir. Women and children in my State have seen almost a third of their benefits disappear because the State does not have the money to help them. This is not just tax relief.

Now, let me ask you. The bill that was finally agreed to by the ad-hoc committee in the House had a full fiscal year effect in what range?

Mr. VANLARE. Approximately $20 billion.

Senator MOYNIHAN. About $20 billion. That is right. And this bill costs $1.2 billion.

And so what you are saying is that large-scale fiscal relief in the absence of major structural reform, which will cost $20 billion, is not feasible given the acute budget stringencies that the Federal Government faces in the coming years

Mr. VanLare, that does not make any sense. The President's bill ended up costing about $20 billion and, because of that, this legislation disappeared in the House. We have a $1.2 billion bill and—your sentence does not make any sense, sir.

Mr. Marcus, does that make any sense to you?

Mr. MARCUS. I think that perhaps it could have been worded a little more felicitously. I think that the point that Mr. VanLare is making is that, given limited resources that are available, that the administration is unwilling to make the commitment of scarce resources to fiscal relief without——

Senator MOYNIHAN. Right. How much money would you say was available, Mr. Marcus?

Mr. MARCUS. Well, as you know, the whole question of the cost——

Senator MOYNIHAN. $20 billion? Do you have the $20 billion? Are you planning on that?

Mr. MARCUS. Well, the $20 billion figure was a 1982 figure by the Congressional Budget Office.

Senator MOYNIHAN. Well, $10 billion. Have you got $10 billion?

Mr. MARCUS. Well, we might have $10 billion in 1981 and one of the problems, of course, is that you are talking, in S. 3470, about spending this money next year. And in the administration bill——

Senator MOYNIHAN. Would you support us if we said 1981?

Mr. MARCUS. We would support it if it were tied to substantial welfare reform. Indeed, as Mr. VanLare indicated in his testimony we would support fiscal relief in 1979, if tied to welfare——

Senator MOYNIHAN. I am sorry to have to put it this way. It is not either of your faults. I am afraid you are stuck.

The decision has been made, as we have heard, to kill welfare reform by saying that we will not take anything unless it is verything and, of course, that we cannot afford.

Mr. MARCUS. Senator, if I might add my voice to Mr. VanLare's, I cannot emphasize too strongly our disagreement with that diagnosis of the administrative position. We are strongly committed to welfare reform. We disagree——

Senator MOYNIHAN. Read that sentence. Read that—well, Mr. Marcus, I will not delay you any longer. I want to say that it was disappointing that nobody came today except yourselves. You are very welcome, but you should have been accompanied by your seniors.

If you are putting the integrity of the Department of HEW into saying that you really think you are going to get a big bill next year—well, we will find out. We will see.

Mr. VANLARE. Senator, if I may, we recognize that one of the serious problems with the legislation that was considered this year was its cost and the concern that significant segments of Congress had with that cost.

Senator MOYNIHAN. You did not even get to the committees.

Mr. VANLARE. We also have entered into a series of discussions, as I indicated in the closing part of our testimony, and we are prepared to continue those discussions. I do not know what the——

Senator MOYNIHAN. HEW will continue discussions into the 21st century.

Mr. VANLARE. I do not know what the acceptable level will be. The point that we are trying to make in our testimony is that we believe that we can get further by the combination of fiscal relief with some elements of reform in a single package. The judgment on that is obviously a political one, which the Congress will have to make, but I think it is a judgment that is made in good faith by the Department and the administration in an attempt to see that we do not stop with fiscal relief, but deal with all the problems that we agree are serious.

Senator MOYNIHAN. I have heard this—let me not detain you.

I introduced the President's bill. I was the only Member of the Senate willing to do so, although Senators Javits and Williams came forward as cosponsors. I have held hearings, as the President asked me to do, and prepared for the bill to come over from the House. I have made speeches. I have gone to meetings. And it failed utterly—not in the Senate, but in the House. You could not even get it to the committee stage. And, not having been able to get it to the committee stage, you say next year, in Jerusalem, we will have nirvana.

We come along with something that would help and you will not even discuss it. The Secretary of HEW has not even done me the courtesy of saying that he could not come to this committee hearing, but that he wished he could.

I am sorry to have to tell you what is being said. Go back and tell the people what is being said. I hope it is not so. I will introduce your bill again. I will fight for it again, but I sense treachery. I am sorry.

Thank you very much. My displeasure certainly does not obtain to either of you, and you know that.

Well, now we have a personal honor and pleasure for me to call an old colleague and dear friend, Prof. Nathan Glazer of Harvard University.

Professor Glazer, please come on up to the table.

Mr. GLAZER. Thank you, Mr. Chairman. I think I will give a brief moment of relief from discussions of fiscal relief which are, for the most part, beyond me, and will speak to aspects of substance I detect in this bill, as short as it is.

Senator MOYNIHAN. Please proceed.

STATEMENT OF NATHAN GLAZER, PROFESSOR, HARVARD UNIVERSITY

Mr. GLAZER. I am testifying in favor of this bill for two reasons: First because of what it is not trying to do, and second, because of what it is positively trying to do.

What it is not trying to do, as have welfare reform proposals for the past 10 years, is to set up a national and uniform welfare system. In principle, one may think of many desirable improvements over the present system, in which 50 States administer welfare, setting different benefit levels with various patterns of administration, with some States continuing welfare for families with unemployed fathers while others do not, so that a family that would be on welfare in one State cannot be in another.

But, in practice, our efforts to devise a comprehensive and uniform national system have run into many difficulties. One of the chief developments that has given us pause has been the Stanford Research Institute's income maintenance experiments in Denver and Seattle. The income maintenance experiments were intended to keep families together and to encourage participation in the labor force.

Certainly, in all reason, they should have, since there was no benefit gain from family breakup and since some degree of work incentive was built into the income-maintenance experiments.

Unexpectedly there was a substantial increase in family breakup and fare, family formation and dissolution, and work effort.

This is not the place to go into the explanation of these extraordinary findings—which, I must confess, I also do not have, though I have suspicions. But whatever their explanation, they are certainly not a green light to go ahead with comprehensive national structural welfare reform until we understand better the interrelationships between welfare, family formation and dissolution, and work effort.

If the first principle of policy is to do no harm—and I know, Senator Moynihan, you could do that to me in Latin, but I do not have it.

Senator MOYNIHAN. Primum non nocere.

Mr. GLAZER. Thank you, thank you. I read it in a speech.

But, at any rate, the sense is one we agree with. If the first principle of policy is——

Senator MOYNIHAN. If I could interrupt my old friend to say, you know, the phrase is not that arcane. It is the first thing medical students learn in medical schools.

Mr. GLAZER. Well, I agree with it, and I am afraid that large-scale, structural reform in the state of our present knowledge may do harm. And if that is the first principle, then I know you must move cautiously in welfare reform, and this legislation does.

Now, as to the positive benefits that this approach to welfare offers. To my mind, it is in the block grant feature, with its promise that States may approach problems of welfare imaginatively and variously with the strong incentive of being able to retain block grant funds for social services if their costs for welfare declined.

Now, I am aware, on the basis of testimony here, that there are problems with the formula. I am speaking less to the specifics of the formula, the fiscal issues, than to the principle of the block grant. As Blanche Bernstein, with her extensive experience in New York at State and city levels, pointed out in a letter to the New York Times when a first version of this bill was proposed, this block grant feature is a strong incentive to efficient administration, stronger, I would think, than when 50 percent or more of the costs of one's errors are borne by the Federal Government, but I hope that the block grant approach will not be interpreted as an encouragement for pennypinching, although undoubtedly in the variety of State responses we will see, some will take this pattern.

The spirit of the legislation, its provision of additional Federal funds for welfare, and its introduction of an adjustment for inflation shows that this is not its intention. The major purpose of the block grant approach, as Senators Moynihan and Cranston have pointed out, is to encourage creativity, and I believe many States will respond to this encouragement.

The fact is, there is an enormous variety among the States in the Nation and their welfare populations. They vary in race and ethnicity, in causes of distress, in the degree to which mothers participate in work.

In view of these differences, somewhat different approaches to welfare should prevail with different States, and the block grant approach should encourage, along with the amount of funds it makes available, some new thinking.

Perhaps it will do more to encourage new thinking than demonstration funds specifically earmarked for new approaches. As we know so well, demonstration funds encourage the hungry States and cities to devise new programs simply to get at the money and it requires adding a new level of devisers of demonstration programs down below in the States and a new level of critics and judges of demonstration programs up above at the Federal level, with both levels contributing to outside consultants who both design the new programs and judge them.

The block grant approach, plus the increase in Federal contributions, encourages creativity without an additional bureaucracy to devise and

judge suitably creative programs. It will be up to the States to work them up.

Can the States respond? That is a real question. I believe they will, if the Department of HEW modifies its regulations in light of this legislation and its intentions. Are there creative programs that a new block grant program would encourage? I believe there are, and would suggest two examples.

The supported work program now underway in a number of cities has, as one of its chief features—it is more than that—the use of welfare and other maintenance grants to encourage steady work. It is not a terribly original idea, as you know, to use welfare grants as wages for employment rather than simply as maintenance payments. Obviously, this crude formulation requires much elaboration, as to who should be required or asked to work—I prefer the incentive approach, asking, rather than the requirement approach which, as we have seen, in any case can be easily avoided; what wages should be paid; what kind of work under what kind of supervision; with what kind of discipline and with what long-range effects.

The supported work experiments have been particularly carefully set up and are now being carefully monitored and evaluated, but it is interesting to recall that it took quite an effort to get exemptions from Federal authorities from Federal regulations in order to be able to make use of the money that normally went to maintenance for supported work.

Another example: There have been proposals that the problems of child care, which may be one barrier to mothers who want to work, can be handled by a group of mothers cooperating, with one taking care of the children while others go out to work. Just as in the case of supported work, this simple idea would need a great deal of work to be transformed into a workable program, but one problem that immediately comes to mind is that, for such a consortium, one may want to distribute welfare grants somewhat differently. One would want to consider how the burdens and rewards are distributed between the working mothers and the child care mothers and adjust welfare grants to take this into account.

This would, undoubtedly, be much more simply arranged from a bloc grant than from the present Federal formula.

I have seen no good ideas about how welfare reform might contribute to family stability, even under the greater freedom of bloc grants. My view on that is that family stability can only be increased by the provision of good, stable jobs for men and I do not see that as basically a welfare problem. We can make a contribution in the way of training programs, initial opportunities, and incentives, all of which are not part of welfare programs or of work training programs, but basically we have to improve the attractiveness of present low-paying jobs.

My point about work for welfare mothers is not to be punitive or to save money—I do not know that it will. It is rather that participation in the labor force by mothers is rapidly becoming the norm. More than one-half of mothers with children under 18 now work. There is an anachronism in a program which does not facilitate the opportunity to do what the majority of mothers are now doing freely—participating in the labor force as paid employees.

But not doing so, welfare makes the AFDC mother an anomaly and helps keep her out of the mainstream.

There are ideas in welfare, and bloc grants would make is easier for the States to implement them, by freeing them to work within the limits of the grant with the incentive of being able to apply savings to social services.

As I have said, this simple legislation would certainly have to be implemented by an exacting review of Federal regulations, many of which would have to be changed or modified if a bloc grant approach were implemented.

I realize there are other features of this legislation of some importance dealing with fiscal relief, but what I like about it is that it does not try to implement reforms, rational as they may appear, which have long been on the agenda, but which, our research suggests, many have hidden dangers, and that it tries to free the States for inventive and creative approaches to welfare.

These are good enough reasons to go ahead.

Thank you.

Senator MOYNIHAN. Thank you.

Before we go on, I ask, are there representatives of HEW here?

There are two. Well, we are glad that you are here.

The minute that the HEW witnesses finished, about half a million dollars' worth of expensive talent got up and left the room. I am glad that two of you have stayed.

John Affleck, director of the Rhode Island Department of Social and Rehabilitative Services.

Senator MOYNIHAN. Oh, no, sir. You are from the State of Rhode Island.

Mr. AFFLECK. That is correct.

Senator MOYNIHAN. I meant HEW.

Mr. AFFLECK. I am sorry.

Senator MOYNIHAN. Is there anybody from HEW here?

Who is that?

Ms. BELDON. I am Laurel Beldon, family assistance studies, Office of Research and Statistics staff.

Senator MOYNIHAN. Well, it is very nice of you to be here. I am glad that one of you stayed.

Would you have the kindness to go back and tell the rest of your colleagues—what is your rank, if I can ask, in the department?

Ms. BELDON. Very low.

Senator MOYNIHAN. Would you have the kindness—we just passed the civil service reform bill, so you need fear nothing. If you will give me your name afterwards, I would like to write the Secretary of HEW to say that we were only halfway through our hearing when, HEW having made its wholly uninformative comments, about half a million dollars' worth of high-paid bureaucrats got up and left. That is how much they are interested in what anybody else has to say.

Thank you for staying.

Dr. Glazer, in 1971, you delivered the Jacob C. Sapasnekow lectures at the City College of New York which you published as the well-known volume, "The Limits of Social Policy."

You may not remember this, as it was some time ago, but you had a passage about the then-family assistance plan, on which the administration's proposal, and the bill I have introduced here, are based. You said:

The administration's proposal is a heroic effort to improve the condition of the poor without further damaging those motivations and structures which are the essential bases of individual security everywhere.

But, does not the history of our efforts to expand policies of income support suggest that, inevitably, improvement and damage go together?

In view of what we seem to have learned since then about the effect of similar programs tested in the field, how would you assess the relative improvements and damages they would likely cause if implemented nationwide?

Is there, for example, any evidence to suggest that the guaranteed jobs program might mitigate some of that damage?

Mr. GLAZER. I must say you raise a very large question and I would not want to be held as taking the position that any improvement means damage, though I admit that the passage suggested that. It is rather that—what that passage was saying was that it seems that, in certain respects, we thought we were better off when people had fewer opportunities to apply for income maintenance. In other words, it can be an argument that it is not the case that the most generous States and the States in which the availability of welfare has been the most widely advertised are those that are the most fortunate.

Now, I admit that this sounds like a rather curmudgeonly view, but I think the best interpretation of why certain things happen under the income maintenance experiments is that people knew their rights too well. Since I am not running for office, I feel that I can say this freely.

Certainly, everyone should know their rights. But I do think, as Bradley Schiller suggested in an article in the Wall Street Journal discussing the Stanford Research Institute's findings, that when you explain to everyone just what their rights are, it is a very heroic person who will not exercise them. This was the character of the welfare rights movement.

But it is also the case that the exercise of all one's rights is not necessarily the best for the individual involved. If I may go to a homely example, the fact that a child exercises his full rights against his parents does not necessarily mean that the relationship of the child and parent will be better, or the child is a better person, or will lead a better life.

I admit that this is the sort of issue, Senator, that it is very difficult to take account of in legislation, but still, people might keep it in mind, and that was the sort of problem about guaranteed income, and guaranteed income problems, that I was concerned about when I wrote that passage.

Senator MOYNIHAN. That is what you anticipated. It is prophetic and not very pleasing.

You know, the rates of family dissolution are up around 70 percent or higher. Work decline was really quite significant.

About 55 percent of the income support would go to replace income that otherwise would be earned. Now, what do you do with that?

Mr. GLAZER. That is one reason why I would say that a program that accepts State difference is, at this point in the state of our knowledge, a good idea. I do not think that we want to take—once again, I do not know how this will appear in the record, but I will say it.

I do not think that we want to take——

Senator MOYNIHAN. You can correct the record.

Mr. GLAZER. Well, I will just have to defend it.

I do not think, at this point, we want to take the standards that exist in the most liberal States—and I am also a New Yorker—and spread them over the country. I do not think that it is a matter of course that this would be all for the best.

I am not urging that those States—I believe in democracy—that have moved in that direction, that find this the way they want to go in terms of levels of benefits and patterns of administration should be required to revert to a harsher or—to use another word—to another set of values which prevails in the other States. Nor should those States all, I assume, are being run democratically now that everyone is voting, or at least everyone has the right to vote—that have, in a way, established, even with those strong Federal incentives, low payments, be required to change. After all, you know, in the low-cost States the incentives to go ahead and raise benefits are much higher than in the high-benefit States. The Federal Government pays what—87 percent of their share? And they still do not go ahead.

Under those circumstances, they are expressing some political balance, some set of values. I am not the one to say that it is the worst in terms of the kinds of things we are looking for, and that is the argument for caution.

I know I have not enlightened you on those difficult questions from income welfare experiments.

Senator MOYNIHAN. Just let me interrupt to say to the young lady in the back row, Ms. Beldon, that a member of the President's staff is here. We welcome him. You were out of the room, sir, when I observed that the minute the HEW people had furnished their testimony, they got up and left.

A dutiful young lady in the back, has remained out of courtesy and interest, but everybody else has walked out on our other witnesses.

Members of the President's staff might remember that during the campaign the President used to talk about the bloated, horrible bureaucracy of Washington. I am here to say that some bureaucracies are more bloated than others.

In our welfare hearings this spring, Secretary Marshall offered some particularly insightful observations. He said:

> For example, a welfare program with a modest basic benefit set at 75 percent after poverty and a 70 percent benefit reduction rate can cause such substantial work reductions that only 45 percent of increased welfare expenditures would translate into increases in disposable income for recipients.

The Secretary's testimony raised some profound questions which I don't believe we have faced yet. Do you remember the origins of the guaranteed income studies? In HEW, during the late 1960's—these matters were considered, but it was clear that a national program was not going to be proposed. And so, as a strategy, a perfectly sensible one, HEW's Office of Planning and Evaluation, suggested that we try an experiment.

And in about 10 or 12 years time, we will get these experiments in, and that will be about the 1980's, and the cycle will be coming around again and we can do it.

Well, as a matter of fact, that is about what has happened. The Federal Government has spent about $125 million and we are now talking about legislation for the early 1980's, but the answers have come in wrong.

Now, I do not think there has been such a massive experimental mode in the Government, has there?

Mr. GLAZER. I do not think so.

Senator MOYNIHAN. And when you commit yourself to an experimental mode, are you stuck with the answers? What would you do?

If you headed the Public Health Service and you were here to tell me that you had tested a vaccine for polio that increased the likelihood of contracting polio, by 70 percent, I am quite sure that you would not be here proposing its universal adoption.

Mr. GLAZER. That, Senator Moynihan, is why I moved away from the fiscal relief issues to the substantive issues. It is hard to believe that a bill which is as brief as the one you and Senator Cranston has introduced has substantive issues, but the fact that it does not want to move ahead at this moment on the well-marked course of welfare reform which has been there for 10 years because of problems that have developed, because of findings from perfectly soundly introduced experiments that suggest that we will not get what we want, and what we want is certainly incentives to work effort, and we also want not to increase incentives for family breakup. There are enough around already.

And if these two major objectives of welfare reform do not seem to flow as they should, rationally, from large-scale uniform advertised income maintenance, I suggest it is a good moment to try some other things. And I interpret this legislation as saying—and I am sure it needs modification—as saying yes, we are going to try some other things and let other people try them. We are going to let the States work through block grants under a greater measure of freedom, try out what other ideas they have.

Senator MOYNIHAN. This legislation also says that fiscal relief is a real issue. Half the AFDC population in the country lives in jurisdictions where the county has a responsibility for welfare. If you are a beneficiary living in a State or county with limited resources, you suffer.

To see the income of those families shrivel from inflation and to be powerless to do anything about it because of your jurisdiction's fiscal problems is devastating. Fiscal relief is essential if we want to begin to solve the problems of welfare. Here is one problem that we can solve.

Mr. GLAZER. That is true. The legislation says let's do what we can and not do what we, apparently, at the moment, cannot. That is a fair approach.

Senator MOYNIHAN. Would you agree that this is a moment of truth for the social sciences? If you commit yourself to an experimental mode, you must honor that commitment.

Mr. GLAZER. It certainly is a moment of truth, and I will recommend a review by Mr. Leslie Lenkowsky of your staff appearing in the forth-

coming issue of "The Public Interest," a book The Professors and the——

Senator MOYNIHAN. By the missing Assistant Secretary of HEW.

Mr. GLAZER. Yes, Henry Aaron's book on what is the proper relationship between scientific findings and the policy proposals that flow from it.

And I think there has been a hiatus, or gap, between the findings from investigations and the policy proposals up to now that HEW has formulated for welfare reform.

Senator MOYNIHAN. I wonder if we are really going to take a measure of ourselves as well as our problems. The findings at this point are not definitive, of course, but they should have a claim on our attention.

Mr. GLAZER. One has to take them into account.

Senator MOYNIHAN. We had better have better reasons to reject them other than that they are inconvenient.

Mr. GLAZER. I agree.

Senator MOYNIHAN. Well, we thank you very much, sir. It is an honor for this committee to have such a distinguished scholar and a good friend. and thank you very much again, sir.

Now, finally, Mr. Affleck of mistaken identity. You are very nice to be here, sir, and we welcome you back.

Mr. AFFLECK. It is a pleasure to be here, Senator, and I am happy to properly introduce myself at this point and not to be confused with——

Senator MOYNIHAN [continuing]. With that horrible, bloated bureaucracy.

Mr. AFFLECK. I am sorry. I must have had my ears turned off just at that moment, Senator.

It is a pleasure to be with you again, sir. It is always a pleasure and an opportunity to meet with you on these important issues.

For the record, may I note that I am accompanied this afternoon by one of our very able staff members at the American Public Welfare Association, Miss Rikki Baum.

Senator MOYNIHAN. You are well-known to this committee, and we welcome you.

STATEMENT OF JOHN J. AFFLECK, DIRECTOR, RHODE ISLAND DEPARTMENT OF SOCIAL AND REHABILITATIVE SERVICES, ON BEHALF OF AMERICAN PUBLIC WELFARE ASSOCIATION; ACCOMPANIED BY RIKKI BAUM, AMERICAN PUBLIC WELFARE ASSOCIATION

Mr. AFFLECK. As you know, Senator, I testify both as director of the State Department in Rhode Island and, more importantly, in my capacity as the chairman of the National Council of State and Public Welfare Administrators. We have had the opportunity on a number of occasions to meet with you, and always appreciate that opportunity.

Senator MOYNIHAN. Alas, we have.

Mr. AFFLECK. Yes, sir.

Senator when it was commented that you had become grey in the 15 years of your travels along this road, I think we have been with you through those years. Indeed, many of us have been in the field of administration and public welfare prior to that, so we have followed the

efforts to effect welfare reform for many, many years. We are the individuals who administer the programs in the States that affect literally millions of lives in America today.

We have been party to the process of welfare reform which has seen so much effort, particularly in this past year, the administration proposal and the various other proposals which have flowed from it. For the sake of brevity, Senator, I am going to summarize my observations. The statement which we have submitted is comprehensive and I ask that it be entered into the record.

Senator MOYNIHAN. The full statement will be put in the record.

Mr. AFFLECK. Thank you. I will be happy to answer any questions to the extent that you would wish, sir.

Senator MOYNIHAN. Please.

Mr. AFFLECK. As administrators, we have been part of this welfare reform process and, indeed, followed and participated very actively in the efforts undertaken by the Congress during this past year. We supported the principles embodied in the administration's bill as well as what came to be known as the New Coalition draft bill. We were hopeful that the New Coalition's effort would gather concensus where other bills had failed to do so.

We have presented to this subcommittee, sir, the fundamental principles that we believe welfare reform must encompass. Those are articulated in our statement, beginning on page 3. I will not repeat all of them now, but certainly we are speaking of expanding coverage, establishing an adequate minimum benefit level allowing State supplementation at the State's option, establishing strong work requirements, expanding emergency needs assistance, simplifying administration, and for purposes of our discussion this afternoon, providing fiscal relief.

We don't want to be sucked into the "comprehensive versus incremental" debate. I was reminded of it when Senator Danforth spoke of the issue that has developed between proponents of comprehensive welfare reform and incremental welfare reform. I speak to that on page 5. We really do not want to be drawn into that trap. It is almost a semantic battle, if you will, and I am not sure that it serves any useful purpose. We are truly committed to establishing long-range objectives.

Senator MOYNIHAN. You are for a comprehensive incremental approach.

Mr. AFFLECK. Yes, sir, and that is not a play on words, I do not think. It is a commitment on our part to move steadily toward the objectives we have enumerated.

Senator MOYNIHAN. It is probably reality.

Mr. AFFLECK. We believe so, sir. We believe so.

We recognized that the possibly of achieving all of our objectives this year was extremely limited. We were most encouraged, however, to see that certain key provisions kept reappearing and that these provisions became the basis of the New Coalition approach.

When even that compromise went down the tube, we were indeed disapointed. We watched with interest, however, your introduction, along with Senator Cranston and Senator Long, of a bill that would provide fiscal relief to State and local governments. We recognized

fiscal relief as one significant piece of the comprehensive effort that we subscribe to. We commend you for your continued concern in this area, and we recognize what the Congress has already done to provide interim fiscal relief: Public Law 95-216 passed on $187 million, for example; and additional funds are still pending—awaiting action on H.R. 7200.

So, in terms of fiscal relief, sir, when we address your bill this afternoon, we very much applaud the destination it seeks to take us to. I think we simply suggest that the route that you would utilize is not the best route.

We would prefer an alternate route, one which would bring us to the same point, Senator, but in a way that is far less disruptive, in our judgment, to the existing Federal-State relationship and Federal financial participation.

Senator, there are three points that I would like to make. First, we recommend that fiscal relief measures are best considered as part of legislation requiring major programmatic reforms.

Second, if such comprehensive and incremental reform is to be further delayed, our Council of State Administrators could certainly support short-term fiscal relief legislation that does not substantially alter the Federal-State-local governmental interrelationships in the AFDC program.

Third, we would suggest, sir, that your bill, S. 3470, could be made acceptable to the council if, at the very best, it became a vehicle for substantive program reforms. At the very least, however, the bill could be amended to supply States and localities with much needed fiscal relief by using more acceptable allocation mechanisms. A couple such alternatives come immediately to mind.

First, the Federal rate of participation in the current AFDC formula could be increased. It is a clean and, we suggest, a neat way of approaching it.

The council would, indeed, prefer this alternative and notes that the Baker-Bellmon bill and the New Coalition draft both utilized such an increased Federal match provision.

Second, and finally, fiscal relief could be allocated according to the two-part formula which is utilized by the Senate Finance Committee in its amendments to H.R. 7200, on which we have previously testified, and by the House Ways and Means Committee in the Rangel bill, H.R. 13335.

It is the council's view, sir, that both of these alternatives are preferable to the bloc grant approach which is employed by S. 3470.

Senator MOYNIHAN. May I interrupt you at this point?

Mr. AFFLECK. Yes, sir.

Senator MOYNIHAN. Is it the council's view that we can get either bill passed?

Mr. AFFLECK. Either of the other bills, sir?

Senator MOYNIHAN. Yes.

Mr. AFFLECK. With a concerted effort, sir, I would hope that such bills could be passed. When I make this observation, it is in relation to the manner and method these bills utilize to provide fiscal relief, and it is in that context that we recommend them as preferable alternatives to what is proposed in your legislation, sir.

I am reminded that we certainly concur with the National Governors Association's comments that, together, we must make a concerted effort next year. We are never counted out, I trust, in terms of our efforts to work constructively with others to affect purposeful change.

Senator MOYNIHAN. No. You certainly are not to be counted out. Professions and institutions endure. The profession is going to go on and the association is going to go on, as banks go on.

Mr. AFFLECK. And people will remain in need, sir, and we will be there to try and serve them.

Senator MOYNIHAN. But in the meantime, a city can go broke. We are going to be hearing a little later a welfare advocate veteran in New York City. New York City is a big place and there are 1 million people in New York who depend on welfare. Their benefits have been reduced by almost a third in the last 4 years, and we do not know what we are going to do about it.

Do you think we can get a bill next year?

Mr. AFFLECK. Yes, Senator. It seems to us, in our discussions—and we took a position in support of the principles embodied in the New Coalition draft bill—that there is a consensus emerging that would enable passage of a bill consisting of those principles.

I am not an incurable optimist. This is a responsible view on my part, personally, and it is a view held by my associates and peers, Senator.

Senator MOYNIHAN. Well, this is a decision that the Congress is going to have to make. The point I would like to make to you, though, is that there has been a history of saying, "No, not this year, next year will be better," and next year turns out to be worse. Do you remember the history of the family assistance plan? The first time that it was considered it passed the House of Representatives by a 2 to 1 margin, it was whipped over here and it was almost passed on the floor of the Senate.

This present administration got nowhere. Their proposal did not even get to the committee stage.

Mr. AFFLECK. Yes, sir. I was very interested in that discussion, Senator, and I tried to follow some of that, of course, from my own perspective. I can only reiterate, Senator, our feeling, that during the early summer, consensus was beginning to develop around the principles that were represented in the New Coalition draft bill. We felt it was a responsible effort and one that could move. It is the Council's judgment that with the concerted efforts of interested Members of Congress, like yourself, the Council of State Administrators, the National Governors' Association, and others, that this consensus may, indeed, result in enactment of several key program reforms in the next Congress.

May I observe, Senator, that this in no way precludes both the desirability and the possibility of short-term fiscal relief.

Senator MOYNIHAN. Right. I understandand you can count me as part of your consensus. At this point, however, as someone trying to live with a very immediate set of unexpected problems, I must consider immediate solutions.

Mr. AFFLECK. Would it be possible, Senator, to draw from the testimony presented today a number of alternative ways of achieving the fiscal relief goal which you have established?

Senator MOYNIHAN. The people who come to these hearings all agree on principle. It is the details on which we fall out and, as a result, we end up, with no progress.

Mr. Affleck, we thank you. Miss Baum, it is always a pleasure to see you at our hearings.

Mr. AFFLECK. Thank you, Senator.

[The prepared statement of Mr. Affleck follows:]

STATEMENT OF JOHN J. AFFLECK, DIRECTOR, RHODE ISLAND DEPARTMENT OF SOCIAL AND REHABILITATIVE SERVICES, AND CHAIRMAN, NATIONAL COUNCIL OF STATE PUBLIC WELFARE ADMINISTRATORS

Mr. Chairman and members of the Subcommittee, my name is John J. Affleck. I am Director of the Rhode Island Department of Social and Rehabilitative Services and Chairman of the National Council of State Public Welfare Administrators. The National Council, on whose behalf I am testifying, is composed of the officials in each state, the District of Columbia, and the U.S. territories who are responsible for administering income maintenance, medical care, and social service programs which provide assistance to millions of people in need. I very much appreciate the opportunity to appear before you today and to share with you the views of the Council on S. 3470, the State and Local Welfare Reform and Fiscal Relief Act of 1978.

As you are aware, the Council has testified many times before this Subcommittee on the critical issue of welfare reform. On those occasions we have emphasized the widespread support we see for welfare reform. There are few these days who disagree on the need to substantially overhaul our current complex web of public assistance programs. Indeed, the recipients—who benefit from these programs, the administrators—who operate them and for whom I speak, and the Congress—which must grapple with difficult policy choices, all appear to concur on this most fundamental concern: the welfare system must be reformed.

At the same time, however, we have all painfully learned that it is far easier to agree on the end than on the means of reform. This session of Congress has provided a veritable smorgasbord of reform proposals to choose among: President Carter's original Program for Better Jobs and Income, S. 2084; Mr. Corman's Subcommittee revisions to the President's legislation, H.R. 10950; Mr. Ullman's Welfare Reform Act of 1978, H.R. 10711; and the middle-of-the-road alternative introduced by Senators Baker, Bellmon, Ribicoff, and Danforth, S. 2777. Despite the variety offered up by this tempting array of alternatives, the hungry, but discerning, diner could not choose a single entree that fully met his appetite—without bankrupting his pocketbook. In an attempt to create a palatable and reasonably priced dish, the New Coalition drafted a compromise bill. Despite a remarkable effort, this legislative alternative never made it onto the menu. And if you will permit me to continue this analogy, it appeared as if those of us intent on welfare reform would starve.

And then, but two days after the sad announcement that the House could not take up welfare reform in the waning days of this Congress, came the announcement that yet another welfare reform and fiscal relief bill would be introduced. Mr. Chairman, would that I could end my analogy by hailing this new bill, S. 3470 as the miraculous and long-awaited manna from heaven! Unfortunately, Mr. Chairman, this I cannot do. Although the Council commends you, Senator Long, and Senator Cranston for sponsoring a bill to help fiscally hard-pressed states and localities, we cannot in good conscience say to you that S. 3470 fits our idea of minimal, constructive welfare reform. At this point, before discussing our objections to S. 3470, I would like to restate for the record precisely those principles which state public welfare administrators believe must form the basis of any meaningful welfare reform legislation:

1. *Expand coverage to include all families, childless couples, and single adults.*—Such comprehensive coverage should be conditional on meeting three requirements—income, assets, and willingness to work. In addition, there must be a mechanism to safeguard against high-income individuals receiving benefits.

2. *Establish a national minimum benefit level.*—This minimum benefit level—including the worth of Food Stamps and the cash payment—should be 100 percent federally funded, adjusted automatically to reflect increases in the cost-of-living, and should equal the poverty level within five years of implementation.

3. *Permit state supplementation at the state's option.*—The states should be allowed to supplement the basic federal benefit—with federal financial participation—up to the Lower Consumption Budget, established by the Bureau of Labor Statistics. Any supplemental payment beyond that level should be funded 100 percent by the states.

4. *Establish strong work requirements.*—As a condition of income-support eligibility, employable participants should be required to accept a bona-fide job or training slot in either the private or public sectors. Of course, any work requirement must be accompanied by sufficient job opportunities. Welfare recipients must have priority placement in any national jobs program. The Governors should have the option to locate responsibility for the jobs component in whatever state agency or agencies they feel will be most effective in creating jobs, placing individuals into jobs, and coordinating with the agency administering the cash component of the program. To make working more attractive than not working, program participants must be subject to reasonable benefit reduction rates. Further, to assist the working poor, the Earned Income Tax Credit must be expanded and phased out at a progressive rate.

5. *Expand the emergency needs program.*—The emergency assistance program should be expanded to include single adults and childless couples. States should continue to have the option to participate, the current funding formula should be preserved, and the states should be responsible for program administration.

6. *Simplify administration.*—By providing uniform, simplified program requirements and definitions, administration will become more efficient and less error prone. Wherever possible, definitions of "income," "assets," and "disability" should be streamlined and made uniform. In addition, income disregards should be simplified and standardized. Finally, initial eligibility should be based on current need.

7. *Permit non-federal administration directly through the state and, at state option, through local subdivisions.*—States should administer the entire cash assistance and jobs program. State and local administrators have invaluable expertise and experience in running current programs. States and local subdivisions have the complex structural network, necessary to administer income maintenance programs, in place and working. But most important, state and local administrators are closer to the people they serve and, for that reason, are likely to be far more accessible, sensitive, and responsible to their clients than will be a massive federal computer located in Baltimore.

8. *Provide fiscal relief.*—Increased federal participation in providing the basic cash benefit will significantly unburden financially hard pressed states. Simplified, standardized administrative definitions and procedures will cut the costs of operating the programs and will reduce error rates. States should be held harmless for costs beyond a fixed percentage of their current expenditures for welfare programs.

Mr. Chairman, as these eight principles demonstrate the Council has endorsed what has been termed by others as "comprehensive" welfare reform. However, we reject the contrived "comprehensive/incremental" rift in favor of building a realistic consensus around those objectives that can, in fact, be achieved in the short term. Longer-range objectives should be phased in, over-time. This has been, and continues to be, our attitude.

Thus, despite the fact that President Carter's PBJ1 most closely approximates the Council's principles of welfare reform, we realized early this year that this commendable bill would not gain the support necessary to move through the Congress. Nevertheless, as we analyzed the legislative alternatives being offered in its place, we were encouraged to see consensus building around at least four of our principles: (1) expanding program coverage; (2) providing a national minimum benefit; (3) creating jobs and work incentives for the poor; and (4) providing fiscal relief to state and local governments. Although this consensus failed to address, at once, all of the changes we believe essential to achieving true welfare reform, we were satisfied that it was a good starting point.

We are dismayed, therefore, that S. 3470—the latest, and possibly last, welfare initiative of this Congressional session—puts aside our four-point foundation for reform in favor of but one component: fiscal relief. As you well know, Mr. Chairman, state administrators are among the first to admit that relief from the heavy

cost of AFDC is of primary concern as we struggle with inflation and political pressures to control costs. But we must also assert that, despite our tough economic realities and our need for fiscal assistance, fiscal relief alone does not constitute welfare reform.

Mr. Chairman, you and your colleagues have the Council's deep appreciation for your efforts to provide immediate, short-term fiscal relief to states and localities. Surely, we have benefited from the $187 million in relief enacted last year as part of Public Law 95–216. Should H.R. 7200 be enacted in this session, it is our understanding that an additional $187 million would be available to states in fiscal year 1978. In addition, the Senate Finance Committee amendments to H.R. 7200 would provide up to $500 million more in fiscal relief in FY 1979. Also, while awaiting Senate action, we have closely observed efforts in the House to legislate state fiscal relief for the coming year. In this regard, we recently endorsed H.R. 13335, sponsored by Mr. Rangel of New York, which would make up to $400 million available in fiscal year 1979. This bill is expected to go to the House floor very soon, and we respectfully ask the members of this Subcommittee to support it when it reaches the Senate for consideration. In short, we are grateful for the Congressional efforts that have been, and are being, made on our behalf.

The Council's difficulty with S. 3470 is not its intent to provide state and local governments with fiscal relief. This we applaud. Rather, our problem is with the mechanism by which the bill chooses to accomplish this end. Our specific concerns are as follows:

S. 3470 radically and permanently changes the AFDC funding mechanism but incorporates none of the structural program reforms endorsed by this Council. Whether the rate of federal financial participation in AFDC is increased or structurally altered, we believe that any such change should be considered in the context of structural program reforms—along the lines of the eight principles mentioned above. To do otherwise is to detract significantly from the momentum that has been building for meaningful reform of the welfare system. Further, if fiscal relief is to be provided as a stop-gap measure—pending enactment of significant reform legislation—then it should not alter the current federal/state AFDC funding partnership.

S. 3470 places the federal government in the odd position of discouraging needed improvements in AFDC benefit levels and program coverage in low benefit/limited option states, while giving high benefit/multiple option states incentives to freeze or cut back their program expenditures. Under the bill, if a state's AFDC expenses exceed the amount of the federal block grant (adjusted for cost-of-living) in a given year, the state must absorb the excess cost. Thus, there is little or no incentive to states with low benefits and/or limited program coverage to increase benefits or expand coverage beyond whatever fiscal relief they are entitled to. For states with high benefits and/or broad coverage, the legislation may actually provide a perverse incentive to freeze or even cut back program expenditures, since the federal grant would not be reduced if a state lowered its optional AFDC expenses. In short, this proposed block grant lacks the ability of the current matching grant to encourage states to enhance the adequacy of their AFDC programs. In the end, it is the recipients who will be penalized.

The provision in S. 3470 to adjust the federal block grant on the basis of increases in the cost-of-living fails to take account of other factors which increase program costs. States will have to bear the full burden of the higher costs attributable to AFDC caseload growth. Although some states have experienced a general decline in their AFDC populations, not all states have been so fortunate. For example, the State of California is projecting a growth curve in caseload size. According to state prepared estimates, under S. 3470, California will receive a net sum of $110 million in fiscal relief in the state's first fiscal year of operation (i.e., July 1979–July 1980). In the second fiscal year, that net amount will be reduced to $57 million. And in the third fiscal year, California will suffer an estimated *loss* of $3 million. This worsens in the fourth and fifth years—with California projecting deficits of $56 and $110 million, respectively. Moreover, states with recent caseload reductions cannot be assured that this trend will continue in the future, particularly if the United States is hit by another recession—a not unlikely possibility. In addition, as noted above, there is nothing in the bill to hold states harmless for cost increases due to court decisions or changes in federal law and regulations.

The requirement of S. 3470 that states provide a 100 percent pass-through of fiscal relief monies to local jurisdictions could result in states bearing greater costs. By putting a cap, in effect, on federal expenditures and by markedly reducing the AFDC cost burden on localities, the bill leaves states, alone, to bear the brunt of rising costs beyond the cost-of-living adjustment. Localities should receive fiscal relief, but not at the expense of states, which may be no better off financially than many local governments.

Mr. Chairman, these points summarize our rather significant objections to the funding mechanism utilized by S. 3470. Attached to my statement, for your information, is a copy of the Council's recent resolution on the bill.

To conclude, Mr. Chairman, let me emphasize the following points:

(1) The Council believes that fiscal relief measures would best be considered as part of legislation requiring the major programmatic reforms outlined earlier.

(2) Should such "comprehensive" reform legislation be further delayed, the Council could support short-term fiscal relief legislation that does *not* substantially alter the federal-state-local government interrelationship in the AFDC program. To the extent that S. 3470 intends to provide some fiscal relief to states and localities, we approve of the bill's purpose. However, to the extent that S. 3470 would replace the current federal-state matching mechanism with a block-grant, the Council must oppose the bill.

(3) S. 3470 could be made acceptable to the Council if, at best, it became a vehicle for substantive program reforms. At the very least, however, the bill could be amended to supply fiscal relief to states and localities by utilizing other, more acceptable allocation mechanisms. A couple of such alternatives come immediately to mind: First, the federal rate of participation in the current AFDC matching formula could be increased. The Council would prefer this alternative and notes that the Baker-Bellmon bill, S. 2777, and the New Coalition draft bill both utilized such an increased federal-match provision.

Second, fiscal relief could be allocated according to the two-part formula utilized by the Senate Finance Committee in its amendments to H.R. 7200 and by the House Ways and Means Committee in H.R. 13335. It is the Council's view, that both of these alternatives are preferable to the block grant approach employed by S. 3470. As a result, we would urge that S. 3470 be amended to substitute an increased rate of federal matching for the block grant.

Finally, Mr. Chairman, the Council wishes to commend the sponsors of S. 3470 for their willingness to pursue welfare reform and fiscal relief legislation and to offer to you our assistance in developing a constructive and realistic bill. Should our efforts in this session of Congress bear no fruit, rest assured that we will be back next year to press for major programmatic reform of the AFDC program.

NATIONAL COUNCIL OF STATE
PUBLIC WELFARE ADMINISTRATORS
OF THE AMERICAN PUBLIC WELFARE ASSOCIATION,
Washington, D.C., September 6, 1978.

INCOME MAINTENANCE COMMITTEE RECOMMENDATION ON FISCAL RELIEF

The Committee recommends that the Council adopt the following resolutions:

(1) *Resolved*, that the National Council of State Public Welfare Administrators reiterates its firm support for meaningful structural welfare reforms and a concomitant shift in the burden of funding of the AFDC program from state and local governments to the federal government.

Until such time as the Congress enacts comprehensive welfare reform legislation, the Council endorses short-term fiscal relief to state and local governments to alleviate the burden of their AFDC-related costs. Consistent with this position, the Council supports H.R. 13335, a bill to provide up to $400 million in fiscal relief to states in fiscal year 1979.

The Council appreciates the intent of Senators Cranston, Moynihan, and Long to provide fiscal relief of hard-pressed states and localities. However, the Council has serious reservations regarding the mechanism to allocate fiscal relief employed by S. 3470. Specifically, the Council objects to the following weaknesses in this approach:

S. 3470 restructures the AFDC funding mechanism on a permanent basis but incorporates none of the structural program reforms endorsed by this Council.

S. 3470 establishes a ceiling on federal participation in state's AFDC expenditures without unburdening states of federal statutory and regulatory mandates.

S. 3470 places the federal government in the odd position of creating a fiscal barrier for low-benefit/no-option states wishing to enhance their programs, while giving high-benefit/multiple-option states incentives to freeze or cut back their program expenditures.

S. 3470 fails to require a maintenance-of-effort in AFDC spending which could result in recipients being penalized.

Because S. 3470 provides for no block grant adjustments beyond cost-of-living increases based on the Consumer Price Index, it would cause states to bear all program expenditures that exceed the amount of the block grant (adjusted for cost-of-living) in a given fiscal year.

S. 3470 requires that states provide a 100 percent pass-through to local subdivisions which could result in states bearing increased costs. In fact, S. 3470 places a cap on federal expenditures and relieves local costs—but leaves state governments to bear the brunt of all increased program expenditures.

S. 3470 does not clearly mandate that the federal cost-of-living adjustment be passed-through to AFDC recipients in all instances.

Therefore, the Council would favor, in order of preference, the following:

(1) Fiscal relief should be enacted as part of legislation requiring major structural program reforms previously endorsed by this Council.

(2) Should such comprehensive legislation be further delayed, the Council could support short-term fiscal relief (that does not alter the current federal-state-local government interrelationship in the AFDC program) as accomplished by H.R. 13335.

(3) To make S. 3470 acceptable to this Council, certain changes should be incorporated: At best, the bill should become a vehicle for comprehensive reforms. At the very least, however, the bill should substitute for the proposed block grant approach increased federal participation in the AFDC matching formula.

Senator MOYNIHAN. And now another old friend of the committee, Msgr. Lawrence Corcoran who will speak for the National Conference of Catholic Charities.

Good afternoon, Monsignor. I see you have associates with you.

Monsignor CORCORAN. I do.

Senator MOYNIHAN. Would you have the kindness to introduce them?

Monsignor CORCORAN. With me is Father Edward Ryle, who is the dean of social work at Marywood College.

Senator MOYNIHAN. Father, good afternoon to you.

Monsignor CORCORAN. And Mr. Mathew Ahmann, who is the associate director of the Conference of Catholic Charities.

Senator MOYNIHAN. Mr. Ahmann is a particular friend of this subcommittee. You voted, Monsignor, Mr. Ahmann voted. I take it, Mr. Dean, that you do not live here.

Father RYLE. I am from Pennsylvania.

Senator MOYNIHAN. That is right. If you were wearing a D.C. "I voted" button that might be alarming.

Monsignor CORCORAN. We have submitted a statement for the record.

Senator MOYNIHAN. We will make it a part of the record.

Monsignor CORCORAN. We would like to summarize it and make a few comments on it within the time allotted.

STATEMENT OF REV. MSGR. LAWRENCE CORCORAN, EXECUTIVE DIRECTOR, NATIONAL CONFERENCE OF CATHOLIC CHARITIES; ACCOMPANIED BY FATHER EDWARD J. RYLE, DEAN, GRADUATE SCHOOL OF SOCIAL WORK, MARYWOOD COLLEGE, SCRANTON, PA.; AND MATHEW AHMANN, ASSOCIATE DIRECTOR, NATIONAL CONFERENCE OF CATHOLIC CHARITIES

Monsignor CORCORAN. We want to observe, as a start, that, as you are well aware this is a subject in which we have long been interested, even

back to the very beginning of the Social Security Act and the establishment of the AFDC program.

Our work included the support of your efforts in the days of the Family Assistance Plan.

I cannot help but say that we go back a good deal further than that, too, inasmuch as we are celebrating this year the 250th anniversary of what is known as Catholic Charities within the boundaries of the United States. I will not detail that any more, but it is a very interesting historical comment.

Our approach to this question is based upon a deep concern for those in need and certain very basic principles. It is also based on the fact, I might say, that we have heard from several levels of government this afternoon. We, as you know, represent a large segment of the voluntary sector, and when the governmental program falters, it is to agencies like ours and programs like ours that people turn.

You are very aware of what happened in New York and the large amounts of money that Catholic Charities had to find in order to help people in the fiscal crisis there.

Therefore, when we are talking about fiscal relief or welfare reform, we are not talking about it in a vacuum. We are not talking about it just in terms of the basic governmental structure alone, but how that impacts on a lot of other things also.

With regard to the specific bill, I would just like to make a couple of comments, and then Father Ryle will pick up with the rest of the time allotted to us.

I think we would have to say, as others have already said this afternoon, that it is fiscal relief; but it is certainly not welfare reform, even though it is billed as a welfare reform and fiscal relief act. We would want to add our voice to those who think that fiscal relief if it is given in the welfare program—and here we are talking about AFDC—should be given within the context of broad, comprehensive welfare reform. And this the bill does not do.

We recognize that there are four major features of the bill. It replaces the present open-ended Federal match in the AFDC program by a bloc grant to the States. It requires a passthrough by the States to local government in certain cases.

There is a provision for an adjustment in the Federal funds to reflect the changes in the Consumer Price Index.

It broadens the uses of funds for "social welfare purposes."

We see major problems in each of these basic provisions of the bill. I will just mention one of those and then Father Ryle will continue. That is, the bloc grant approach would further fracture the present, already piecemeal welfare system. It would accentuate the provision of our national welfare program into 50 different programs. This complicates administration, confuses the public, and often harms the recipient.

That is as far as I will go at the moment. Father Ryle.

Father RYLE. If I may, Senator, I would like to make just a few specific comments and then would hope we would have time for any questions you might wish to raise with us.

Again, I realize that in some of these, I will be picking up some of the testimony you heard earlier, so I will make it brief.

One of the things that we believe the bloc grant approach would do would be to make it difficult for States who wish to move in helping intact families make such a move. We have 24 States now that do not have the AFDC–UP and this bill, as we see it, would not provide financial incentives to encourage participation with them to make such a reform in their present programs.

In your opening remarks you indicated that amendments to the bill would provide for shifts in the State population and would also have provisions for employment/unemployment trends in the State. We will, naturally, be interested in seeing what the specifics of the language look like when the bill is amended.

We are concerned that the bill does not, as far as we can understand it, require a maintenance of efforts by the States. It does permit States to retain any money they save by changes in their program through the reduction of caseloads or grants.

There is a provision that funds may be used for social welfare purposes but, as you remember from the debates, some 20 States have some very wide ways of defining social welfare purposes.

We would be concerned, then, about the States using Federal dollars from the block grant for present AFDC expenditures, and Lord only knows to what the money saved might go.

I hope I am not being unduly pessimistic about the States, but research about factors that correlate with the level of State welfare payments do indicate that where you have a high percentage of nonwhite people, you have low welfare payments. Where you do not have a substantial State tax effort, you have low welfare payments. Things like this do give us some concern about how the States would react to the bloc grant.

Then, as has been indicated in our earlier testimony, there is every incentive in the bill as presently written for a State to freeze its appropriations because there would be no Federal match for additional improvements in the level of benefits.

There are so many specifics in the legislation, but our time is running out. Perhaps the rest of the time could be better used for discussion.

Senator Moynihan. Mr. Ahmann, did you want to say something?

What is the evidence that we can get our other bills passed? We could not even get them into committee in the House of Representatives.

There is a sense of deja vu in these deliberations, only the last time that we went through this scenario the administration was committed. There was such a strong movement for reform, that it was a legitimate tactic to hold out for more.

Mr. Ahmann, you know that all over this town there are people kicking themselves because they did not take what could have been gotten in 1970, right?

Mr. Ahmann. Senator, I was not in Washington in 1970. We are talking about a more limited bill now which does propose a major structural change, which, in our view, is not reform.

You focused simply on——

Senator Moynihan. I do not mean to interrupt you, but since you say you were not here in 1970, alas, I was. Monsignor Corcoran was.

Monsignor Corcoran. I was, and I agree with you on that, but that is not the answer I want to give you to the question you posed.

Senator MOYNIHAN. No, but it is part of the circumstance we are in.

Monsignor CORCORAN. You say, what are we going to do. We cannot get a bill through, but also we do not want to get something through that is going to make it harder to have welfare reform in the long run.

Senator MOYNIHAN. That is a very complex judgment.

Monsignor CORCORAN. It is indeed, but I will make it.

Mr. AHMANN. I think, Senator, if we focus largely on the fiscal relief which is quite obviously needed, particularly by local government—and indeed, the amendment that you announced at the beginning of the hearing today on the passthrough would mean that New York would be getting less money than in the bill as written—then I think the alternatives offered or suggested by APWA are much preferable and would not provide a major structural change in the program before you try to reform it. That is, either by changing the present matching rates or by a measure such as the Rangel bill, which will undoubtedly come over from the House.

Senator MOYNIHAN. When the bill died in the House, HEW gave up. Nobody at HEW has had their salaries cut as New York City's welfare mothers have had their benefits cut. Nobody has had their salaries frozen.

You have not seen a threadbare member of HEW for a long time.

Mr. AHMANN. I think we share, Senator, the discouragement that you feel at what seems to be the White House position about welfare reform at this time, but there certainly is a broad community of concern for some interim fiscal relief which ought to be able to be given by a method which does not disrupt the current program.

Senator MOYNIHAN. I have not seen that concern come out of the White House.

Father RYLE. Perhaps, Senator, I have mixed feelings about both Professor Glazer's testimony, and I am obviously not optimistic about what States might do as he is, but I wonder really if fiscal relief may not be a realistic legislative possibility without the major structural change that this bill would recommend.

Senator MOYNIHAN. That is a good question and I would like to find out.

Father RYLE. One thing we have heard much about this afternoon is the financial difficulties of State and local governments; yet, on an overall basis, State governments are doing well financially in the United States, so your bill would target relief on counties and cities which certainly would be a desirable move forward.

The Rangel bill also would have the same target effectiveness, but it is not quite as sympathetic to the financial plight of State governments.

Senator MOYNIHAN. If you want to do anything about cities, you start——

Father RYLE. Yes, and I think your bill and Rangel's bill are targeted and would be helpful to the local governments and maybe that would be a way to move toward easing some of their financial burdens, and yet I think the States should be kept on the hook in terms of responsibility in relation to trying to improve the overall level of benefits.

Senator MOYNIHAN. All I say is that we are trying to do something and I hope you are not all going to oppose one of the only committees trying to do anything.

Monsignor CORCORAN. I would like to speak to that, if I could, and that is that it would seem, perhaps, that is what the result is, or something like that, but we would not want to be put in the position of defending this administration, or any other administration, or HEW, in this context that you are putting us. I think that we are extremely sympathetic to your efforts now and in the past. And there is no criticism of your kind of effort and your intent.

Senator MOYNIHAN. None was sensed, Monsignor. It is just that I remember so well those scenes from 1969 and 1970. The only people who had any trouble were the people who wanted to do something about welfare. If you did not want to do anything about it, you were left alone. You lived a happy life.

The best became the enemy of the good.

Monsignor CORCORAN. We took the position then that it was not an all-or-nothing approach.

Senator MOYNIHAN. That is part of the honorable 250-year history of the National Conference of Catholic Charities.

Well, thank you very much, gentlemen. You could not be kinder to come. Stay in touch with us, watch us, and pray for us. Do whatever it is that you think will do the most good.

Monsignor CORCORAN. We will certainly watch you and we will pray for you.

Senator MOYNIHAN. I hope your candidates, whoever they were, were successful today.

[The prepared statement of Monsignor Corcoran follows:]

STATEMENT OF THE NATIONAL CONFERENCE OF CATHOLIC CHARITIES, BY REV. MSGR. LAWRENCE J. CORCORAN, EXECUTIVE DIRECTOR, NATIONAL CONFERENCE OF CATHOLIC CHARITIES, AND REV. EDWARD J. RYLE, DEAN, MARYWOOD COLLEGE GRADUATE SCHOOL OF SOCIAL WORK, SCRANTON, PA.

Mr. Chairman, Senators, I am Msgr. Lawrence J. Corcoran, Executive Director of the National Conference of Catholic Charities. I have with me Father Edward J. Ryle, Dean of the Marywood College Graduate School of Social Work in Scranton, Pennsylvania, and Mathew Ahmann, Associate Director of our Conference. We welcome this opportunity to express our concerns about S. 3470. These concerns reflect the longstanding commitment of the Catholic Charities Movement to comprehensive welfare reform. Such reform would be good for the country and would be good for those who find themselves, from time to time, in need of support by our society.

We are not new participants in the national discussion on the need to provide public assistance for those in our country who have inadequate incomes. We have been active on these issues since the 1930's. We supported you, Mr. Chairman, when you worked for the adoption of the Family Assistance Plan from 1969 to 1972.

In May of this year I submitted a statement to you, along with a representative of the United States Catholic Conference, appealing for the kind of comprehensive welfare reform reflected in the Administration's proposal (S. 2084), especially as that proposal had been improved by the work of the special House Subcommittee on Welfare reform. Many of the major general principles which we share with the United States Catholic Conference, and which are reflected in the Adminisrtation bill, are also reflected in S. 2777 introduced by Senators Baker, Bellmon, Danforth, Ribicoff and others. Those principles, which I will not repeat here, can form the base on which a reform package could be legislated.

Unfortunately, those priciples are not reflected in S. 3470 the "State and Local Welfare Reform and Fiscal Relief Act of 1978." Indeed S. 3470 would not

give us welfare reform at all. In our judgment it is a step backward, a step toward reducing the Federal responsibility for welfare in this country. While it would immediately provide some fiscal relief for many states and those local governments sharing the costs of the present AFDC program, the revision of AFDC funding from the present Federal matching program which provides, in the context of required state plans, an entitlement to those in need, to a block grant with a ceiling, is so consequential a change that it would further complicate our federal system, and virtually preclude genuine reform in the future.

We note that by and large the states are not in fiscal difficulty, though certainly many local governments which share AFDC costs are in need of fiscal relief. If it is your intention, Mr. Chairman, and the intention of the Committee on Finance to provide fiscal relief for state and local governments we urge that such relief be provided within the framework of the present AFDC program, or by legislation such as H.R. 13335 which has been reported by the House Ways and Means Committee, rather than by a permanent and drastic change in the AFDC funding mechanism. We have always urged that permanent fiscal relief be granted only in the context of substantial reform. Since such reform is unattainable in the remainder of this Congress, we urge the Finance Commitee to provide fiscal relief for one year only at this time, as we continue to search together for common ground for genuine, comprehensive welfare reform.

There are three major features of S. 3470. It would replace the present open-ended Federal match in the AFDC program by a block grant to the states based on present case loads and a share of an additional $1.320 billion; 27.7 percent of this fiscal relief would go to the states of California and New York, while almost 50 percent would go to six states. It would require those states where local government shared AFDC costs (11 states as of 1976) to pass the block grant on to local government up to an amount which would equal the local share. Finally, while the block grant would impose a ceiling on Federal funds in AFDC, S. 3470 would provide the states with an annual adjustment to reflect the change in the Consumer Price Index. The bill would keep the present state plan requirements, but there are no administrative or other reforms in S. 3470.

The block grant approach may seem appealing on the surface, but it could result in significant harm to recipients and to states, and it might in the future lead to as many as 50 different welfare programs treating recipients differently, making it much more difficult to reform the system in the future.

Under the block grant approach the ceiling poses special difficulties. It would make it difficult if not impossible for those states not now providing benefits to intact families to bring unemployed fathers into the program. It does not provide for variations in case load size due to increases or decreases in population, or in unemployment and the needs for variations in case load size due to increases or decreases in population, or in unemployment and the needs of families and children. It provides no adjustments for variations in case load size due to many of the other factors which result in need: death of a parent, desertion, divorce. It would penalize those states whose economies declined, who lose employable population and who are left with larger, less mobile and more dependent population. Any increase in case loads (by a recession for example) would require a reduction in grants for present recipients, or a massive increase in state costs, since the Federal government would provide no more help.

The bill does not require a maintenance of effort by the states. It provides that the states retain any money they save by changes in their programs, or by reduction of case loads or grants. And while there is a provision that the funds must be used for "social welfare purposes", that phrase is so vague that it could mean almost anything. What it does mean, however, is that it does not **have to be used for cash benefits.**

The absence of a maintenance of effort provision could result in the states substituting Federal dollars for present state AFDC expenditures and using the state funds thus freed up for anything from highways to tax relief. This too will hurt recipients.

These provisions just mentioned provide every incentive for a state to cap benefits at present level, or to curtail benefits, or to drop parts of the program such as intact families or children between the ages of 18 and 21 presently in school. There is every incentive for a state to cap its appropriations for benefits, since there will be no Federal match. There is every incentive for the states to make it as difficult as possible for an eligible family to secure assistance, and we have plenty of such harassment in the current program. Under the approach of S. 3470 it would only increase.

Under the bill as drafted, we understand that an analysis to be submitted for the record by the Center on Social Welfare Policy and Law, reveals the pass through provision will result in at least four states having to increase their welfare costs at present case load and benefit levels—the states of Indiana, Minnesota, New Jersey and New York. We do not know the effect on California, where apparently the state just recently picked up a large share of the local costs.

Not only are we concerned about these negative effects, but if the Federal match in the current AFDC program is dropped in favor of a block grant with a ceiling, there would remain no incentive for the states to gradually improve their benefits to a more humane level. Indeed there would be no incentive for the states presently providing a benefit of below 65 percent of the poverty level to raise them even to that minimal point.

We are troubled also by the nature of the cost of living increases which would be provided by this bill. This is the only money the bill would provide which must be passed on to recipients. There are a number of problems. The amount of the cost of living adjustment is computed by multiplying any increase in the Consumer Price Index by the "adjusted base period amount" of the block grant, and that is based on present case load size. So if the case load in a state should rise because of high unemployment, and if the cost of living increase were passed on to recipients it would be spread over a larger base, and amount, per recipient, to less than the cost of living change. Secondly, since the adjustment must only be "passed on to recipients" and since there is neither a maintenance of effort provision or a provision requiring the state to increase grants by an equivalent amount, the additional money might merely be used to slightly raise benefit levels the states had already cut, or used to cover case load growth and in the latter case not go to previous recipients at all.

In addition, we see no reason for permitting the state not to pass the cost of living increase on to recipients, and urge the Finance Committee to drop the provision that the states may withhold the benefit increase by determining and conveying to the Secretary of HEW a finding that such an increase in benefit levels is "not necessary in order to provide adequate benefits to such recipients."

We hope it was your intent, Mr. Chairman, and the intent of the other sponsors of the bill, that states not cut benefits, and that the cost of living go to each recipient in the amount of the adjustment. But if such were the intent, it is not reflected in the language of the bill.

For all these reasons, Mr. Chairman, we oppose the adoption of S. 3470. Permanent fiscal relief for welfare costs should be coupled with substantial structural reform of the welfare system, including improving the situation of recipients. We do believe that when genuine reform is initiated the Federal government should assume the costs. In the interim, we would urge the Finance Committee to consider other measures, such as those we have mentioned, to provide fiscal relief on a one year basis.

Mr. Chairman, we appreciate this opportunity to present the views of the National Conference of Catholic Charities.

Senator MOYNIHAN. And now, another good friend of this committee, a distinguished economist and administrator, a touch of reality, the ever-popular Blanche Bernstein. Blanche, where are you? Come up here.

She is, of course, the commissioner of social services of the Human Resources Administration of the city of New York. Dr. Bernstein, we welcome you.

Ms. BERNSTEIN. Thank you very much, Senator.

Senator MOYNIHAN. You have a long statement, which I will put in the record as corrected. You may proceed as you would like.

Ms. BERNSTEIN. Senator, since this is not as long a statement as I generally write——

Senator MOYNIHAN. Then why do you not just read it?

Ms. BERNSTEIN [continuing]. I may try to read most of it. I will skip, however.

STATEMENT OF DR. BLANCHE BERNSTEIN, ADMINISTRATOR/COMMISSIONER, NEW YORK CITY HUMAN RESOURCES ADMINISTRATION

Ms. BERNSTEIN. I do want to state at the outset, Mr. Chairman, that the Human Resources Administration of New York and the administration in New York City supports this bill despite the fact that it gives us neither as much welfare reform nor as much fiscal relief as we had hoped to obtain.

But, as you have said in your introduction of the bill, and I quote: "There is no reason again to allow the best to become the enemy of the good." You have acknowledged that this may not be the best bill, but it is certainly a good one.

It is good because it deals with two critical issues in public assistance. One is fiscal relief to the localities, many of whom bear a disproportionate share of the welfare burden. The other is that it makes possible a cost-of-living increase to the people compelled to rely on public assistance for survival.

You have been very eloquent here this afternoon, Senator, in describing the deterioration in the value of the welfare grant in New York State and in New York City.

I would like to say a word about some of the testimony this afternoon which has supported the principal of fiscal relief but has urged another method of getting it; specifically, support has been given to an increase in the Federal participation rate.

When I was in the New York State Department of Social Services, working under Commissioner Stephen Berger, we recommended just than an increase in the Federal participation rate. Commissioner Berger made a major public statement on it. As a result, I attended many meetings of the committees of the American Public Welfare Association where we tried to work out different formulas.

That proposal got nowhere during the whole of 1976 and 1977 and my own view—and I do not claim to be an expert politician, but only an expert in the field of welfare—I do not think it has very much of a chance now.

And so, I think in terms of fiscal relief for the States and localities an urgent matter, that this is the only game in town.

Let me go on with my testimony. I would like to outline what I think are some of the advantages to this bill for New York City and other urban areas with large numbers of poor people living in them, as well as some of the omission which I believe could, and should, be corrected within the framework of a no-frills welfare reform package.

In my previous testimony before this subcommittee last April, I noted that one of our primary concerns in any welfare reform legislation is fiscal relief. The bill you are considering would relieve the city of approximately a third of its share of the federally mandated income maintenance program, a share which is now met by city tax-levied funds.

We estimate that we would get fiscal relief in the amount of about $115 million in the city's next fiscal year. The estimate depends, in part, on one's interpretation of the bill, of what might happen in the event of some decrease in welfare expenditures in New York and how

the State will interpret, or how the Federal Government will interpret, the provision of the bill requiring the passthrough.

But, one way or another, we will obtain a significant amount.

We estimate that, at present, the Federal Government contributes about $696 million, or did in the period of October 1977 through September 1978, and that this was the part of the Federal contribution to the State that came to New York City. Under your bill, this would rise to about $801 million, exclusive of the allowance for price increases.

I am, of course, very happy to note that the bill does tie the block grant to the Consumer Price Index, thus making possible some upward adjustment in public assistance grants, an adjustment which fiscal constraints have prohibited during the last few years.

The addition of these extra Federal moneys into New York will mean several things to the city. First, it will mean an easing of the city's fiscal strain.

I am sure you know very well how we have had to reduce a variety of expenditures in the city. Social services were particularly hard hit, as well as police and fire—we have had to institute tuition at the universities, lay off workers in a variety of fields. The fact is that to maintain our present level of services in New York, a substantially reduced level compared to a few years ago, we do need additional money.

Second, and very important from my point of view, this bill could mean a release of some State and city funds which could be expended to improve social services to the poor so that we can try to improve the quality of their lives and reduce dependency on welfare.

As you know, I have strongly advocated programs to help those on public assistance move away from dependency, so that they can become productive, wage-earning members of the community.

Third, this bill will provide incentives to States and cities to run more efficient programs, thereby avoiding the high ineligibility and overpayment rates of the past, because under this program, if we are effective in reducing ineligibility, the savings will adhere to the city instead of being shared, in large measure, with the Federal Government.

We are particularly pleased that the money generated from the grants under this bill must be used by the States for social welfare programs except for the cost-of-living increases, which are to be passed on to the welfare recipients.

There are a few aspects of the legislation which do disappoint us. The original proposal, put forward by you and Senators Cranston and Long, envisioned a higher annual level of additional Federal financial assistance—in fact, about twice as much as the current proposal. We are disappointed. We could use twice as much without any difficulty.

But it will help us to have the smaller amount that would become available under this bill.

I would point out that, under this bill, the city will continue to contribute 17 percent of the cost of AFDC, including administration, as well as foster care and the emergency assistance program.

Further, the city's share of home relief, a strictly city-State funded program, will be $123 million in fiscal 1980, and this program takes

care of the bulk of our childless couples and single persons on assistance. The city's share of medicaid also is not affected by this legislation and is projected to cost the city $600 million in fiscal 1980.

As these figures demonstrate, although this legislation begins the process of reducing the city's share of public assistance, we will continue to bear a very heavy burden in the city. Further, that burden could be increased if, as a result of this fiscal relief and the passthrough of the cost-of-living increase, the New York State Legislature and the Governor opt to adjust some relief grants for cost of living to match the increase to the AFDC recipients.

Nonetheless, New York City would support a change in the bill which would make it mandatory to passthrough the cost-of-living adjustments to recipients.

Historically, New York State and the city have demonstrated a great concern for its public assistance recipients. We have in the past increased assistance grants, although we have not, because of fiscal restraints, done so in the last few years.

In the event, as this legislation proposes, that some States do not passthrough the cost-of-living adjustments and New York does, it might result in new incentives for people to move to New York in order to avail themselves of the higher grant levels available in New York City. And this is not to say, Senator, that in the past people have moved to New York in order to get on welfare. I believe, however, they have been conscious of the generosity of welfare grants in New York and have kept it in mind that if they did not make it, if they could not find and keep a job, there was a fairly generous welfare system to fall back on.

Senator MOYNIHAN. We do not have any evidence that people move to New York in order to collect higher welfare benefits. Conditions in New York were just better than those from where they came. Wages were better, housing was better, schools were better, and social services were better.

Ms. BERNSTEIN. I think that is why they came, but some of them did not make it and then they did go on welfare .

Another concern we have with the bill—and I believe this has been mentioned a number of times today and you may already have taken care of it in your introduction which, unfortunately, I missed because my plane was a bit late.

The original bill did include the provision that the base grant would be adjusted if unemployment rose. The present bill does not include that adjustment.

Senator MOYNIHAN. That is right. I plan to change the bill to include that factor.

Ms. BERNSTEIN. I do think it is very important to use either an increase in unemployment or some other indicator, because while there has been a decrease in the welfare caseload in New York State and in New York City over the past year or so, and I anticipate a further decrease this coming year, assuming no worsening of the economic situation, one has to, as a responsible official, consider the possibility that we will have another serious recession, that unemployment will rise substantially and, if so, we must anticipate some increase in the welfare caseload.

I might also point out that if we pass—and I think we will pass a law providing for the cost-of-living increase—that will raise the grants and, therefore, to some extent, increase the number of people eligible for welfare and we do not need to take account of that.

In summary, I noted at the outset that this bill does not provide for broad-based welfare reform, and I know—and I have listened to many today—who object to the bill because of its rather limited focus. But, as I wrote in my letter to the New York Times—and I have attached that to my testimony, and, in that letter, I supported the original "no-frills" proposal—this proposal, in my view, will in no way diminish chances for other necessary welfare reform. States will still carry close to their current share of welfare costs and the localities in States with general assistance program will still face the substantial program of assistance for childless families and single individuals.

As I stated in the Times letter, the advantages of no frills with welfare are overwhelming. I hope the Congress will agree.

Thank you, Mr. Chairman.

Senator MOYNIHAN. Well, it is just marvelous of you to speak this way. You speak with a touch of reality when you talk. You have almost a million persons dependent on your program.

One of the things that this is designed to do is to enable States and cities to innovate on their own—you must have had experience now in the State and city governments with HEW's responses and efforts to do that. Professor Glazer talks about some of the supported work programs.

They are very grudging in their approval—or am I wrong? Tell me otherwise?

Ms. BERNSTEIN. Well, let me say it is not a simple process to go through, and it is time consuming.

Senator MOYNIHAN. That is a fine statement. I thank you.

Ms. BERNSTEIN. I have several proposals up for consideration.

Senator MOYNIHAN. I am anxious to hear about them. May I note first the presence of a timelag. A certain generation in the social welfare world used to be very much opposed to mothers working. There was real resistance to the idea, and then one thing or another happened in the economy and in the society, and mothers were working everywhere.

Is it not the case that there is a higher proportion of mothers with young children who do not receive welfare than who do? Is that not the case?

Ms. BERNSTEIN. I have commented on that many times, that I think at the present time more than 50 percent of married women with children 6 years of age or older are working and, indeed, about 30 to 35 percent of women with children aged 3 to 6 are working.

Senator MOYNIHAN. Yes.

Ms. BERNSTEIN. I think that the incentive for this is a higher standard of living. Women are working in order to help achieve a higher standard of living for their families and this is as true, or even more true, in intact families than it is in the female-headed families.

Senator MOYNIHAN. The chairman of our committee has been heard to say that we used to be puzzled about why there were more women working in high-income families than in low-income families. We finally figured it out. It is because they are working that they are high-income families.

We have a lot of work to do on this bill. Your testimony has been extraordinarily helpful to us, and we would like you to help us with its specifics.

I think that we should include in this bill a statement of our goal of the complete Federal assumption of local costs. As I asked earlier, why is the fiscal relief component of this bill set at $1.2 billion? Has a computer derived this figure? Is this the ideal ratio?

No. The chairman of the House Committee on Ways and Means has determined how much money he is prepared to put into fiscal relief this year. Well, this is this year and that will be next. And if we can get this as a first step in a progression, then eventually we might reach our goal.

Ms. BERNSTEIN. I would just like to say a word in support of that view. I think we will be making a very bad mistake if we reject this bill—and by "we," I am referring to all of the legislature and the various organizations in this Nation who are concerned with welfare. I think they will be making a very bad mistake if they reject this bill because it just goes one or two steps of the way and does not do a whole list of other things.

I could sit here and say, as I have in other testimony, and list other things which I think should be in a welfare reform bill. But if we can take this first step, we can get to the other steps next year. I really hope we will not have to wait until next year in order to get three steps at one time and, as you say, maybe not get any of it.

Senator MOYNIHAN. Well, that is our hope. Our hope is that we can do something this year and have some momentum for next year. We need something positive to show for this Congress and we will see what the 96th will do for us.

Dr. Bernstein, thank you very much. It is late and I know you have a pile of work to do back in New York City. You are very generous to come down and we appreciate it.

Thank you very much.

Ms. BERNSTEIN. Thank you very much.

[The prepared statement of Dr. Bernstein follows:]

TESTIMONY BEFORE THE SENATE FINANCE COMMITTEE, SUBCOMMITTEE ON PUBLIC ASSISTANCE, BY BLANCHE BERNSTEIN, NEW YORK CITY HUMAN RESOURCES ADMINISTRATOR/COMMISSIONER OF SOCIAL SERVICES

Mr. Chairman, members of the Subcommittee on Public Assistance, I am pleased to be here today to testify on behalf of the City of New York and the New York City's Human Resources Administration, concerning Senate Bill 3470.

The legislation would fundamentally alter the current method of financing AFDC by substituting block grants for the current public assistance reimbursement mechanism now used by the Federal government. Undoubtedly this fundamental change will create new and unforseeable issues that this Committee and Congress will have to address in the future. However, I do not believe that we need to fear change. I welcome it.

I want to state at the outset that we support this bill despite the fact that it gives us neither as much welfare reform nor as much fiscal relief as we had hoped to obtain. But as Senator Moynihan said in his introduction of this bill "there is no reason again to allow the best to become the enemy of the good."

As the Senator acknowledged, this may not be the best bill but it is certainly a good one. It is good because it serves to cure two critical issues in public assistance: one is fiscal relief to the localities, many of whom bear a disproportionate share of the welfare burden, and the other is a cost of living increase to the people compelled to rely on public assistance for survival.

In my testimony here today, I will outline what I think are the advantages of this bill for New York City and other urban areas with large numbers of poor people, as well as some omissions which I believe could and should be corrected within the framework of a "no frills" welfare reform package.

In my previous testimony before this Subcommittee last April, I noted that one of our primary concerns in any Welfare Reform legislation is fiscal relief. The bill you are considering would relieve the City of approximately one-third of its share of federally mandated income maintenance programs, each year, now met by City tax levy funds.

Under the new formula, New York City which has a 68 percent share of the State's AFDC expenditures, would receive fiscal relief of $115.3 million in the city's next fiscal year, I should note, however, that this estimate depends on one interpretation of the bill, specifically that if welfare expenditures decrease in New York City, the state will obtain some benefit from the savings. On the other hand, if in the event welfare expenditures in New York City decreased and the State maintained its current effort until the city's expenditure for AFDC and the other covered items were reduced to zero, we would, of course, obtain more.

Since the federal share of the actual claims for AFDC, Emergency Assistance to Families, Foster Care and administrative expenses related to these programs is estimated at $696 million for the period October 1977 to September 1978, New York City's part of the State's base under this proposed legislation would be the $696 million for this period, the legislation adds to this base New York's proportion of the new appropriation of one billion three hundred and twenty million dollars with the resultant new base grant becoming $801.3 million for New York City's Fiscal Year 1980, excluding any allowance for price increases.

I am happy to note, however, that the bill does tie the block grant to the consumer price index, thus, it will make possible some upward adjustment in public assistance grants, an adjustment which fiscal constraints have prohibited during the last few years.

Rates of price increases are estimated by Senate Finance Committee at 6.5 percent on July 1, 1979 and 7 percent on July 1, 1980. The block grant for New York City would rise to $806.5 million in the federal fiscal year 1980 and to $813 million in 1981. Concretely, this will mean that for the City's fiscal year 1980, we will have net fiscal relief of $115.3 million.

This additional injection of federal monies will mean several things to New York City:

First and foremost it will mean an easing of the City's financial strain.

In my testimony before this committee last month concerning the need for an increase in the Title XX ceiling, I pointed out that the City has been forced to reduce its expenditures over the allotted ceiling, while concurrently preserving vitally needed programs. It did so by shifting a number of programs to other funding sources but these shifts, entailed raising the city's share from 12.5 percent to 25 percent, a heavy burden on scarce city tax levy funds.

As a result of inflation and the city's fiscal crisis we have been forced to cut back police and fire protection, introduce tuition at universities, lay off workers and take other drastic measures to reduce City expenditures. The bottom line is that we need the additional money proposed in this bill just to stay where we are with respect to a wide variety of city services.

Second, this bill could mean a release of some funds to expand social services to the poor to improve the quality of their lives and reduce dependency on welfare.

As you know, I have strongly advocated programs to help those on public assistance move away from dependency, so that they can become productive wage-earning members of the community.

Third, this bill will provide incentives to states and cities to run more efficient programs thereby avoiding the high ineligibility and overpayment rates of the past. Under this proposed legislation, if expenditures are reduced as the result of better run programs the localities and the states will realize the savings. We are hopeful that to the extent a particular locality achieves a reduction in caseload, through improved quality control, the state would apply this additional money towards reducing the City's share of federally funded public assistance programs, as well as passing through the federal adjusted base grant.

We are particularly pleased that all monies generated from the grants under this bill must be used by the states for Social Welfare programs, except for the cost of living increases which are passed on to welfare recipients.

Although this bill certainly moves us in the right direction, there are several aspects of the legislation which disappoint us.

The original proposal put forth by Senators Cranston, Moynihan and Long, envisioned a higher annual level of additional Federal financial assistance than the amounts proposed in this legislation, in fact, about twice as much as the current proposal.

Although some localities, where public assistance benefits are low, or which contribute only a small percentage of the total welfare cost, will be relieved of this total current burden, this will not happen in New York City. The Federal bloc grant rate will in effect, only increase the reimbursemnet rate to about 59.5 percent from the present 50 percent level in the city's fiscal year 1980. In 1981 it will rise to about 60 percent.

As New York State is one of only twelve states which require that the localities contribute a local share of welfare cost, New York City's welfare burden will still remain heavy.

The City will continue to contribute 17 percent of AFDC costs in fiscal year 1980. Further, the city's share of home relief, a strictly City/State funded program, will be $123 million in fiscal 1980. This program encompasses the bulk of our childless couples and single persons on assistance. The city's share of Medicaid, also not affected by this legislation, is projected at $600 million in fiscal 1980. As these figures demonstrate, although this legislation begins the process of reducing the city's share of public assistance, there will continue to be a very substantial portion of city funds going into these programs.

Even the fiscal relief we do receive under the bill could be decreased if the New York State legislature and the Governor opt to adjust Home Relief grants for the cost of living to match the increased grants which will be given to AFDC recipients.

Nonetheless, New York City would support a change in the bill which would make it mandatory to pass through cost of living adjustments to recipients. Historically, New York State and City, has demonstrated a great concern for our public assistance recipients. In the event, as this legislation proposes, it was possible for some state not to pass through the cost of living adjustments, it might result in new incentives for people to move to New York, in order to avail themselves of the higher grant level.

I must also express our concern that the current bill, unlike the original proposal makes no provision for adjusting the base grant to reflect increases in the level of unemployment. Should the number of welfare clients increase, states will either have to increase their own expenditures to maintain assistance levels or reduce the grants to recipients.

As a responsible public official, I recognize that if we go through another recession, like that experienced in 1975–76, we can anticipate such a caseload increase. If one looks at the trend over the last decade, the national caseload increased during the recessions of 1971–72 and 1975–76. It declined in 1977 and has continued this decline so far in 1978 as unemployment has decreased.

Although several factors account for these increases, recession and the accompanying higher level of unemployment obviouly were, in part, the cause.

We are currently not projecting any caseload increase in New York City either for the current or the next fiscal year. In fact we are projecting some further decrease on our cost containment measures and the assumption that the economic situation in New York will not worsen.

But, as the bellwether for future Congressional legislation on welfare, I would hope this bill would at least provide for such a possibility and allow for adjustment of base period expenditure either in relation to unemployment or some other appropriate economic indicator.

Finally, I want to discuss the issue of welfare reform. At the outset I noted that this bill didn't provide for broad based welfare reform. I know there are many here today, who would object to this bill because of its rather limited focus. But as I wrote in my letter to the New York Times (attached) on July 10, 1978, in support of the original "no frills" proposal, this proposal will in no way diminish chances for other necessary welfare reforms.

The States will still carry close to their current share of welfare costs and the Mayors in states with General Assistance programs will still face the substantial burdens of assistance for childless families and single individuals.

In summary, as I stated in the Times, "the advantages of "no frills" welfare are overwhelming." I hope the Congress will agree.

Thank you for allowing me to testify here today.

THE CITY OF NEW YORK,
HUMAN RESOURCES ADMINISTRATION,
New York, N.Y., July 10, 1978.

LETTERS TO THE EDITOR,
NEW YORK TIMES,
229 West 43d Street,
New York, N.Y.

Attention: Kalman Siegel.

DEAR EDITOR: "No Frills Welfare"—Not really a dilemma.

The dictionary definition of dilemma is a choice between equally unfavorable or disagreeable alternatives. By popular definition, it is also a choice between equally favorable or agreeable alternatives, or between favorable and unfavorable features of equal weight. By none of these definitions is the "No Frills" welfare proposal a dilemma. I think the choice is easy.

It is true that the Cranston, Long, Moynihan proposal does not provide for federal participation in general assistance to working poor intact families—but we have only 4,000 such families on welfare out of over 350,000 cases.

The proposal does not provide for federal participation to childless families or single persons on assistance, and the City's share of $120 million of the costs of the program constitute a substantial burden. But even under the Carter Administration's welfare reform, we would continue to pay a significant share of these costs and, in any event, nothing blocks efforts to achieve federal participation in the future.

The proposal relies on tax incentives to private or non-profit agency employers to increase employment opportunities for welfare clients rather than on a further expansion of public service jobs and this is a serious weakness. But far outweighing this weakness are the advantages offered—and for 1980.

These advantages are—

It would relieve New York City of approximately 70 percent of the share of welfare costs now met by City tax levy funds, about $310 million a year in current prices and more in 1980 dollars.

By tying the block grant to the price index, it will make possible some upward adjustment in welfare grants, an adjustment which fiscal constraints have prohibited during the last few years.

By also tying the block grant to the level of employment, it will protect us in the event of another recession.

It will release funds which can be diverted to social services to the poor to improve the quality of their lives and reduce dependency on welfare, and to preventive services—to avoid unnecessary placement of children in foster care, or of the aged in institutions, or unnecessary school dropouts, even while a substantial part of the savings can be allocated to reductions in taxes or indebtedness.

It will provide incentives to states and localities to maintain effective and efficient administration of welfare programs and avoid the high ineligibility and overpayment rates of the past because (a) the cost of ineffective administration would be borne entirely by the states and localities and (b) all savings from reductions in caseload resulting from decreased ineligibility and over or underpayments, as well as, savings from reduced dependency would be reserved to the states.

It will aid the working poor through an increase in the earned income tax credit and provide these additional funds on a current basis, instead of withholding the funds until income tax time.

The Times editorial of July 5th expresses concern that passage of the Cranston, Long, Moynihan proposal may diminish the chances for other necessary welfare reforms because the financial pressures on Governors and Mayors will be diminished. Maybe, but I doubt it. The states will still carry close to their current share of welfare costs and the Mayors in states with general assistance programs will still face the substantial burdens of assistance for childless families and single individuals. These same officials will continue to have an interest in mandating welfare to families headed by unemployed fathers in those states which do not have such programs because it is to their interest to do so.

In sum, the advantages of "no frills" welfare are overwhelming. I hope it finds overwhelming support in the Congress.

Sincerely yours,

BLANCHE BERNSTEIN,
Administrator/Commissioner.

Senator MOYNIHAN. And now the committee will hear from another New Yorker, Ms. Theresa Funiciello. Ms. Funiciello, have I pronounced that correctly?

Do you have some colleagues who you would like to have join you?

Ms. FUNICIELLO. This is Connie Red Bird Uri, an M.D. representing Indian family welfare and survival rates from California.

Senator MOYNIHAN. We welcome you to this committee, and Ms. Funiciello, you have some testimony. Please go right ahead.

Ms. FUNICIELLO. Yes.

STATEMENT OF THERESA FUNICIELLO, DIRECTOR, DOWNTOWN WELFARE ADVOCATE CENTER, NEW YORK CITY; ACCOMPANIED BY CONNIE RED BIRD URI, M.D.

Ms. FUNICIELLO. I would like to comment briefly on the hastiness of these hearings. For poor people, it is very difficult to be able to get to events like this without more time to be able to go over the details. It was a fairly complicated endeavor going through the bill and cross-checking it with the Social Security Act and all of that, and I think it would have been important to have more input from the people whose lives are about to be affected by the bill were it to pass.

As you have indicated, and as other people have indicated, benefit levels are already very low right now. In no State are they up to poverty level and, in fact, in New York State, they are at 58 percent of what they were in 1971.

Senator MOYNIHAN. Fifty-eight.

Ms. FUNICIELLO. Yes.

Senator MOYNIHAN. Is that in constant dollars?

Ms. FUNICIELLO. As a result of the cost-of-living and the rent maximums that have been put on welfare recipients.

Senator MOYNIHAN. So there is a real reduction of about 42 percent.

Ms. FUNICIELLO. Right.

Senator MOYNIHAN. My figures were from 1974, so there is no conflict between us.

Ms. FUNICIELLO. That is probably the case.

However, it seems to me that this bill could possibly make benefits go down and not up, and that worries me, because whereas it says that this block grant will be given to States for social welfare purposes, it does not indicate that it has to go to AFDC at the levels that people are presently living at at all, as far as I could tell, and in States where people are not particularly in favor of grant increases, or who might, in fact, prefer not to have increases—for instance, I was curious to hear Blanche Bernstein say that she was in favor of increases in some ways since only recently she was quoted as saying that welfare recipients already received too much—well, they already get enough, is what I understand that she had said. And that one of the ways that she decided that recipients had gotten too much was by computing the medicaid costs of all people into an average which, when tacked on to the amount of money a person receives on AFDC, actually made it look like they might, in fact, have gotten more money.

What we on welfare decided was that, in fact, if we all spent 6 months in a hospital bed with an acute illness we could be interpreted to be rich during that period.

Senator MOYNIHAN. That is a fair point.

If you get a lot of medical costs paid for you, theoretically, your welfare receipts are high.

Ms. FUNICIELLO. Of course, that is not money that comes to people. That is money that goes to doctors and medicaid mills, et cetera.

In cases where there are States that have already benefit levels that are so low that it would seem to almost any nonwelfare person impossible to live on, there does not seem to be any incentive to increase those benefit levels—like in Mississippi, where they are at $700 a year, I believe, for a family of four—there is just nothing in this bill that would try to help out the poorest of the poor by raising those benefit levels, as far as I can tell.

As well, though, you talk about cost-of-living increase, it is not necessarily passed on to individual people per se, as I read it. It could be passed on and it could not be passed on. States could say to the Federal Government that, in fact, people did not need it, and it is unlikely, as far as I can tell, that inflation is going to reverse itself in the very near future, as well—since it is a bloc grant and it has nothing to do with actual caseloads, it seems to me that if the caseload were to be able to grow—needed to grow because of a recession, or something else, a lot, then that money could be passed on as going to recipients without, in fact, again causing any difference in terms of cost-of-living increases to individuals.

Senator MOYNIHAN. I think that is a reasonable point.

Ms. FUNICIELLO. Further, just along that point, I understand that you are going to base this bloc grant on June of 1978 costs, present costs, and in New York City, in April of 1978, a report was published—the results of the report were published in the New York Times and I have read the entire report—indicating that 51 percent of the people in the welfare centers in New York City were incorrectly rejected and, in fact, in the period of time of those many months almost since Mrs. Bernstein took office, people have been turned away in just outrageous numbers—incorrect rejections.

We have, on record, a lower caseroll than we have had for years, but the people are not getting services. And if my people have any success in turning around what is essentially an illegal process by denying people benefits to which they are legally entitled, then we are likely to have an increase in the caseload, because people are not any poorer. There are, really, not any more jobs in New York City than there were before.

So, again, I am concerned that if you increase the caseload you might end up decreasing the amount of money that goes to particular individuals or, at least, not passing the cost of living on.

When you combine the present low rolls with 58 percent of the standards of need established by the State of New York which, in 1969, had decided that one should get 100 percent of the standard of need, and now we are getting 58 percent, children will not be any better off, which is what you want to purport to do.

I think children could be very much worse off.

Not only that, but, at present, there are some reasons to believe that the Federal Government, in particular, has made it possible for States, indirectly, has set it up for States to commit these kinds of abuses of cutting people out. I know in New York the talk about

error and overpayment has been outrageous and, for awhile, the State was threatened that money would be withdrawn if they overpaid people, but I never saw the Federal Government say if you underpay people or if you did not pay them at all that you would take the money away.

Consequently, you have the result that you have now with this particular administration and I am afraid that this bloc grant can also do that, because you do not gain any further when you add these people. You only get more in the hole.

A lot of this is taking place in applications. People are being turned away everywhere—not because they are not poor, but because there are many ways to abuse the law. And if you remove, in my opinion, at least—we recently petitioned HEW on applications procedures, my group and four or five other welfare rights groups around the country, and just gruesome stories were told about what was happening to people, and we are hoping to get HEW to try to monitor States in turn. You know, get some accountability for poor people happening. It really needs to happen.

If you take this money and you just give it to States and then you say, "I can't really spank your bottom any more if you don't do a good job," they are going to do a worse job. Because I do not believe top-level administrators in New York particularly, care about the poor, unless the poor get in the way.

It does not offer more benefits, it does not offer better jobs and it seems to me that one of the things that really has to be dealt with—and I do not mean to beat a dead horse—but you have to get States into compliance with some kind of laws as they are presently constituted, let alone making it possible for people not to even have to deal with that.

I mean, in New York City, the rate of brutality in welfare centers—and I am not talking about just getting your check; I am talking about not getting your check and getting your teeth kicked in—is outrageous. We have documented it. We have tried to give it to the administrators. We have tried to give it to the politicians. Some of them are beginning to realize that it is a serious issue, but the administrators are not believing it, or interested in it.

In fact, we can prove that it is happening. We can prove that people have been beaten to death in welfare centers in New York. We can prove that it is happening in welfare centers throughout the city of New York and in all of the burroughs of New York.

There are, at present, no real accountability structures, either for workers in the welfare center who repeatedly incorrectly reject people or security guards who repeatedly beat them up.

In fact, the task force report on brutality that came out of the city of New York had really one solution for a security guard beating a recipient and that was to move him to another center so he could go to the next center and beat somebody else up again.

We know specific security guards whom we have evidence against who have beaten people who have not been removed. We have asked to have them removed because they are vicious people. The whole city system is a vicious, vicious, vicious, welfare system.

This bill potentially gives it more room to be more vicious than it already is, let alone deal with the benefit levels which are outrageously low.

When you said something about New York having better housing? My God, we have slums like there are not in the rest of the country. Slums in the Bronx, in the Lower East side, in Oceanville, Brownsville. You must know that. You are from New York. Outrageous slums, where people do not get heat in winter half the time.

Senator MOYNIHAN. I said people——

Ms. FUNICIELLO. But that is what poor people live in.

Senator MOYNIHAN. Please. I said that there was no evidence that people moved to New York City to get welfare. I said that, in the past, we have had experience where our wages were better, our schools were better, and our housing was better, than the conditions which many were leaving behind. Before you decide that things are so awful in New York, you have to look at some of the places it citizens have come from.

Ms. FUNICIELLO. I would question whether many people actually come to New York looking for welfare. I think it is conceivable that people come looking for work and do not get it and end up on welfare because they do not have enough money to go someplace else once they have gotten there. But that is my understanding of the likelihood of people moving. I mean, you move to get welfare seems to me preposterous.

It is funny, also. The Government gives us funny kinds of bones, and it seems to me they could do a better job. We get medicaid, which granted is a very important thing for us to be able to go to a doctor, but that resulted in medicaid mills in horrendous—I mean, I could tell you about abuses. I could tell you about doctors who told me my kid had TB when, in fact, she never had TB and told me how many—I mean, this is not just my story. I am not telling you one person's story. I know people who have gone into hospitals with a broken arm and come out with a cast on their leg as well. I am not exaggerating, and it is over and over again.

I know that people are getting prescriptions for things they do not need and do not want. They are put on medicines. They are abused left and right. I mean, if you had a national health insurance program and then some of the working poor who do not qualify for doctors, could also get access to medical help, it seems to me that some of these kinds of abuses that work out when you set up systems to help the poor exclusively. They work against the poor in some ways—not that I am suggesting to take medicaid away and leave us with nothing, but national health insurance would be a much better solution.

You give us legal services. Now, there are many, many very fine people working for legal services, but the top-level management is so insensitive to the needs of poor people that it is an outrage, as far as I am concerned.

Senator MOYNIHAN. In legal services?

Ms. FUNICIELLO. At the top level of the corporation. I am not talking about lawyers who do work—you know, the ones who advocate for us. I am talking about some of the top-level management people. They are so dammed insensitive to poor people's needs it is an outrage.

In fact, as far as I am concerned, you talk about creating jobs, if you took one-tenth of their budget and gave it to poor people's advocates, who are poor people, give them those jobs, give them that money—I mean, if I could apply for that money, I guarantee you, my people can help more people than two-tenths of the budget could do for them.

Again, I am not advocating eliminating legal services, but we should have a right to help ourselves in some kinds of ways, and we can do that, but in fact, my office is going to close down next month if I do not get some money quickly, because we cannot pay the rent, and I do not expect to get another check next week when my check time is due because we do not have any more money for that, and I do not particularly want to go back to welfare. Not at all. But I am a hard-working person and my people are hard-working people, and I tell you something else. I hear a lot about work and welfare. A mother raising children on a welfare budget is one of the hardest working people you ever did see.

A middle-class mother who works taking care of her children is purported to be a hard-working person, and yet, when she wants to wash her clothes, she has a washing machine. When she has to take the kids somewhere, she has a car. When she wants to cook the food, she has a decent range to do it on. When she wants to dress her kids she can buy the clothes at the store and not worry about if they are going to freeze that night because she knows the heat is going to be on.

That person is a hard-working person. Take all of those goods away, things that are not available to a woman on welfare—tell me she is not a hard-working person already.

And also, many, many poor women are working on welfare and they do not get a whole lot of money, but there is not much child care. And one of the great fiascos of New York's financial crisis was that we had day-care centers in which day care was provided at one time, and then they decided that they were not going to provide the day care any more, but they continued to pay the rents on the day-care centers. So a lot of women went on welfare, but the rent was still paid.

Senator MOYNIHAN. That is a matter of record, I think.

Ms. FUNICIELLO. That, and many other abuses at the top level, the permanent government that has really created the financial crisis in New York—with the help of the elected government, sometimes—but basically——

Senator MOYNIHAN. Well, it is now past 6 o'clock and we have not gotten to our final witness. Doctor, did you want to add some remarks here?

Dr. RED BIRD. Just a few short comments.

Senator MOYNIHAN. Please.

Dr. RED BIRD. This is a wealthy Nation. It is a matter of priorities, and Indian people want to survive. We feel we have a human right to be born. We feel we have a human right to live and to grow and then grow old and then die.

We resent the welfare system that tells us, American Indians, that we have no right to live. They tell us we have no right to stay in the cities, that we have to go back where we came from. When you ask a welfare worker, where is that, they say, wherever your tribe was.

And I say to her, lady, my tribe was moved three times. Do you want me to go back to where it was when the English came or when the colonists came, or is it a violation of my constitutional rights?

Senator MOYNIHAN. What is your tribe?

Dr. RED BIRD. I am a Cherokee-Choctaw-Osaogee. My Indian name is Husiuma, which translates into Red Bird.

I am in Los Angeles currently. We have 80 percent unemployment among the Indian community. We surpassed the black teenager, who has 45 percent unemployment. We now have Proposition 13, which was a racist bill. It was pure racism. They have clothed it with words, such as "fiscal responsibility," "a taxpayers' revolt."

It was voted in by people who have become stingy in this great land. Most of them came from other countries as immigrants and we shared with them, and now they have become stingy.

But our constitutional rights are being violated. As they beat the people physically for demanding bread in the welfare offices of today, are they going to beat us in the streets as people scream for bread?

If we have to resort to stealing in order to live, in order to survive, then we will have what, police squads rounding up the begging people? Is this Nation going to become a nation of beggars? Are the prisons going to be full of political prisoners, as Andy Young says, who are begging for food? What kind of an image does this look to the world, that this Nation of wealth, people have three or four homes—homes in Beverly Hills, condominiums in Palm Springs, condominiums down in Mexico, condominiums for skiing in St. Moritz, Switzerland. There is a certain class here that has the wealth, and then you have the masses of people who are begging.

So we all become political prisoners when we beg for our bread?

Senator MOYNIHAN. Let us hope not. Let me say that, of course, this legislation is meant in a way to be a response to Proposition 13. We want to make sure that local governments in California which pay, as in New York, about a quarter of welfare costs, will have money for their beneficiaries.

Dr. RED BIRD. They will not use it properly. We prefer the Federal Government, because we know how the States do it. We have Indians—I also want to speak of South Dakota, the racist State of South Dakota. They will deliberately not give us anything to drive us out of the State. This will be used to drive us away, and what are we going to be? Internal refugees in our own land?

Senator MOYNIHAN. That is a perfectly legitimate subject, but it is not the one of this hearing. We are not changing Federal legislation at all. We hope to change the degree to which funding is provided by the Federal Government, so that welfare recipients are not dependent upon local government financing.

Dr. RED BIRD. But where do you mandate in the bill that AFDC must exist as it is presently constituted?

Senator MOYNIHAN. We do not mandate it, because——

Dr. RED BIRD. That is the point.

Senator MOYNIHAN. No, that is not the point, madam. The AFDC legislation is not changed in any way. It is not affected at all. We are providing more Federal funds for the existing program. We are not changing the program at all.

36-861—78——6

I have to show a little courtesy to Mr. Leonard Lesser who has patiently waited, as you have done. We thank you both for appearing.
[The prepared statement of Ms. Funiciello follows:]

STATEMENT OF DOWNTOWN WELFARE ADVOCATE CENTER

I'm Theresa Funiciello from the Downtown Welfare Advocate Center, a welfare rights organization in New York City composed of welfare recipients and other poor people. We are a primarily volunteer organization supported by donations. We have been in existence since 1974 when a group of welfare mothers came together to see what they could do to improve their lives, the lives of their children and other poor people. Over one hundred separate agencies and organizations in the city of New York refer people to us and join us in various work meetings. We believe that as poor people in the city working for a better life for poor people that our testimony reflects the positions of the bulk of poor people in New York City.

The Downtown Welfare Advocate Center strongly opposes S. 3470 because we believe it would hurt the poor mothers and children we represent every day of the week in the welfare centers of New York City, and poor families throughout the country. We summarize our reasons in this short statement and ask that we be allowed to submit a more detailed statement by the end of the week.

There are many problems with the current welfare system which this Congress needs to address. Benefits are much too low to enable a mother to take care of her children. In almost all states large numbers of needy people, such as two-parent families and adults without children, are kept out of the system altogether. There is no program to provide regular job opportunities that would enable people to support themselves at a decent level of income.

President Carter introduced a bill that addressed many of these problems. We supported some of the provisions in that bill and opposed others, and still do. S. 3470, however, is far worse, for it makes no attempt to deal with any of these problems. In addition, unlike other "fiscal relief" bills, it would not simply give the states some additional funds for the AFDC program. What it would do is to change the whole relationship between the federal government and the states for the worse, so far as poor people are concerned.

Under current law as it works in most states such as New York, the federal government pays a fixed percentage of the state's AFDC costs, including costs for AFDC-U and foster care, and the state's Emergency Assistance to Families (EAF) costs. If the state spends more, it gets more help from the federal government. Under S. 3470, the state would get one amount of money, a so-called bloc grant, no matter what it spent on AFDC or EAF benefits. This would have the following unfortunate results:

States could divert their current state and local AFDC and EAF expenditures to other purposes, or not spend the money at all.

States would have a greater incentive to cut benefits, or to increase the use of abusive or illegal means to reduce the welfare rolls, since they would reap 100 percent of the savings.

The federal government's ability to control what the states do would be undercut, since HEW would no longer have the power to refuse to reimburse expenses in particular cases in which the state violated federal law. This is because the state would be entitled to the payment as long as it had an approved state AFDC plan even though it violated the rules in that plan in some cases.

As we stated above, real increases in benefits are needed throughout the country. Yet the only suggestion of any help for recipients in most states, such as New York, is the cost of living provision in the bill. As everyone knows, cost of living increases do not provide real increases in terms of increased buying power. Furthermore, we believe that the cost of living provision in the bill might not produce any cost of living increases for poor people.

There is nothing in the bill to guarantee that program beneficiaries would receive any actual benefit from the increases that would be given to the states. In the first place, in states where the caseload grows, for example, because of increased unemployment, we fear that these additional funds might be "passed-on" to recipients not as an increase in benefits per family, but in the increased total payment to all families. In other states, the "pass-on" might be only in foster care cases, and most mothers and children would get nothing more. This

is because the bill does not say how the cost of living increase must be passed on.

Another problem with the cost of living provision is that the state could keep its increase and not pass it on at all by stating that current benefits are adequate. While we think it is clear that benefits in New York City are grossly inadequate, we understand that the current New York City Commissioner has said that New York AFDC benefit levels, which have not been increased in four years, are still adequate.

Finally, in most states, even if the state did pass on the federal cost of living increase, the amount of the increase for each recipient might not reflect the full increase in the cost of living. This is because there would be no requirement that the state add to the federal funds and the federal increase in states like New York would only be based on a part of the benefit.

All-in-all, the cost of living provision would offer very little if anything for recipients.

Recipients would also be unlikely to benefit from the fiscal relief that would be given to the states. There is no indication that any of this relief would be passed on to the poor in any way. Many states have made it clear that they want fiscal relief to lower taxes, not to help AFDC recipients. Thus poor people would receive hardly any benefit out of the additional $1.5 billion that the federal government would be spending on AFDC and EAF under this bill.

One last point. As we noted above, and as Senator Moynihan said when he introduced the bill, this bill would give the states much more authority to run the AFDC porgram any way they like. It is our experience that we often have to depend on the federal government to defend our basic rights under the law, and that state and local administrators are often arbitrary, vindictive, and lawless. We cannot support a bill which would remove federal controls needed by the poor and offers poor people no benefits, and we therefore oppose S. 3470.

Senator MOYNIHAN. Finally, Mr. Lesser, we once again welcome you to this committee.

May I just say, Dr. Bernstein, did you wish to make any statement in the aftermath of the previous testimony? I wonder if Mr. Lesser would step aside for just a moment while Ms. Bernstein comes up. These are public hearings, and we want to have a full record.

Ms. BERNSTEIN. I appreciate that, Senator.

I want to comment on only one of the points made, the reference to the fact that we are rejecting 50 percent of the applicants who come to ask for assistance.

At one point in March, we did a study in four centers which had very high rejection rates. We did, indeed, find that 50 percent of those rejections should have been deferred, rather than rejected.

We instituted a training program because obviously there had been misinterpretation of some of the regulations. As a result of the training program, we began to reduce that rate which—citywide, by the way, was 29 percent, not 50 percent.

In a period of 8 weeks, we reduced the rate of improper rejections from 29.5 percent to less than 4 percent. In the meantime, half of the people who had been rejected instead of being deferred came back to the centers with the additional documentation. Their cases were reviewed, and most of them were accepted.

Further, on July 1, we wrote to all of the others who had been improperly rejected telling them to come in, with the additional documentation, and if they were eligible they would get grants back to the dates when they originally applied.

So that whole problem has been taken care of and, indeed, the rate of applications accepted has not changed very much over the period

from January of this year to July of this year, the latest months for which I have the data.

Senator MOYNIHAN. It sounds to me as if you did what the administrator of a huge program should have done, and did it with dispatch.

Ms. FUNICIELLO. I read that audit. It is an improper audit. I guarantee you. I can prove it to you.

Our caseloads have not gone down one little bit, nor have the caseloads of legal services. You should check that before you accept that as an answer.

Senator MOYNIHAN. If you would send us that information, we would be happy to consider it when we examine the audit.

Now, we do have to show a little mercy to Leonard Lesser.

Thank you very much, Dr. Bernstein.

Ms. BERNSTEIN. Thank you, Senator.

Senator MOYNIHAN. Now, sir. Do we have your statement here? I know we do. I have just lost it in a pile here.

Mr. LESSER. I request that——

Senator MOYNIHAN. Here we are.

May I just say that you are appearing as general counsel of the Center for Community Change, an old friend of this cause.

STATEMENT OF LEONARD LESSER, GENERAL COUNSEL, CENTER FOR COMMUNITY CHANGE

Mr. LESSER. Thank you, Mr. Chairman. I might say I have been waiting at least since 1967 when I served as a member of the Public Welfare Advisory Council. I would request that my statement be printed in the record, and I will try to summarize it briefly.

As I indicated in my statement, I have been advised by the AFL–CIO and by Mitchell Ginsberg, dean of the School of Social Work of Columbia University, that they agree with the points which I have expressed in opposition to S. 3470; and this morning I was advised by the American Federation of State, County and Municipal Employees that, after having gone over the statement, they agree with it, too.

As you know, Mr. Chairman, the groups I have mentioned and I have developed a broad, comprehensive program for welfare reform. Our opposition, however, to S. 3470 is not based on its failure to include such comprehensive reform proposals.

As you also know, going back in history, the groups with which I am associated were the groups that worked with Senator Ribicoff and the Secretary of HEW in trying to work out a compromise in 1972. You were kind enough to refer to it in your book. We did work out the compromise. Unfortunately, it was not accepted by the President.

I mention that because I want it to be clear that our opposition *is* not based on an all or nothing proposition. Our opposition is based on the fact that S. 3470 does nothing to improve the benefits of the welfare recipient, to make the program more adequate or more equitable.

In fact, we believe that the change in the financing method offers incentives to the States to reduce expenditures for AFDC. It offers no incentive to those States which have low benefits to improve those benefits, since the cost of such improvement would have to be borne 100 percent by those States.

We, too, are concerned about the welfare recipients in New York whose benefits have not kept pace with the cost of living. We are also concerned, however, with the welfare recipients in the rest of the country who also need increases and where the failure to give the increase has not been because of the fiscal plight of the city or State but because of the unwillingness of the State legislature to increase the benefits.

In those States, they are getting Federal grants of 75 percent to 80 percent, so it is not a fiscal question; it is an unwillingness to improve benefits.

Unfortunately, S. 3470 would give no incentive to those States to improve the benefits. It would give them more money without requiring that that money be spent for improved benefits.

I think it is unfortunate, Mr. Chairman, that this approach is being suggested at this time. I, too, have followed this over the course of the years. I know the history, as you have stated it. I agree that the proposal that was made by the administration did not progress very far, nor did the bill that was reported by the subcommittee. However, after that happened, a coalition was developing. It led to the introduction of S. 2777 by Senators Bellmon, Baker, Danforth, and Ribicoff.

It led to efforts of the New Coalition to work out a more modest program than had been proposed.

We have had discussions which support what the administration said today in its testimony, that it is working on the development of a proposal. I recognize what you had to say about that promise. I might say that those of us who are interested will take the administration statement at its face value and would work and push them and hold them accountable if they do not come up with a proposal of the kind they stated.

Now, whether or not such a proposal would pass on the next Congress I cannot guarantee. No one knows. But I do know that there are more groups who are interested and who have been fighting for a much more comprehensive program who are now prepared to work on the development of a program that would at least make beginnings toward a program reform which would benefit recipients.

It seems to me there are four areas where consensus seems to be developing—a minimum benefit level, inclusion of two-parent families, the earned income tax credit expansion, and some positive measures to create jobs for welfare recipients.

Around those, the bill—S. 3470, of course, contains none of that.

Now, I recognize that there has been discussion of the earned income tax credit——

Senator MOYNIHAN. We are considering this proposal as part of the Revenue Act.

Mr. LESSER [continuing]. In the Senate Finance Committee in connection with the tax bill, although I notice the Chairman's reference to making provision that the earned income tax credit would not be available to welfare recipients, even though under the present law—it is so available.

If this is done and it is not made available to welfare recipients, I think it will just throw greater burdens on the welfare system and would be a step backward.

With respect to S. 3740, I think the disincentives come from the shift in the method of financing to a closed-end appropriation and

the bloc grant approach. I recognize that the bill says that all the moneys received from the Federal Government must be used for social welfare purposes. Obviously, social welfare purposes are broader than the AFDC program. There is nothing to prevent a State from using the Federal grant for other than AFDC and, I might say, the Secretary is given no authority to enforce the provision as to how States interpret social welfare purpose.

Senator MOYNIHAN. You know that is repairable.

Mr. LESSER. Except, Mr. Chairman, there are several other things that need fixing. I have pointed it out in my statement, and other persons have pointed it out in their statements, the fact that the passthrough was 100 percent to local governments as the bill was drafted, which would have cost the State of New York some $300 million.

Now, I understand that is being corrected.

It was indicated that corrections were being made to take care of population increases or other increases. I would suggest that if all of these corrections have to be made at this date, who knows what others are needed? What is the impact of that little clause that benefits can be spent for social welfare purposes on all of the standards that now exist in AFDC? This ought to be examined very closely.

As I read it, it could mean a deterioration of those standards.

I would like to make one final point, if I may——

Senator MOYNIHAN. Please go ahead.

Mr. LESSER [continuing]. In connection with the passthrough of the cost-of-living increase.

The bill does not require that benefits be increased in a State to adjust for cost-of-living increases. The bill only requires that moneys be spent for welfare recipients subject to the States writing a letter to the Secretary that they have found that current benefits are adequate so they do not even have to spend the money for welfare recipients.

But, spending money for welfare recipients could mean spending money for increased caseload. It does not assure that current beneficiaries will receive the cost-of-living increases which you have indicated, and Senator Cranston has indicated, has been one of the motives in your introduction of this legislation.

Finally, I would like to say that while the bill would create laboratories in the 50 States, I am afraid that the laboratories would be, how can you cut back on welfare expenditures and how can you use the moneys which are being made available by the Federal Government not to benefit welfare recipients, not to make the system more adequate or more equitable, but to see how the State can use these moneys for other purposes.

I would have hoped, with your interest—and I would still hope, Mr. Chairman, with your long interest—and we go back together on this—I would hope that you would join with those groups that are trying to work out a modest, equitable compromise and make that a part of the fiscal relief which, we agree, is needed by the localities and by the States.

Senator MOYNIHAN. Well, that is nice of you to say. I have attended all of those meetings. I have introduced those bills, as it were.

The problem, though, is a reality—the reality that Ms. Funiciello spoke about. While we have been down here in Washington looking

for the right combination of variables, welfare benefits in the city of New York have been cut by 46 percent.

Mr. LESSER. And unfortunately, as I say, Mr. Chairman, this bill would not provide that New York benefits be increased by that 42 percent or by any other amount, nor would it do anything about those States where the benefits have been lower than New York, and cut even worse.

Senator MOYNIHAN. I do not want to end on a despairing note. Once again, however, the movement for welfare reform is stymied because nobody can agree. The people who want it, who constitute 20 percent of the necessary votes, cannot agree on what they want, while the remaining 80 percent——

Mr. LESSER. I am suggesting that maybe we can agree on what we want.

Senator MOYNIHAN. Yes, we are getting close to agreement. But does anybody else agree with us?

Mr. LESSER. I think that that is where the test will have to come, and I guess maybe, as I think you said, this may be the only game. If it is, unfortunately, my organization and the organizations I am speaking for, unfortunately, think it is the wrong game.

Senator MOYNIHAN. I am sorry about that. We will see what happens.

We certainly had a test this last year in this Congress and we failed.

Mr. LESSER. On a comprehensive program.

Senator MOYNIHAN. We failed.

Mr. LESSER. We have had no test on a modified incremental program.

Senator MOYNIHAN. It is not going to look modified and incremental by the time—well, we will see. We will find that out, too.

I thank you very much, Mr. Lesser. I thank our guests. I thank those of us who have been kind enough to come.

[The prepared statement of Mr. Lesser follows:]

STATEMENT OF LEONARD LESSER, GENERAL COUNSEL, CENTER FOR COMMUNITY CHANGE

I appreciate the opportunity to present this statement on behalf of the Center for Community Change. CCC is a nonprofit corporation organized to provide technical assistance to local community groups whose basic objectives are the improvement of conditions in the ghettos and barrios in which they reside.

Since jobs and income are essential to achieving these objectives, the Center is particularly concerned with welfare programs which S. 3470 seeks to modify. It, therefore, has as one of its goals the study and analysis of such proposals in order to determine their effect on the lives and well-being of poor people.

As part of its activities in this area, the Center over the past several years, has conducted an Income Policy Project for the purpose of providing a forum where social welfare, church, labor and other groups interested in the problem of assuring a fair and adequate system of income support for the poor and disadvantaged, could examine, discuss and exchange views.

The most recent meeting of the project was held on July 19, 1978, shortly after the principles incorporated in S. 3470 were announced at a press conference by Senators Moynihan and Cranston.

While the legislative text was not available, the principles as set forth in Senator Moynihan's Statement of June 28, 1978, were discussed. The group unanimously expressed opposition to the thrust and limited nature of those proposals which are incorporated in S. 3470.

While there was support for an extension of the Earned Income Tax Credit and somewhat muted opposition to the tax credits for employers who hire welfare recipients, these provisions have not been incorporated in S. 3470 as introduced on August 25, 1978.

Many of the groups who were involved will be testifying or submitting statements on their own behalf. This statement is being submitted, therefore, on behalf of the Center for Community Change and not on behalf of the Income Policy Project or its participants.

I have been advised, however, by representatives of the AFL-CIO, and Mitchell Ginsberg, Dean of the Columbia University School of Social Work, with whom I have discussed the specific provision of S. 3470, that I could advise the Subcommittee that they are in agreement on the points of opposition to the enactment of S. 3470 which are set forth in this statement.

While we agree that the Federal government should gradually assume the costs of welfare, thus affording fiscal relief to the State and local governmental entities who now share in the costs, we do not believe that steps in this direction should be taken without Federal action to at least initiate actions to assure a more equitable and adequate system for welfare recipients.

Once it became clear that neither the Administration proposals (H.R. 9030) nor the revised version reported by the House Special Subcommittee on Welfare Reform (H.R. 10950) were likely to be passed by the House, discussions were seriously undertaken among individuals and groups interested in at least a "beginning" towards the process of "welfare reform." These resulted in legislative proposals such as S. 2777 and the concepts developed by the "New Coalition." A consensus seemed to be developing that such a "beginning" should at least include a Federal minimum benefit level applicable to all states, extension of the program to two-parent families, improvement of the earned income tax credit, and concrete proposals for job creation.

Not only does S. 3470 not mandate such initial steps as a condition of fiscal relief, it would create disincentives to State enactment of such provisions where they do not now exist, and incentives to states to cut back on benefits or curtail current eligibility provisions.

These incentives and disincentives flow from the restructuring of the financing mechanism of AFDC to a closed end block grant in lieu of the current automatic matching formula. While under present law the Federal government shares with the State the costs of increased benefits or the expansion of the program to additional groups, such as two-parent families, S. 3470 would require the States to assume 100 percent of such additional costs.

Not only would the costs of program expansion have to be borne by the State but so too would the costs of increased case loads resulting from economic downturns, population shifts and other such factors. As a result, States faced with these potential increases would be faced with the alternative of increasing State welfare appropriations or curtailing benefits or tightening eligibility requirements to keep within the amount of the Federal grant.

Since the Federal grant is not dependent on the amount of State expenditures, and since S. 3470 does not require States to even maintain current State expenditures, pressures would even exist to cut back on State funds now being spent for AFDC.

While Section 4 of S. 3470 would require the States to use their block grants only for "social welfare purposes," the State would not need to spend its Federal dollars on the AFDC program. General Assistance, SSI supplements, Social services would clearly be "social welfare" expenditures; and State ingenuity would soon discover other State programs which would be classified as "social welfare" for which Federal dollars could be substituted. In fact, S. 3470 does not require a state to exercise much imagination. Since no state maintenance of effort requirement is incorporated in the bill, states are free to substitute Federal dollars for state expenditures in AFDC and spend the State moneys on anything it wishes.

Similarly, although the intent has been expressed by the sponsors that the cost of living increases in the block grant be used to protect the purchasing power of recipients, such result is not required by the language of S. 3470. In the first place, the requirement that such increase be passed on to welfare recipients does not require cost of living increases in the monthly benefits of recipients. The requirement that funds be passed on to recipients could be satisfied by using the increases to meet case load increases. In any case, any pass through of funds to "welfare recipients" can be avoided by a state by a finding conveyed in writing to the Secretary that additional payments are not necessary in order to provide adequate benefits to recipients. No authority is given to the Secretary to challenge the validity of such finding or to take any action should it prove to be false.

Thus, although the title of the bill refers to "Welfare Reform" the bill itself provides no program improvements. In short, S. 3470 is a proposal that only restructures the financing of the AFDC program.

Even in this area there is some question as to the fiscal relief which is offered to the States.

The bill would increase the Federal grant to states by $1,320,000,000 and beginning with fiscal year 1979, provide additional increases to take account of cost of living increases. Yet once the bill is enacted, all increases in State welfare costs in excess of such amounts will have to be borne by the States. Whether increases in a particular state's welfare costs resulting from changes in economic or other conditions will exceed its share of the $1,320 million additional Federal funds is uncertain. In any case, in these States where local governmental entities now pay a substantial part of the welfare costs, the provisions of S. 3470 which require the State to assume the local share would impose a financial burden on the State in excess of its share of the additional Federal funds. In New York, this would probably amount to about 300 million dollars.

In summary, we believe:

(1) That any permanent fiscal relief to states should be enacted only as part of a program which requires a beginning toward the enactemnt of program reforms needed to create an adequate and equitable welfare system; and

(2) That such fiscal relief be accomplished through increased Federal participation in the matching formula rather than through a closed end block grant approach.

We, therefore, oppose the enactment of S. 3470 and would urge the Committee neither to report it to the full Senate nor to attach it as an amendment to another bill awaiting Senate action.

We would urge that efforts already underway to develop a meaningful beginning towards program reform and a sound basis for fiscal relief be continued so that a bill incorporating these objectives can be introduced with major support when the next Congress convenes. Early agreement and enactment of such a measure could assure benefits to families in need and early fiscal relief to States and political subdivisions.

SUMMARY OF POINTS

(1) S. 3470 makes major changes in the funding mechanism of AFDC, but provides for no program reforms to benefit families in need.

(2) The change to a closed end block grant appropriation removes all incentives for states to improve their benefits or to add to coverage groups such as two parent families.

(3) The ceiling on Federal expenditures requires state to bear future program cost increases resulting from economic downturns.

(4) The absence of a state maintenance of effort requirement permits states to reduce state expenditures as program costs increase.

(5) The requirement for states to assume costs now incurred by local subdivisions could mean decreases in Federal grants in some states.

(6) The requirement that Federal funds be spent for "social welfare" purposes encourages decreases in welfare expenditures.

(7) There is no effective mandate to assure that benefits be increased for cost of living or that welfare recipients receive the increased Federal grants.

Senator MOYNIHAN. I thank, in particular, the staff, which has listened with great patience, and the hearing is concluded.

[Thereupon, at 6:30 p.m., the hearing in the above-entitled matter was concluded.]

[By direction of the chairman the following communications were made a part of the record:]

STATEMENT OF THE WELFARE RIGHTS ORGANIZATION OF ALLEGHENY COUNTY, PITTSBURGH, PA., AND THE NEIGHBORHOOD LEGAL SERVICES ASSOCIATION, PITTSBURGH, PA.

To the Members of the Senate Finance Committee: On behalf of the Welfare Rights Organization of Allegheny County, an organization of more than 1,500 low-income individuals and families in Western Pennsylvania, and on behalf of Neighbodhood Legal Services Association, which provides legal services to poor people in this area, we wish to express our opposition to S. 3470. S. 3470, currently before

the Senate Finance Committee, is the latest in a series of welfare reform proposals. According to the bill, the present system of providing federal matching funds to states for their AFDC and Emergency Assistance programs would be replaced by a system of bloc grants to the states. Since this system would provide some financial relief, it has been called a "money bill," a way to provide emergency relief to those states with high welfare costs. In fact, it is much more than that; if enacted, it will produce radical changes in the public welfare system, bring an end to any meaningful welfare reform, and place additional financial burdens on the states. Most importantly, it promises to cause untold hardship to the poor of this country, toward whom every welfare proposal must ultimately be addressed.

Under the present system, if a state's costs go up because of increased participation, expanded coverage, or increased benefit levels, the federal contribution also increases. Similarly, if a state's costs decrease, so does the federal share. Under S. 3470, however, the federal government would simply provide a lump sum, and any expenses beyond that amount would have to be met by the state. Thus there is no incentive for any state to increase its benefit levels or expand its coverage. In fact, in a few years, after the relatively limited fiscal relief provided by the bill has been eroded, there will be increasing financial pressure on states to freeze or to decrease grant levels and program coverage to whatever level might be supported with federal dollars.

There is no reason to believe that even the limited fiscal relief provided by S. 3470 will help recipients in any way. The bill merely requires that the federal contribution be spent on "social welfare" programs. Within that broad definition, the states would be free to use the federal contribution for virtually any purpose. Since there is no requirement that the states match the federal contribution, state funds now being spent on "social welfare" programs could be used for other purposes as well. Under S. 3470, state money now spent for recipients may go for salaries, highway construction, tennis courts, and administrative expenses.

One of the hallmarks of the AFDC program has been the existence of federally mandated guidelines for the protection of recipients; and corresponding state violations of these guidelines. Requirements that benefits be paid "with reasonable promptness," that children not be denied assistance because of their parents' acts that all individuals who wish to apply for assistance be given the opportunity to do so, that information about recipients be kept confidential, all of these are based in Title IV-A of the Social Security Act, the Federal AFDC program. The only way in which these requirements may be enforced by the federal government is by the threat to withhold the federal share. A fundamental of the AFDC program is the link between state compliance with federal law and state receipt of federal funds. The bill will break that link. Although the requirements of the federal AFDC program will remain in effect in theory, in practice the federal government will be powerless to enforce them.

The bill, offered as fiscal relief, fails even for that purpose. Pennslyvania, which would receive more additional funds than any state but New York or California, would receive barely enough excess funds to pay for cash grants for ten days. By far the majority of states would receive little benefit under S. 3470. In two or three years, states will be under increasing financial pressure, and S. 3470 will encourage them to relieve the pressure by withdrawing state funds from welfare programs, by cutting back benefits, and by invading recipient rights and benefits. It will provide only limited, temporary relief to the states, and that relief will be won at the cost of tremendous hardship to the poor of this country. The bill should not be passed.

STATEMENT BY LINDA S. MCMAHON, ASSOCIATE DIRECTOR, SOCIAL INSURANCE AND WELFARE, CHAMBER OF COMMERCE OF THE UNITED STATES

The Chamber of Commerce of the United States welcomes this opportunity to present its recommendations on S. 3470, the State and Local Welfare Reform and Fiscal Relief Act of 1978.

Our membership, which embraces more than 76,000 business enterprises, trade and professional associations, and local and state chambers of commerce, has a vital interest in welfare reform measures. This is so not only because we pay a large part of the taxes which finance welfare programs but also because we are concerned about our fellow citizens who need public assistance.

We support block grant approach taken in S. 3470 but recommend field tests in several states. Restrictive federal welfare policies should be waived at least in the demonstration states.

ENDORSEMENT OF THE BLOCK GRANT APPROACH

Under S. 3470, the current opened-federal matching grants to the states for the Aid to Families with Dependent Children (AFDC) program would be replaced with a two-part block grant to each state. The first part would reflect the actual federal matching grant provided to each state for its FY 78 AFDC costs. The second part would provide a one-time fiscal relief payment to the states totaling approximately $1.5 billion. Of this amount, $660 million would be allocated to each state in proportion to its June 1978 AFDC expenditures, another $660 million would be allocated in proportion to the state's general revenue sharing allocations, and the remainder would reflect a cost-of-living increase. The block grant would be based on the base year expenditures thereafter except for an annual cost-of-living increase which would be passed on to welfare recipients unless the state made a specific finding that such an increase was not necessary to provide adequate benefits. The states would retain savings which result from reductions in welfare costs, but the savings would have to be spent on social welfare programs. The states would also have to pass along federal funds to cover any local government's share of welfare costs.

The National Chamber testified earlier this year before this Committee in favor of block grants to cover the federal share of welfare funding, and we believe S. 3470 is a step in the right direction. As noted by the bill's sponsors, this approach to welfare funding gives the states, which have the major responsibility for welfare programs, the strongest incentive to improve management, reduce fraud and abuse, and cut unnecessary spending. At the same time, it provides the states with funds to improve benefit levels where necessary.

TWO MAJOR PROBLEMS

While we are pleased with the block grant approach to federal welfare funding embodied in S. 3470, we find two major problems with the measure: indexing the block grant to the cost of living and retaining restrictive federal welfare policies.

Indexing Block Grants

Inflation is now cited by the majority of the American people as the number one economic problem facing them, one that has an adverse effect on every aspect of their lives. Unfortunately, the establishment of automatic cost-of-living increases—whether in labor-management contracts or in welfare block grants—tends to reinforce inflation by eliminating the incentive to deal with the problem.

The Congress would be better advised to focus on ways to bring inflation under control than to further insulate segments of the economy from its effects through wider application of cost-of-living escalators.

Retaining Federal Regulations

As Senator Moynihan noted when he introduced S. 3470,

"A familiar goal of most welfare reform proposals of the past decade * * * has been the establishment of a uniform national program. Yet recent research, demonstration projects and experiments have led to widespread doubt that enough is known about the causes and remedies of dependency to permit us to move confidently toward a uniform program * * *

"(The bill's) underlying assumption is that American federalism offers a constructive solution to contemporary doubts about how to reform welfare.

"For the genius of a Federal system is that it permits a variety of approaches to resolving common problems. Perhaps Connecticut or Missouri, Tennessee or Oklahoma will discover a new and effective way of dealing with dependency * * *"

We concur wholeheartedly with Senator Moynihan but we do not believe the states can find solutions to the welfare problems while contending with so many federally mandated programs and federal regulations. Under the bill, the states would not have the authority to abolish or consolidate existing welfare programs in order to create and tailor a welfare system which best meets the needs of their area. This is a serious flaw which the committee should correct.

DEMONSTRATION PROJECTS

Although the National Chamber supports the block grant approach with full state control of welfare programs, we recognize the need to test such a major public policy change before implementing it on a full scale. Therefore, we urge

you to fund demonstration projects in several states giving those states complete freedom to establish and run their own welfare programs without interference from the federal government.

To allow specific states the flexibility needed to develop a "new and effective way to dealing with dependency," it will be necessary to waive all federal welfare regulations and programs, such as food stamps, for those states. In order for demonstration states to provide a comprehensive welfare system for their citizens, it will also be necessary to increase the block grant for those states to reflect expenditures for the waived federal programs. The block grants should remain in effect for at least five years to give the states ample time to develop new programs. Through such demonstrated projects, we can learn whether or not the states are capable of handling their welfare problems.

SUMMARY

As we have stated in earlier testimony before your committee, the Chamber of Commerce of the United States supports decentralization of welfare programs to give substantial federal financing through block grants. Decentralization will bring about better control of the programs, thereby reducing error rates, cutting costs and limiting eligibility to those in need and increasing benefits to the truly needy.

We believe S. 3470 is a good beginning toward that goal, and we urge you to improve the bill with the changes we have recommended.

U.S. CATHOLIC CONFERENCE,
DEPARTMENT OF SOCIAL DEVELOPMENT AND WORLD PEACE,
Washington, D.C., September 14, 1978.

Hon. DANIEL PATRICK MOYNIHAN,
Chairman, Subcommittee on Public Assistance,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: The Department of Social Development and World Peace of the United States Catholic Conference is deeply concerned about the issue of welfare reform. We therefore appreciate this opportunity to present our views on S. 3470, the proposed "State and Local Welfare Reform and Fiscal Relief Act of 1978." In light of our commitment to comprehensive welfare reform, we are troubled by the thrust and potential impact of this bill.

Out of a concern for the poor of our nation, the Catholic Bishops of the United States have, since the 1930's, participated in national discussions on public welfare assistance. In recent years, we have presented testimony on the proposed Family Assistance Act of 1969 as well as on full employment and national economic policy.

In May of this year, together with the National Conference of Catholic Charities, we submitted a statement to this Subcommittee expressing our suport for comprehensive welfare reform as reflected in the Carter Administration's proposal (S. 2084) and especially as that bill was improved by the special House Subcommittee on Welfare Reform (H.R. 10950). In that statement, we articulated nine principles, which were based on Catholic social teaching and years of service to the poor. We continue to believe that these principles should be the basis of any adequate approach to welfare reform. They are as follows:

Every human person has the right to an income sufficient to insure a decent and dignified life for one's self and one's family.

Welfare reform should be developed in conjunction with broader economic policies directed toward the development of a genuine full employment economy that serves all our people.

Our nation must provide jobs at a decent wage for those who can work and a decent income for those who cannot work.

The maintenance and revitalization of family life should be a primary concern.

Income assistance should be available to those who are employed, but who do not receive an adequate income.

Income assistance should be determined solely on the basis of need.

Any income assistance program should permit the poor to manage their own income and personal needs.

The processes through which welfare policies and regulations and standards are formulated should involve the poor as participants.

The administration of welfare assistance should be improved and simplified.

Having examined S. 3470 in light of these principles we have concluded that this measure will preclude comprehensive welfare reform in the near future.

While recognizing that fiscal relief is a serious concern of some states and localities, we believe that the needs of the poor, not relief to the states, should be the primary basis for change in the present welfare system. S. 3470 sets fiscal relief as the priority. Furthermore, by the use of the block grant ceiling approach, the bill may even prove harmful to those in need. Enactment of this measure could result in a further entrenchment of the present state and local-based system of welfare. As you know, this system has resulted in disparity in benefit distribution, inadequacy of benefit levels, denial of benefits to those whose basis of need does not conform to existing categories, and in depriving the working poor of assistance.

Utilization of a block grant approach with a ceiling would create additional problems. It does not account for factors affecting caseloads and the extent of need among the poor, such as changes in population and the needs of families. Without the possibility of further federal assistance, present recipients, through reduced benefits, may have to shoulder unbearable burdens. Without matched funds, there is little incentive for a state to raise benefits above present levels—levels in which in many cases are already inadequate.

In light of our concern for the needs of the poor, we are troubled by the vagueness of Sec. 4, Section 40.3, "Limitation on Use of Grants." This section provides that the grants made to the states under this provision may be used for social welfare purposes. We believe that this could be applied to everything from cash assistance to tax relief. Without a clear definition of "social welfare purposes" it is impossible to determine the impact of this provision on the poor.

In conclusion, we strongly support the position that comprehensive welfare reform in response to the needs of the poor in our country is imperative. S. 3470 does not, in our opinion, represent even an adequate short-term response to those needs. While fiscal relief may be seen as a necessity by some states and localities, we believe that this should be provided in the context of significant reform of the total welfare system.

We therefore urge the Subcommittee not to adopt S. 3470. Furthermore, since it appears to be too late this year to achieve the goal of comprehensive welfare reform, we request that the Subcommittee approach this question early in the next session. Finally, if fiscal relief is deemed to be an absolute and immediate necessity, then we urge that it be provided only for the coming fiscal year.

Thank you for this opportunity to express our concerns on this most important matter.

Sincerely,

Rev. Msgr. Francis J. Lally,
Secretary.

Statement of Hon. Leo C. Zeferetti

Mr. Chairman: I would like to commend you and your colleagues, Senator Cranston and Senator Long, for your sustained efforts to bring about reform of our country's welfare system. Certainly S. 3470 and its House companion, H.R. 14011, introduced by Representatives Nowak, Green and myself do not provide for the massive overhaul that our welfare system urgently needs. But, S. 3470 is a progressive advance toward a more equitable and efficient welfare program, and it does provide the essential fiscal relief which is absolutely necessary for the easing of the financial burden that state and local governments have been forced to assume.

As a Representative from Brooklyn, I am especially aware of the social and economic problems that an inequitable welfare system causes for an urban locale. From 1961 to 1975 alone, the number of cases serviced by New York City's Aid to Families With Dependent Children program increased some five-fold, and to this date, the number of cases continues to multiply. Under the present state and federal laws, New York City is forced to pay fifty percent of the nonfederal assistance costs as well as fifty percent of the nonfederal administrative costs of the AFDC Program. During the same time period (1961–1975), personal income of New York City residents increased 109.7 percent while personal income of state residents increased 155.3 percent. The result is that New York City

decreased as a proportion of the total personal income of the state while at the same time the proportion of the local share of its AFDC costs increased. Though poverty is a national problem, unpredictable economic and demographic trends have forced New York City to endure the financial strain for a situation it could not prevent or control.

Federal welfare laws serve only to confound New York City's financial misery. The present Federal reimbursement formula for the AFDC program defines a state's ability to pay on the basis of the relationship of the state's per capita income to the national average, a narrowly conceived standard that overlooks geographical variations in living costs, public assistance recipients, payment levels, and economic conditions. Under such a system, states with low per capita incomes and low AFDC benefits are favored while states like New York are discriminated against. The unfortunate result of such an archaic formula is that localities like New York City, with their high concentration of public assistance recipients, their relatively high payment levels, and their subsequent acceptance of the financial responsibility ofr such recipients, must struggle with an unfair, inequitable economic burden. In order to satisfactorily comply with the incessant needs of our nation's poverty victims, states and hard-pressed locales cannot continue to finance an unjust share of public assistance costs without risking fiscal insolvency.

Mr. Chairman. I sincerely welcome the legislation, S. 3470, for it stands to alleviate much of the unnecessary and unjust economic pressure that our national poverty ills have placed on many of our state and local governments. This piece of legislation recognizes that our national government must diagnose our present welfare programs as a systemic disease. No longer should the financial base of unfortunate states and locales plagued by depleted treasuries, be allowed to waste away under the constant duress of inequitable laws and formulas.

The block-grant proposal in your bill, Mr. Chairman, is particularly effective in easing much of our welfare burden. It will, in time, completely eliminate the share of AFDC costs that localities have assumed while continuing to
the share of AFDC costs that localities have assumed while continuing to
provide the amount of federal funding previously provided to the states in fiscal year 1978. For New York City it would mean the elimination of fifty percent of the nonfederal administrative and nonfederal assistance costs of the AFDC program. Because the block grant would be updated annually by the Consumer Price Index, transfer recipients served by the AFDC Program would be able to resist the inflation spiral.

This legislation takes a first step towards providing state and local governments with fiscal relief in a manner designed to stimulate a reduction in welfare costs. It takes into account the economic and demographic trends which have added to the welfare "mess." I strongly urge the Congress to enact the "State and Local Welfare Reform and Fiscal Relief Act of 1978."

Statement of the United Neighborhood Houses of N.Y., Inc.

Comments Concerning State and Local Welfare Reform and Fiscal Relief Act of 1978 (S. 3470)

On behalf of United Neighborhood Houses, the federation of New York City settlement houses, I am writing to express our views concerning S. 3470. While we recognize that this bill would bring substantial additional funds to New York State and New York City, which are badly needed at the present time, we feel strongly that in the long run the bill is not in the best interests of the families and individuals we serve, nor of persons in need in other States.

We feel strongly that the closing of the open-ended authorization and the use of a block grant formula for States is a dangerous procedure. While we agree that there should be a change in the current formula, and while we welcome the steps included in the bill to provide relief for State and local governments, we do not believe the formula under S. 3470 will prove satisfactory.

In the first place, we consider the setting of a ceiling, even though the amount of federal funds to be made available are related to the Consumer Price Index, will have the unfortunate effect of limiting federal financial responsibility. This is already evident with respect to Title XX where the ceiling has caused very

considerable hardship. With respect to income maintenance, the Consumer Price Index will only take into account direct cost of living changes and will not cover the affect of unemployment and related needs of people.

In the second place, the absence of any substantial requirement upon the State to pass on the increases resulting from the cost of living adjustment to recipients of aid may well have the consequence that States receive additional funds and then, as permitted under the bill, "convey in writing to the Secretary that additional payments are not necessary in order to provide adequate benefits to such recipients." With the experience of New York in the past nine years, it is clear that the State determination of adequate benefits for recipients has always been well below the real need and, in fact, below the cost of living changes.

Third, we consider the provision permitting States to use the funds for any "social welfare purpose" is again subject to substantial abuse. We believe that the federal government must retain a much stronger authority both to monitor and ensure that States use the funds for the direct benefit of recipients. Our experience indicates that on many occasions State governments may interpret "social welfare purposes" broadly and retain substantial funds for State administrative purposes rather than passing them through to recipients. Again, the experience with the so-called Mondale-Packwood funds under Title XX in the last two years, in New York as well as in many other States, is an indication of what may be expected to happen. We, therefore, urge that if the concept of block grants is maintained (and we hope it will not be), that the bill contain specific requirements upon the State as well as measures to ensure federal enforcement.

Fourth, we deplore the lack of any requirement upon the States for maintenance of effort. One of the strongest advantages in the current formula is that because the State must provide matching funds for reimbursement, there is an incentive for the State to make funds available for income maintenance. We fear that without this incentive there could be a total lessening, rather than increase, in available funds for persons in need.

Fifth, while S 3470 is limited in its application to aid families with dependent children, we fear that its adoption would provide a precedent for developing a ceiling on other welfare funds and on programs such as SSI. In the long run, the concept embodied in S 3470 could lessen the responsibility of the federal government to deal with the needs of its citizens throughout the nation and thus have the opposite effect of the intent of those supporting the bill.

Finally, we urge that this bill be reconsidered and redrafted along lines which are more closely related to some of the earlier welfare reform proposals and, in particular, that the standard setting and supervisory responsibility of the federal government be made an integral part of the authorization formula. Our experience with uncontrolled block grants, whether in social services or revenue sharing, has been that too much leeway is given to State governments. We feel that this formula, because it lessens federal responsibility, can be ultimately harmful to those who depend upon assistance to maintain themselves in dignity.

Submitted by Joseph E. Jenkins, Executive Director.

MEMORANDUM CONCERNING S. 3408, THE WELFARE REFORM AND FISCAL RELIEF BILL INTRODUCED BY SENATOR KENNEDY

The bill introduced in the Senate on September 14 by Senator Kennedy is a new effort to combine some aspects of welfare reform with relief for States and localities from the burden of income maintenance for families with dependent children. While there are a number of provisions in the bill that need change, the bill appears to be substantially more favorable to both welfare recipients and low welfare payment States than the Moynihan/Cranston/Long bill (S 3470). In addition, S 3408 deals with many of the issues which have been of vital concern to various welfare reform advocates. It also encompasses a number of the most recent proposals of the New Coalition (The National Governors' Association, The U.S. Conference of Mayors, The National League of Cities, The National Association of Counties, and The National Conference of State Legislators).

Mr. Stuart Eizenstat, on behalf of the Administration, indicated that the bill "is an important contribution" to welfare reform. Mr. Eizenstat also indicated his appreciation of "the effort to ensure that the Senate avoids any action this session that might jeopardize substantial reform next year." The Administration previously testified, at the Hearing before the Senate Subcommittee on Financial Assistance, on September 12, indicating its opposition to the Moynihan-Cranston-Long bill. The Kennedy bill is designed to be a substitute for that bill.

Positive elements in the Kennedy bill

1. The bill sets a national minimum standard for payments; although, as explained below, the standard would be too low in most states.

2. The bill retains the "open-ended" concept for authorizing welfare expenditures, tying the amount of funds available to the total size of the national welfare need, with allocations to states related to the size of the welfare population. It provides for federal reimbursement of 85% of the state's expenditure for mandated programs, and 70% of state supplements *up to the poverty level.* Beyond this, there would not be any federal reimbursement.

3. By increasing the percentage of federal reimbursement, the bill provides some fiscal relief to all states rather than to only a few, and ensures that this relief cannot be at the cost of the recipient. In addition, no State will pay more because of increased coverage of families in need; there is a "hold harmless" provision so that no State would be required to pay more for welfare than it paid in September 1978.

The problem in evaluating these provisions is that no precise figures are given as to the size of the fiscal relief for individual states. This kind of information must be available before the final decisions can be made.

4. The bill amends the provisions of the Social Security Act which, in many states, are interpreted to mean that families can only get financial relief if the father works less than 100 hours per month or leaves the household. This provision has been a clear disincentive to work and an incentive to break up families. The removal of the 100 hours per month rule is thus a substantial improvement in the welfare system.

5. It provides for increases in deductions for work expenses in determining eligibility. Work expenses and an additional $60 may be deducted in order to determine eligibility. The existing deduction of only $30 has been an incentive to leave work in order to obtain welfare. The altered approach to eligibility in the bill will be helpful to two parent families with low incomes.

6. The Kennedy bill also contains new requirements that applicants and recipients have specific rights with respect to methods for determining eligibility, and in obtaining immediate hearings on appeal in case of negative decisions. These administrative changes, which were also included in the welfare reform legislation adopted by the House Subcommittee on Welfare Reform, should be welcomed by all concerned.

7. As incentives for better administrative management, provision is made for a 90% federal match for states to computerize their operations, a 75% match for operating assistance, and a 50% match for other costs of administration. These provisions are taken largely from HR 7200, which has not yet been adopted in the Senate. Again, these provisions make a start toward reform of welfare administration.

8. The bill proposes a number of changes in the current earned income tax credit. These changes need close consideration to evaluate their impact. The federal increment for tax credit is raised to 15% from 10% for those who are working and making less than the poverty line. The credit could be paid up to $6,900 for a family of four (the estimated poverty figure for next year) rather than the $4,000 fixed under present law.

To compensate for the cost of this increase, Senator Kennedy proposes that the reduction rate when income is over $6,800 should be increased from 10% to 20% for each dollar in gross income. He believes that this higher reduction rate would not decrease the incentive to work and would be a substantial savings in funds.

Provisions in the bill which may prove unsatisfactory

1. The minimum benefit established in the bill is, as indicated, substantially too low. This fact was pointed out by Senator Kennedy himself who explains that he is proposing a figure that is better than the current situation and may be the best that can be obtained from Congress at present. The bill provides that a family will get a minimum benefit of cash and food stamps equal to 65% of the poverty line. This would still provide only about $80 a week to a family of four.

In introducing the bill in the Senate, Senator Kennedy added, *"But surely it cannot be the federal policy for very far into the future that people must live on less than two-thirds of their minimum requirements."*

2. The federal government, under the bill, would still not contribute the full cost of even this minimum figure. As indicated above, the federal government would reimburse states for 85 percent of the basic costs mandated under the bill

(a higher percentage than the federal government now reimburses any state). It would also pay 70 percent of any supplements *up to the poverty level.* This limitation would mean that there would not be any federal participation above the poverty level and, therefore, states such as New York which provide higher payments than the poverty level would still face the need of additional expenditure for which there was no match. They would, therefore, not receive the immediate full fiscal relief provided in the Moynihan bill. (In the long run, because of the ceiling on the Moynihan bill, they might get more from the Kennedy bill.)

3. Another potential problem raised by the bill is the relationship it establishes between direct financial assistance and food stamps. Although an effort is made to ensure that similar standards are used, the calculation for federal matching, as provided in Section 413, seems very difficult to administer. This calculation reads as follows:

MAXIMUM STATE PAYMENTS SUBJECT TO FEDERAL MATCHING

SEC. 413. The maximum monthly benefit amount for aid furnished under a State Plan approved under this part which shall be subject to Federal matching under section 403, for any assistance unit, shall be an amount equal to—

"(1) 100 percent of the official non-farm poverty line (established by the Office of Management and Budget and adjusted for family size and to a monthly basis) for a family of the same size as such unit within the State, minus

"(2) The sum of (A) the unit's income for such month (subject to the provisions of section 402 (a) (8)), and (B) the average value (within such State) of the food stamps for which an assisted unit of the same size as such unit would have been eligible during the last preceding January if the total income of such assisted unit for such January consisted solely of payments made under the State plan."[1]

4. The absence of any commitment for the provision of work and training maybe considered a weakness in the bill; however, as Senator Kennedy points out, the work component may well be better dealt with through CETA, especially if the link between welfare and CETA are clarified along the lines proposed in the new Senate reauthorization bill.

5. A serious gap in the bill, which is acknowledged by Senator Kennedy, is that the same income and eligibility rules should apply to those who are first seeking welfare and those who are already on assistance and need to continue. "Nobody should have to give up a job in order to qualify for the assistance which is available to others in the same financial situation." Senator Kennedy indicated that he has not dealt with this issue in the bill because it had not been possible for him to arrive at a solid cost estimate with respect to complete comparability. If it were not too costly, he believes the bill could be amended to provide for equality in treatment between those seeking assistance and those already receiving assistance.

Conclusion: To support the Kennedy bill

After analyzing the pros and cons, the Kennedy bill appears substantially better than any of the other bills currently under consideration in the Senate. It would prevent the changeover to a block grant system proposed by Senators Moynihan, Cranston and Long; it would retain the incentive to states of federal matching; and it would retain the standard-setting and monitoring role of the federal government as part of its responsibility for all its citizens. The fact that the minimum level is set too low, and that some of the issues are not adequately covered, must be taken into consideration. On balance, however, we believe that the Kennedy bill should be supported, but we urge that some changes be made before enactment, and that those issues which cannot be dealt with in the remaining time left to this Congress, be taken up early in the next year. We especially urge support of the Kennedy bill as a *counter to the Moynihan/Cranston/Long bill* which we believe would prevent true welfare reform next year and might be generally harmful to those in need of aid. We again deplore the block

[1] The term "assistance unit" is redefined in the bill in Section 4(g), as follows: "The term 'assistance unit' means a dependent child (or children), and the relative (or relatives) described in section 406(a) with whom such child is living, who are claiming aid, and any other individual living in the same home as such child and relative whose needs the State determines should be considered in determining the need of such child or relative, but does not include any individual receiving supplemental security income benefits under Title XVI."

grant concept, with its full reliance on State authorities. We therefore urge acceptance of the Kennedy approach to open-ended federal funding and federal responsibility.

STATEMENT OF THE CHILD WELFARE LEAGUE OF AMERICA, INC.

Established in 1920, the Child Welfare League of America is the national voluntary accrediting organization for child welfare agencies in the United States. It is a privately supported organization devoting its efforts to the improvement of care and services for children. There are 380 child welfare agencies affiliated with the league. Represented in this group are voluntary agencies of all religious groups as well as non-sectarian public and private non-profit agencies.

The League's primary concern has always been the total welfare of all children regardless of their race, creed, or economic circumstances, although our special interest and expertise is in the area of child welfare services.

In the past the League has appeared before Congress to seek an improvement in public welfare programs for children and their families because we believe that a family incom sufficient to meet minimum standards of health and human decency is essential for the optimal growth and development of children and basic to any program of services for children. We feel that it is essential to assist those families who are unable to earn enough to meet minimal needs. The League believes that there should be a national policy, setting national standards to assure that all people, including children, may have this minimum standard of living.

We are concerned about welfare reform because we believe the existing welfare system has caused irreparable damage to children by not meeting their basic or special needs.

More specifically, we are concerned about how the welfare system directly affects the lives of children and their families. We therefore suggest that any job or income policy under consideration would be carefully examined with a view to its potential help or detriment to children. Policies which harm children must be reassessed.

We believe that work and income programs should encourage family stability and protect the welfare of children by providing proper care for them in their own homes and with their own families. We must therefore ensure that income and welfare policies are designed to foster these goals, and will not result in problems such as parental desertion, lack of care and protection for the child and unnecessary placement of children in foster care and institutions.

We are opposed to the basic structural change to fixed federal grants in Title IV of the Social Security Act proposed by S. 3470 for the following reasons:

1. It would destroy the concept and reality of individual entitlement, supported by a matching formula in which the state and federal government share in financing on a case basis, that has underpinned all our welfare programs since 1935.

2. It conforms with none of the three approaches to "welfare reform" as the term is commonly used: i.e., true fiscal relief for states and localities, better administrative management, and an improvement in the condition of the poor for whose benefit the program exists.

3. It not only would move the opposite direction from that proposed by President Carter, the House Welfare Reform Subcommittee, or the compromise bill put forward by Senators Baker, Bellmon and Ribicoff, but it would create conditions and interests that would virtually preclude such changes in the future.

Each of these points is elaborated below.

Individual Entitlement: All our broad welfare programs—AFDC, SSI, Medicaid and Food Stamp Programs are financed on a basis that assures every eligible person or family equal access to benefits at a level predetermined by the responsible unit of government, state or federal. This is the basic meaning and intent of the pattern of financing adopted for the assistance titles of the Social Security Act in 1935. It was intended to replace the insecurity, discriminatory treatment, and hand-to-mouth anarchy of the relief programs which preceded them.

While S. 3470 does not follow the precedent of other so-called "block grant" programs by eliminating virtually all federal requirements for their expenditure; it makes it a practical impossibility to enforce many of the present plan requirements. To maintain open intake, for example, with a fixed sum allocation is virtually impossible in a situation of increasing need. The only way

this could be achieved would be by reducing grant levels to compensate for increasing numbers. To maintain statewide standards (another federal plan requirement) under these conditions would require a degree of state controls and constant reallotments that would tax administrative machinery beyond its capacity.

To make a change of these dimensions as a last minute amendment to a tax bill, thus disrupting the administrative practices built up over a period of forty-three years, does not seem consistent with responsible law making. The House Welfare Reform Subcommittee built up a record of nine volumes of hearings on welfare reform in which this drastic restructuring of the present federal-state relationship was never discussed.

Welfare Reform: "Welfare reform" is commonly used to cover these different objectives, none of which would be satisfactorily achieved under S. 3470.

Fiscal Relief: The most obvious purpose of the bill is to relieve the states and localities of at least 50 percent of their present costs. A windfall and a continuing additional grant of $1,320,000,000 is given the states on a formula basis, as compensation for losing the security and stability of the open-ended matching formula. It should, however, be pointed out that this degree of fiscal relief could just as easily be achieved by a simple modification of the present matching formula. The formula for its allocation, moreover, is heavily weighted in favor of the high payment states.

The closed and financing proposal must therefore, be seen as central to S. 3470. Under this proposal the states are, in effect, gambling on the future state of economic need among their citizenry. Should unusual events occur, causing unanticipated need, the federal government would no longer stand by their side as parties in its alleviation. In effect, the states are cast adrift, to sink or swim as best they may. Each governor, each state legislature would be confronted with impossible choices: should all grants be reduced, should certain groups of needy be removed from the program, should funds be allocated evenly over the whole year or should a big reserve be held against future contingencies, should the states' share be reduced to the minimum acceptable by federal authorities and the remainder be diverted to other purposes? Proposition 13 mentality would make this last a powerful temptation.

Improved Administration with subsequent reduction in fraud and abuse is put forward as a major purpose of this bill. Yet it has been our experience that when financing and administrative control are separated and the sanction of reduced federal grants eliminated, the temptation to loose or discriminatory administration becomes much greater. Experience with another so-called "block grant," CETA, in this respect, was reflected in recent debates and amendments in both Houses of Congress. The financial and program audit system developed under the case review system can stand improvements but their total abandonment at this stage would be unthinkable.

The welfare of families and especially of the seven and one half million children dependen on AFDC is the primary concern of the League. We are concerned that in most states the payments are too low for health, decency and dignity, and that many needy families are excluded from help altogether. But under this bill every incentive lies in the direction of low payments and low caseloads regardless of the need. These would not only be no financial inducements to increasing low payments or adding new groups of eligibles, but a strong temptation would be provided for state legislatures to reduce grants and coverage in order to free their own appropriations for other purposes. While S. 3470 restricts federal grants to "social welfare purposes," this in no way applies to state funds that could thus be freed. Since the only receiving requirement in the law would be the provision in Section 402(a)(2) for "financial participation by the state," this could be reduced to a token level at the expense of the recipients.

The provision of the proposed bill that cost-of-living increases in federal funds be passed on to recipients is also meaningless in view of the fact that no restrictions are placed on prior grant reductions. The requirement of a written finding that "additional payments are not necessary in order to provide adequate benefits" is so vague and unadministerable as to be a virtual invitation to evasion.

Many of the shortcomings of the present program would be intensified rather than relieved by this bill. Failure to extend coverage to children of the unemployed and other intact families would still lead to family break-up and might well be intensified by narrowing eligibility standards. Low living standards with no real protection against reduced grants and rising costs could only lead to a widening circle of resultant social evils. Above all, the abdication of all direct

and continuing responsibility for these families by the federal government is an invitation to further dismantling of the program.

A block grant also implies a limitation on AFDC–Foster Care. This could discourage states from removing children from harmful home situations or increasing foster care rates.

Increased numbers of older children and teenagers are coming into foster family care. Older children have greater overall needs and especially for specific items such as food, clothing, recreation and transportation. Higher rates have traditionally been paid for older children in helping to meet their increased needs. According to a study on the cost of foster family care at the University of Delaware, 38 of the 43 states with state-administered foster care systems determine payments on the basis of age.

Higher numbers of handicapped and emotionally disturbed children are also being placed in foster homes due in part to the deinstitutionalization of mentally retarded/mentally ill children from state hospitals. These children require intensive services and considerably more hours of care incurring far greater costs for the foster parents. At least 26 states have adjusted rates according to the physical and mental needs of the child. These children are usually in care for longer periods of time than non-handicapped children. According to a study on the "Components of Foster Care for Handicapped Children," that appeared in the June 1978 issue of *Child Welfare*, handicapped children remained in care on an average of 23 months longer than non-handicapped children. Additionally, handicapped children are far less independent and possess fewer self-care skills creating additional burdens on foster parents. For example, handicapped children need 27% more help in toileting and they experience 30% more problems in communication.

Besides the added demands on foster parents' time and energy, many added expenses are incurred in caring for a handicapped child. Extra-cost items included special furniture, wheelchairs, food processing equipment, rubber pants, etc. Data revealed that extra expenses incurred in caring for a handicapped child averaged $235 more a year than with non-handicapped children. However, foster parents of handicapped children reported reimbursement for only 24 percent of all special expenditures.

It has always been more difficult to recruit foster parents willing to care for older or handicapped children. These children have far greater needs both economically and emotionally. Many concerned foster parents are willing to cope with problems, but are resistant because they are not adequately compensated for the extra costs involved and the additional demands placed on their time, and mental and physical energies.

Efforts are being made to enhance foster parents' capabilities through foster parent training programs. Training requires a considerable time commitment from foster parents. It is increasingly clear that foster parents must be offered reasonable support financially, psychologically and technically to deal with the tasks of raising these children.

Hopes for true welfare reform with a direct and expanded federal responsibility are high with President Carter's original proposal contained in H.R. 9030 and the House Welfare Reform Subcommittee's improvements incorporated in H.R. 10950. Even the more modest incremental changes incorporated in S. 2777 put forward by Senators Baker and Bellmon would have moved the program in the right direction of expanded coverage and more adequate benefits. But S. 3470, by virtually casting loose the states from continuing federal direction and financing control, moves in the precise opposite direction. It puts before the states the temptation of immediate fiscal relief without any incentives to program improvement or protections for those the program is intended to serve. On the contrary, it offers an invitation to program retrogression. We strongly urge the Senate not to take such drastic action in the name of welfare reform and fiscal relief, both of which desirable ends can be achieved by better means.

DEPARTMENT OF HUMAN RESOURCES,
ADULT AND FAMILY SERVICES DIVISION,
PUBLIC SERVICE BUILDING,
Salem, Oreg., September 18, 1978.

Hon. DANIEL PATRICK MOYNIHAN,
Chairman, Subcommittee on Public Assistance, Committee on Finance, U.S. Senate, Dirksen Office Building, Washington, D.C.

DEAR SENATOR MOYNIHAN: I appreciate this opportunity to comment on the State and Local Welfare Reform and Fiscal Relief Act of 1978. We in Oregon

agree that any proposal which would result in genuine fiscal relief to States in meeting their public assistance obligations is indeed a significant step toward constructive reform of the American welfare system.

However, under Senate Bill 3470, as it is now written, the proposed method of administering the block grants constitutes a serious flaw which, from Oregon's point of view, renders it unsupportable. Under the proposed Bill, once the base period amount has been established for a State, the only factor to be considered in adjusting the block grant is the increase in the Consumer Price Index determined by comparing the Index for the second quarter of the preceding fiscal year with the Index for the second quarter of the second preceding fiscal year. Such a method of adjustment would be advantageous to a State when the state of the economy results in a period of sustained amelioration of the effects of inflation if caseload remains static and if no significant program improvements are contemplated. The State would be disadvantaged by this method of adjustment when the economy is entering an inflationary period.

Further, population increase and caseload growth are not taken into account in adjusting the block grants. Our preliminary assessment of Oregon's initial block grant compared to what we would realize under the present AFDC funding mechanism involving federal financial participation in the State's actual AFDC costs indicates that Oregon would receive only approximately 8% more in federal funds from the block grant for the base year. However, if the AFDC basic caseload continues to increase at the rate of 12% each year and the block grant can only be adjusted by the 6.5% CPI increase, Oregon will have passed the "break-even point" within two years after the block grant proposal becomes effective. For Oregon, the fact that factors other than the CPI increase are not considered in adjusting the block grant is a major omission.

Press releases have pointed out that since the block grant would not be reduced, any savings achieved by the State by placing welfare recipients in jobs or by reducing the number of ineligible recipients and overpayments would be retained 100 percent by the State. Oregon has been making a maximum effort to eliminate overpayments and payments to ineligible cases and to place eligible recipients in jobs to the extent permitted under present federal regulations. It is doubtful that further substantial gains can be made without modifications in existing federal regulations. This comment specifically relates to current laws and regulations governing: (a) allowable work expenses, and disregards of earned income; (b) prohibits under federal rules for sanctioning the grants of unemployed fathers who refuse to accept jobs, voluntarily quit, or make themselves unacceptable to the employer. (Over 50% of the unemployed fathers under current federal regulations are exempted from these sanctions for refusing to accept a minimum wage job. Under current regulations, practically, the other 50% cannot be sanctioned in less than 90 days.); and (c) extending the earned income disregard to mothers in AFDC–UF cases The effect of this policy is that if the mother works and the husband does not, the case is exempted from the 100-Hour Rule—thereby creating a disincentive for the unemployed father to actively seek work. Numerous other examples could be cited.

Constraints on the State's ability to act are lodged in federal laws, regulations and court orders which prevent states from reducing the AFDC caseload when they believe it appropriate. Our observation concerning Senate Bill 3470 is that for States which have experienced an unprecedented growth in caseload, as has Oregon, the block grant concept will be disadvantageous unless provision can be made to allow for caseload growth in addition to CPI increases in adjusting the base period amount. Our experience in Oregon has led us to believe that caseload growth is primarily a product of national policy which restricts the States' ability to define conditions of eligibility and control their public assistance programs.

Acknowledgment of the principle that welfare is a national responsibility leads us to conclude that any reasonable effort to provide fiscal relief to States must address the effects of current national welfare policy. At a minimum, adjustment of the block grants must reflect caseload growth as well as increases in the Consumer Price Index.

Sincerely,

KEITH PUTMAN,
Assistant Director, Human Resources,
Administrator of Adult and Family Services.

HINDS COUNTY HUMAN RESOURCES AGENCY,
Jackson, Miss., September 15, 1978.

Re: Senate Bill 3074 (State and Local Welfare Reform and Fiscal Relief Act of 1978).

Hon. DANIEL P. MOYNIHAN,
Chairman Senate Subcommittee on Public Assistance, U.S. Senate—U.S. Capitol Building, Washington, D.C.

DEAR SENATOR MOYNIHAN: Senate Bill 3074, even though called "State and Local Welfare Reform," is by no means a reform of any type of our welfare system. This bill deals only with how the system is funded and fiscal relief for the states.

This bill does not address the inadequacies of our present welfare system: the perpetuation of the break-up of families, inadequate benefit levels, universal coverage, foodstamps, AFDC, AFDC–UF, etc.

Additionally, this bill gives too much authority to the states for administration of these funds. Who's to define "social welfare purposes"? Who will monitor the block grant to insure that states are using these monies for the benefit of welfare recipients? How will HEW handle complaints of how funds are used? What appeal rights will recipients have?

States could not be given an option of passing on cost-of-living increases to recipients. From past history, when Mississippi has been given an option of benefits for welfare recipients, our officials have always chosen the option that serves to least benefit the welfare recipients.

This bill mandates no guarantees or handles that recipients' benefits levels will be increased with the "new" monies allocated. In Mississippi, a state whose benefit level is already at the bottom of the barrel, i.e., No. 50, the welfare recipients in this state cannot "afford" a bill which provides for no such guarantees or handles. The administrators of this money in Mississippi must be told it has to be spent; they cannot be trusted or left to choose what *they* feel is best for the poor people in Mississippi.

Our experiences are that the welfare officials are not truly cognizant of the needs of the poor; they choose the worst options for the poor—options which tend only to benefit the pockets of the officials. Case in point: recent misuse of appropriated Title XX funds, kickbacks and subsequent and/or pending federal indictments of legislators and other welfare hierarchy in Mississippi.

The concerns and needs of the poor cannot be over-emphasized or over-addressed and S.B. 3074 does neither; it will only serve to perpetuate the adage that while the rich get richer, the poor get poorer.

Yours for bread and justice,

MS. KAAREN M. PRICE,
MRS. GLORIA MAYFIELD GRAVES,
Training Coordinators.
LOUIS ARMSTRONG,
Director, Neighborhood Service Centers.

LEGAL ACTION OF WISCONSIN, INC.,
Milwaukee, Wis., September 15, 1978.

Mr. MICHAEL STERN,
Staff Director, Committee on Finance, Dirksen Senate Office Building, Washington, D.C.

DEAR MR. STERN: We are writing on behalf of the Wisconsin Welfare Rights Organization to submit the following comments regarding Senate Bill 3470 titled the "State and Local Welfare Reform and Fiscal Relief Act of 1978." We understand that the Public Assistance Subcommittee of the Senate Finance Committee held a hearing on this bill on September 12th and request that these written comments be included in the record of that hearing.

We believe that Senate Bill 3470 is contrary to poor people's interests. Far from serving to reform the Aid to Families with Dependent Children program (AFDC), this bill would undermine any possible development in that area. Specifically, it would militate against states granting increases in the inadequate benefit levels and against expansion of the AFDC program to include groups of persons presently not covered.

There are many reasons why use of federal block grants rather than matching funds for state AFDC programs does not guarantee any raise in benefit levels or

any program development. First, the bill does not require a state to spend any of the additional federal funds on benefit increases. Rather, the bill permits a state to use the federal monies in place of its own to reduce its share of the cost of local AFDC programs.

Neither do the cost of living increases in the federal block grants provide any hope for benefit level increases. A state could avoid giving any cost of living increase by determining that such was unnecessary. And even if a state deemed a cost of living increase to be appropriate, the bill does not require that these be provided to recipients as increased benefits. In reality, they might well be spent for costs of an increased caseload or expansion of some programs without development of others. Finally, even if a cost of living increase was found to be necessary and even if it was spent to increase AFDC benefit levels, this still would not result in recipients being granted a full cost of living increase because the increase would be based only on the 1978 federal allotment and not on the comparable state portion of the grant. Therefore, unless a state were to choose to expend more state monies, recipients would have a net loss in spending power over their already low 1978 level. And this does not take into account the fact that a state's AFDC caseload could increase for any number of reasons, meaning that the recipients would have an even lower level of benefits relative to the increased cost of living.

The use of block grants would militate against another goal of welfare reform, expansion of the AFDC program. There is no mandate for inclusion of such programs as AFDC-Unemployed Fathers or foster children benefits in a state plan. And, after the first year, any adoption of such programs would have to be paid for by state funds, unless there was a cutback in some other program or decrease in AFDC benefit levels. This could well result in a state's choosing not to expand the AFDC program or even in its deciding to eliminate some programs. Such could only harm the poor persons involved.

Worst of all, the provisions of Senate bill 3470 would also effectively preclude federal review of state AFDC programs. At present, the Department of Health, Education and Welfare has some modicum of control over states in that it can remove a percentage of a state's federal matching funds for a particular program if the state fails to comply with federal requirements in the operation of its AFDC programs. The role of HEW in supervising State AFDC programs and issuing rules and regulations to ensure a minimum level of fairness and equity in the operation of those programs is an important safeguard.

Senate bill 3470 would remove even this amount of control from the federal agency as it would only require a state to have an approved AFDC plan in order to obtain a federal block grant. There would be no means of sanctioning a state for defects in its operation of such a plan. Recipients could be harmed by cut backs in benefit levels and programs and there would be no federal mechanism to avoid this result.

In summary, we oppose Senate bill 3470 as detrimental to the interests of poor persons and a regression in the area of welfare reform. In its present form the bill is merely a windfall to state governments disguised as welfare reform.

Thank you for your consideration of these comments.

Yours truly,

MARY FISHER BERNET,
ANNE L. DELEO.
Staff Attorneys.

LEGAL SERVICES CORPORATION OF ALABAMA,
Montgomery, Ala., September 15, 1978.

Re: "Welfare Reform" Legislation: S. 3470.

MICHAEL STERN,
Staff Director, Committee on Finance,
Dirksen Senate Office Building, Washington, D.C.

DEAR MR. STERN: We are very much concerned that this bill will increase the federal government's expenditures on A.F.D.C. without providing any additional benefits to needy recipients in the State of Alabama and elsewhere. Unless radical changes are made in this bill, we recommend that the Senate proceed instead to adopt some version of the Carter welfare package to ensure that public assistance benefits are raised in those States such as Alabama that now pay recipients far too little to live on.

Alabama has established an extremely unrealistic need standard. For example, the total needs for a two-person family are determined to be $144.00, while those for a family of four are $240.00. While these figures are too low to pay rent, pay utilities, buy necessities, and so on, Alabama pays only 61.5% of its need standard; so that a family of two actually receives only $89.00, while a family of four receives but $148.00. During the last legislative session in Alabama, the Alabama Department of Pensions and Security requested funds it stated were needed to enable the agency to continue payments at this level. Only after considerable political maneuvering was the funding made available—and, then, only subject to receipt of sufficient revenues. Otherwise, there could be cutbacks in AFDC levels.

In light of this legislative attitude (which accurately reflects the sentiments of the majority of Alabama's voters), it seems clear that Alabama would merely use the federal funds provided by S. 3470 to reduce the State share, unless Section 4 is considerably modified. Because the demands for fiscal relief engendered by Proposition 13 in California are so loud in a State such as Alabama where tax rates are among the lowest in the nation, I can only conclude that other States will do likewise, availing themselves of the relief to the State fisc and neglecting the needs of the poor for additional benefits to help them cope with the pressures of inflation.

I further note that not even the cost of living increases need be passed on to AFDC recipients. Section 4 would allow a State merely to "find" that additional payments were not necessary and then to notify HEW. Apparently, there is not even a need for the State agency to convince HEW that the current AFDC levels are sufficient. In few if any States are AFDC recipients given enough money to provide a cushion against inflation. Section 4 should be rewritten to require a cost-of-living increase in AFDC payments, except in a circumstance where a State can convince HEW that it was overpaying for AFDC. Even then, the raise should be implemented until recipients have had an opportunity to challenge this administrative determination.

I regret that I am unable to go into more detail at this time, because I only recently received word of this bill. I intend to send further comments at a later time, even if they will not officially be timely.

For now, I will close by saying that in States such as Alabama the need for relief for underpaid AFDC recipients is so much greater than the need for State fiscal relief that legislation such as this borders on the cruel.

Sincerely,

LAWRENCE F. GARDELLA.

STATEMENT OF THE LEAGUE OF WOMEN VOTERS OF THE UNITED STATES

The League of Women Voters of the United States, a volunteer citizen education and political action organization of 1,400 Leagues located in 50 states, the District of Columbia, Puerto Rico and the Virgin Islands, is pleased to have this opportunity to present its views on S. 3470, the "State and Local Welfare Reform and Fiscal Relief Act of 1978." Welfare reform has been a major concern of the League since 1970, when the organization undertook a study of alternatives to welfare as a means of combating poverty and discrimination. As a result of the study, the League developed a strong position in support of a system of federalized income assistance and lobbied extensively for welfare reform in 1971 and 1972. The League advocates a system of income assistance with uniform eligibility and benefit standards to meet the basic needs of *all* persons who are unable to work, whose earnings are inadequate, or for whom jobs are not available. We concurred with President Carter when he said, in May of 1977, that an income assistance program must be adequate, equitable and uniform. For these reasons we cannot support S. 3470.

We oppose S. 3470 not on the grounds that it does not go far enough in reforming the current welfare system, but on the grounds that it offers no reform at all. S. 3470 does nothing to remedy the drastic flaws of existing welfare programs: it would not extend coverage to needy two-parent families who are currently ineligible for AFDC in almost half the states; it does not move toward adequate benefit levels and uniform eligibility requirements; it does not move toward administrative simplicity; it does not create a workable mechanism for increasing job opportunities for welfare recipients; and it does nothing to establish a minimum income floor. Most important from the League's perspective, it does not address the special needs of families headed by poor women, who, as the committee is well aware, comprise half of all low-income families.

Supporters of S. 3470 argue that the prospects for achieving comprehensive welfare reform are remote and that fiscal relief for states and localities is a logical first step. But the League fears that enactment of S. 3470 may well be the first and last step toward welfare reform. S. 3470 is a bailout of state and local budgets, pure and simple. The bill would provide an additional $1.5 billion in federal funds in the first year to states and those localities that now bear some welfare costs. California and New York would be the chief beneficiaries of fiscal relief, receiving approximately one quarter of the $1.5 billion in the first year.

Our great fear concerning S. 3470 is that passage of a fiscal relief measure will remove the impetus for future reform of the current welfare system. We fear that Congress and the Administration will be tempted to point to the fiscal relief measure as the fruit of their efforts at reforming the welfare system and abandon attempts to achieve comprehensive reform. And we fear that states and localities, heretofore strong advocates of welfare reform, may be tempted to settle for half a loaf—the half that directly addresses their immediate budgetary concerns.

Serious as are the omissions in S. 3470, the commissions are even graver. The bill makes drastic changes in the current AFDC program that would be detrimental to current welfare recipients. S. 3470 would convert the AFDC program from a federal-state matching porgram to a federal block grant to states, stipultating only that grants could be used "only for social welfare purposes." Nowhere in the bill is the term "social welfare programs" defined. Conceivably, states could eliminate AFDC entirely and put their entire block grant into another program considered by the state to promote social welfare, even if it did not meet the basic needs of poor families. We find this imprecision in defining the use of billions of dollars in federal funds both dangerous and irresponsible.

S. 3470 is also potentially harmful to recipients because, by converting AFDC to a bloc grant program, any financial incentive for states to increase AFDC benefits would be abolished. Under the two current formulas for federal matching funds, the federal government contributes between 50 and 83 percent of a state's total AFDC payments. In both formulas, the federal share varies according to the state's relative per capita income. Because there is no limit to the federal contribution in the most commonly used formula, states are encouraged to increase benefits—for every dollar a state increases AFDC benefit levels, the federal government reimburses between 50¢ and 75¢.[1] Not only would the financial incentive for these states to increase benefits be gone, but, because there is no maintenance-of-effort requirement, any reduction in current state expenditures over and above the bloc grant would result in a 100-percent savings for a state.

While S. 3470 would allow benefit levels to keep pace with the rising cost of living, it would not assure that states pass on cost-of-living increases to recipients, since in order to divert the cost-of-living increase to other "social welfare" purposes, states would merely have to make a finding that a cost-of-living increase was not necessary to provide adequate benefits to welfare recipients.

The League strongly opposes any move to increase federal financial participation in AFDC without at the same time establishing minimum national income and eligibility standards. If the federal government is to bear added responsibility for financing welfare, minimum national standards must also be established. In short, S. 3470 is not welfare reform in the judgment of the League of Women Voters.

The League is further troubled by the prospect that other provisions which would be extremely damaging to welfare recipients may be attached to S. 3470 as a tradeoff for obtaining enactment. These provisions, incorporated in HR 7200 as approved by the Senate Finance Committee, have been opposed by the League and other organizations concerned about the well-being of welfare recipients. (A copy of the League's memo on HR 7200 is attached.)

Finally, the League believes that any proposal with a substantial impact on current welfare programs and recipients requires more time for careful deliberations than remains in this session of Congress. One evening of hearings is hardly enough time to hear from all organizations and to analyze the probable impacts on state decisions regarding welfare spending.

The League of Women Voters of the United States joins you in lamenting the 10-year "logjam" in reaching agreement on how to reform our country's welfare system. But the League does not join you in support of S. 3470 or HR 7200.

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[1] Forty-six states currently use the so-called "Medicaid" formula. Four states use the alternate "regular" formula, in which the federal government contributes 5/6 of the first $18, a percentage of the next $14, and nothing beyond the first $32.

MEMORANDUM

LEAGUE OF WOMEN VOTERS OF THE UNITED STATES,
Washington, D.C., September 6, 1977.

To: Members of the Senate Finance Committee.
From: Ruth C. Clusen, President; Ruth J. Hinerfeld, Action Chairman.

Shortly the Senate Finance Committee will resume its consideration of H.R. 7200, a bill making major revisions in the AFDC program. The League of Women Voters of the United States believes that the far reaching amendments (discussed below) that the Committee has thus far adopted are contrary to the original purpose of the AFDC program: to allow low-income single parents with small children to remain in the home to care for their children.

Moreover, we object to the process by which the Committee's amendments were adopted: none of the amendments (save the Moynihan $1 billion fiscal relief amendment) were the subject of Senate hearings; most of the amendments were adopted with very little discussion; and, finally, only a minority of Committee members were present for discussion and adoption of the amendments.

For these reasons, we urge you to reopen discussions on the League-opposed amendments to the bill as outlined below. We urge in addition that hearings to solicit information from interested individuals and groups on these specific changes in the AFDC program be held prior to any final Committee action on the bill.

WORKFARE

Two amendments introduced by Senator Roth enable states to require that AFDC recipients work off their welfare checks. Notwithstanding the League's long-held opposition to the concept of "workfare", we would remind the Committee that Congress itself has found this type of program to be unworkable. Legislative history shows us that Congress rejected "workfare" when it originally adopted the Social Security Act. In 1962, Congress did enact the Community Work and Training Program but dismantled it 5 years later when it proved to be a failure and a huge administrative nightmare.

While we support the goal of making jobs and training available so that recipients who can leave the home may be integrated into the regular work force, we do not believe the workfare provisions adopted by the Committee are a way to accomplish that goal.

No provision has been made for funding for job training and skills development. In effect the bill forces recipients out of the home, away from their children, into unskilled, dead-end jobs which will not provide a basis from which they can move into the regular workforce. This type of approach does justice neither to the recipients themselves, nor to the worthwhile objective of decreasing dependence on public assistance.

EARNED INCOME DISREGARDS/WORK EXPENSES

The computation for earned income under AFDC has been amended doing away with the existing work expense deductions other than child care. The new formula reduces work incentives currently in the program, even to the extent that many recipients (especially those required to work under workfare) will actually lose money by working. The League of Women Voters believes that any change in the income disregards should encourage rather than hinder those recipients who are able to work.

VENDOR PAYMENTS

In our letter to you of June 22nd, we detailed our opposition to Section 505 (a)—the so called "voluntary vendor payment" provision passed by the House. The provision would permit AFDC recipients to "voluntarily" request welfare agencies to make vendor payments in the form of two-party checks to landlords and utility companies—cashable only by the landlords or utility companies. State and local Leagues throughout the country have monitored administration of the AFDC program. Based on their findings, we believe that Section 505(a) would inevitably lead to coercive treatment of recipients by landlords, utility companies and welfare agencies. Considering the minimal subsistance AFDC grant, we believe that recipients must be given the authority to determine which of their urgent needs will be met in emergency situations. Also we note that the Committee's action on Section 505(a) contradicts the original congressional intent which explicitly rejected vendor payments under Title IV of the Social Security Act.

STATEMENT OF JEROME CHAPMAN, COMMISSIONER, DEPARTMENT OF HUMAN RESOURCES, THE STATE OF TEXAS

Mr. Chairman and distinguished members of the Subcommittee on Public Assistance: I am Jerome Chapman, Commissioner of the Texas Department of Human Resources. The Texas Department of Human Resources for over thirty years has administered public assistance programs. I welcome this opportunity to present our observations and comments on the State and Local Welfare Reform and Fiscal Relief Act of 1978 (S. 3470).

The intent of the bill is clear. It is necessary to move toward an acknowledgement of the principle that welfare is a national responsibility for which the federal government should bear primary financial responsibility. State's authority to design and administer its public assistance programs must be strengthened while its financial burdens must be reduced. States, which have heretofore been financially strapped by the costs of administering public assistance programs, require fiscal relief from present financial burdens. The intentions behind S. 3470, however, have failed to materialize in the Act itself.

States and local government do need welfare reform and fiscal relief. States have supported and encouraged Congressional discussion of such interests for years. Public Assistance recipients do need protection from inflation and the decline in their purchasing power. This bill, however, has failed to resolve the issues which it was intended to address.

While the bill's title refers to welfare reform and although there has been extensive and uniform agreement of the need for welfare reform, the bill includes no structural program changes. As a result, a number of significant problems will continue to plague the success of federal, state and local public assistance efforts. The multiplicity of income maintenance programs will continue to result in cumbersome administrative procedures, duplication and high administrative cost.

The bill does not standardize program and benefit levels thus maintaining the major differences between states. The bill does not provide a bonus to states which raise benefits to 65 percent of the poverty level. The legislation does not require all states to operate the AFDC-U program, nor will it guarantee jobs to welfare recipients able to work. Assistance to the working poor is limited since the tax credits have been eliminated. It is fair to say, therefore, that the Fiscal Relief Act is not a welfare reform bill but rather a fiscal relief bill that simply restructures the financing procedures of the AFDC program.

The restructuring of the financing procedures as included in the Fiscal Relief Act will have a significant impact on the AFDC program. The bill replaces the existing federal matching formula with a block grant. The block grant effectively places a cap on federal expenditures in the AFDC program. If nationwide experience showed us that the AFDC program is entering a period of runaway expenses, then such a cap on expenditures would have some basis. Expenditures, however, have not been extraordinary high. The effect of the cap on expenditures contradicts the stated objectives of this piece of legislation, specifically, reducing the financial burden on the states. For example:

In low grant states, any increase in the existing needs standard (other than CPI adjustments) would have to be met by 100 percent state funds.

States could not adopt optional programs unless they were funded with 100 percent state dollars.

Significant increases in caseloads attributable to economic changes would require either a reduction in grant benefits or 100 percent state dollars.

The Federal Government is not held responsible for increased expenditures caused by Court decisions and statutory or regulatory changes. States compliance with such actions will require utilization of allocated block grant funds or securing additional 100 percent state funds.

Some states will not be able to increase AFDC benefits because the higher AFDC caseloads will increase the Title XIX costs thereby requiring additional state funds.

One of the stated objectives of this bill is to encourage significant improvements in AFDC benefits in states where present benefits are low. However, the funding is tied only to the requirement that states spend such funds on social welfare programs. States could choose to withdraw State funding and rely either in part or totally on the block grant to fund the AFDC program. The state funds may or may not be used on social welfare purposes. There

is certainly no maintenance of effort provision which will guarantee that existing state funds be retained for social welfare purposes. Therefore, there is no means of ensuring that low benefit states take steps to improve their benefit levels.

The bill also seeks to keep benefit levels rising at a rate equal to the increase in the cost of living. States may, however, elect cost reduction alternatives by certifying that their current benefit levels are "adequate" and, therefore, a CPI adjustment in the benefit level is unnecessary. Unless the CPI adjustments are mandatory or more specific criteria for opting out are established there will be no guarantee of maintaining footing in recipient purchasing power.

The public assistance programs have for some time been in need of reform both programmatically and structurally. The present program and financial structure forces far too much diversity across the states in program benefits. Often needy individuals are deprived of basic needs because of the lack of adequate state funds. This bill does little, if anything, to solve this problem. Rather, the Fiscal Relief Act offers states a carrot in the form of immediate fiscal relief. The Fiscal Relief Act offers long term rigidity that can only work against the establishment of national payment standards. It will discourage implementation of optional programs and will tend to encourage states to freeze or cut back assistance payments. A predictable and flexible funding fiscal relief formula is needed. Any funding mechanism that does not meet these requirements should not be implemented.

The Committee's interests in continuing the debate on welfare reform and fiscal relief are to be commended. Welfare reform is an essential ingredient of the successful implementation of effective assistance programs. Fiscal relief as well as a restructuring of the federal financing procedures are important aspects of the long range implementation plan necessary to obtain the needed reform.

The Committee's desire to take immediate action on some of the aspects of welfare reform and fiscal relief is indicative of their commitment to the principles of welfare reform. The State of Texas is equally committed to welfare reform. If changes in the proposed legislation could be made to address the concerns raised above then our actions as well as our commitments will be complementary.

Thank you for your consideration of the State of Texas' views.

Statement of the National Organization for Women, Inc.

The National Organization for Women (NOW) is the largest feminist organization in the world, with a membership of more than 95,000 women and men in 650 chapters throughout the U.S. We welcome the opportunity to submit testimony on S. 3470.

With 79 percent of the poverty population consisting of women and children, and with one out of every three female-headed families living below the official poverty level, welfare reform stands as a priority feminist concern. NOW firmly believes that comprehensive reform is necessary to provide for the needs of the poor, enable people to obtain jobs and economic independence, and simplify administration of the welfare system. In the past few months, it has become clear that such reform will not be accomplished this year, and that in the interim, some incremental measures might be needed. But such measures must, at a minimum, include a Federal floor for AFDC, extension of coverage to two-parent families, expansion of the EITC, and development of decent job and training opportunities, especially for women.

We strongly oppose S. 3470 because it separates fiscal relief for states from the total welfare problem, and thus represents an artificial, unsatisfactory approach to a crucially important issue. S. 3470 would only decrease the pressure for comprehensive reform, without providing any relief to the poor—and in fact could actually prove harmful to recipients.

In altering the AFDC funding formula from the current automatic Federal matching payments to a closed-end block grant, the bill could result in no improvement to, or undermining of, the AFDC program.

Since the funds would not be specifically designated for the AFDC program, states could use them for any social services program, or could substitute them

for their own AFDC spendings, thus freeing state money that could be spent anywhere.

The bill has no maintenance of effort requirements and also makes no provisions for increases in caseload. States could thus be faced with having to tighten eligibility requirements and cut back the welfare rolls in order to meet current expenditures, or lower benefits to absorb the increased caseload.

States would retain any savings out of the block grants, and thus might be motivated to unfairly or illegally reduce caseloads or keep benefits low to save money.

Placing more control in the hands of the states would decrease the Federal government's monitoring and enforcing power. HEW would no longer have the power to withhold funding in cases of state violation of Federal law as long as a state had an approved AFDC plan. And in cases where HEW could hold back funding, it would be faced with having to withhold all or nothing, instead of a percentage as is possible under the matching system. Experiences of NOW members at the local level have shown time and time again that abuse and denial of due benefits and rights of women on welfare is widespread. Federal controls over state programs are essential to ensuring the rights of poor women.

This bill offers no guaranteed relief for the poor. Even the cost-of-living increases allowed for in S. 3470 could be passed-through in the form of an increase in total benefit expenditures, rather than through individual benefit increases, or could be avoided altogether. The bill provides that a state may avoid pass-through of cost-of-living increases by notifying the Secretary in writing that such increases are unnecessary because levels are adequate. No authority is given to the Secretary to challenge or reverse such findings.

A bill that purports to be welfare reform, yet threatens to leave recipients worse off than before, is a tragic fraud. Women are doubly threatened by cutbacks in social services programs since the majority of employees, as well as beneficiaries, of these programs are women. Yet neither can be served by undermining the rights of the other, and NOW opposes any fiscal relief measure aimed at social services which does not also ensure reform of the welfare system to more adequately meet the needs of the poor.

All of the increase between 1969 and 1976 in the number of families living in poverty has been among families headed by women. Millions of women are trapped in poverty and dependency. This desperate situation can only be addressed by enacting comprehensive reform. Women need decent benefit levels and recognition of the work done in the home, as well as training and jobs that will enable them to leave poverty. In testimony submitted to this Committee on May 12, the major points of NOW's demands for such reform were outlined.

In summary, NOW urges the Committee to halt action on S. 3470 and turn to developing a more comprehensive measure which can be enacted early next session.

Questions and comments regarding this testimony should be directed to Margaret Mason, Welfare Rights Aide, at the NOW Action Center.

STATE OF WASHINGTON,
DEPARTMENT OF SOCIAL AND HEALTH SERVICES,
Olympia, Wash., September 13, 1978.

Mr. MICHAEL STERN,
Staff Director, Committee on Finance,
Dirksen Senate Office Building, Washington, D.C.

DEAR MR. STERN: This letter concerns S. 3470, the "State and Local Welfare Reform and Fiscal Act of 1978," introduced by Senators Long, Cranston and Moynihan. We will appreciate having our comments incorporated into the record of the hearing held by Senator Moynihan on September 12, 1978.

After careful consideration of this bill, it is our estimate that it is not a desirable substitute for either incremental or substantial reform of the Aid to Family of Dependent Children (AFDC) and other Income Maintenance programs. If this bill should be enacted into law at the close of this session of the Congress, we foresee the preclusion of serious consideration of more extensive welfare reform in the next session.

The bill does provide fiscal relief in the short-term, but we are most concerned that over time, such relief to the states will evaporate. The proposed fiscal relief

is predicated on a stable or even decreasing caseload, an unrealistic assumption. Cost changes incurred by the states, due to increasing caseloads or adoption of program options or other modifications, would be at state expense, since the present method of matching state dollars would be replaced by a block grant. In effect, a block grant is a ceiling on federal participation in the AFDC program, and with no adjusting mechanism except for the Consumer Price Index.

It is true that states and local jurisdictions are faced with continuing and often conflicting demands as to the allocation of local tax dollars, and we appreciate all Congressional efforts to provide fiscal relief. However, this is not the only reason for seeking increased federal participation. Of equal importance is the recognition of the fact that the economic condition and well being of people is a national matter and subject to national remedies, and only slightly responsive to state and local initiatives. Even more to the point is the fact that the federal-state partnership, contemplated in the Social Security Act, is now definitely titled in favor of the federal government. State latitude in program design is limited to either participating or not participating, defining the standard of need and setting the level of exempt resources. This imbalance in federal dominance can only be redressed by increased federal financial participation commensurate with their decision making authority.

As an alternate to S. 3470, we favor the fiscal relief provided in HR 13335. This bill retains the present matching formula, and we do support the incentive concept incorporated by having the actual amount related to the state's payment error rate. We consider this to be a positive feature since incentives for improving management performance are superior to sanctions for excessive error rates.

Sincerely,

GLADYS MCCORKHILL,
Director, Bureau of Income Maintenance.

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