

# The Case for “Strings-Attached” Welfare Reform

By Robert Rector

**M**y role in life is always to be the fly in the ointment, so I won't disappoint here today. When we speak about federalism we need to distinguish between “true federalism” and the use of “false federalism” by liberals to defend the status quo and to derail conservative reforms in Washington. So I am going to talk to you about the proper relationship between the welfare system and federalism.

First, it's important to understand how large the welfare system is. Since the beginning of the War on Poverty, federal and state governments have spent \$5.4 trillion on welfare, providing cash, food, housing, medical care, and social services. How much is \$5.4 trillion? Well, for the \$5.4 trillion spent since 1965 you can buy the entire industrial infrastructure of the United States. You could buy every factory, every machine, every store, every hotel, every television station, every office building — and have a little bit left over on the side.

Besides its sheer scale, what most people also don't realize is that the welfare system — that is, means-tested welfare for the poor — is predominantly federal in nature. There are nearly eighty major federal welfare programs. Federal and state spending last year amounted to about \$350 billion, or about five percent of GNP. Seventy-five percent of all that welfare spending is federal funds. And if you take aside Medicaid, where there is a substantial state contribution, then the federal proportion goes up to 85 or 90 percent. So most welfare money being spent at the state level is federal money. That is different from a lot of other issues, where the federal government is contributing only a tiny handful of money and using that money to pull levers and manipulate what's going on with state funds.

On the other hand, most people believe that the heart of the liberal welfare bureaucracy exists inside the Beltway in Washington, D.C. That is not true. The bulk of the liberal welfare bureaucracy in the welfare state is in America's state capitals. It is not in Washington. The bulk of welfare employees and bureaucrats exists at the state level. There are only a few of them, in fact, at the federal level. And from Juneau to Tallahassee, that state bureaucracy is overwhelmingly liberal — as liberal, if not more liberal, than the bureaucracy that exists in Washington, D.C. I have been in most states, and I found that when I would go down to Alabama, or Louisiana, expecting some difference, there is no difference. You just go from the very far left to the ultra-extreme left. That is the welfare bureaucracy in every state in this country.

So in welfare you have a vast, liberal state bureaucracy spending money, almost all of which comes from federal taxpayers. A second feature of these welfare bureaucracies is that, with one or two possible exceptions, they are totally out of control. Few governors make even an attempt to control these bureaucracies. What they routinely do when they become governor is reach into the bureaucracy, pull out some bureaucrat, make him or her Director of Welfare, and then turn around and walk away.

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I'll give just one example of this. Just a few weeks ago, I was down in South Carolina, which has a new Republican governor. I was testifying before a committee about welfare reform, and someone happened to hand me the "Welfare Reform Blueprint" of the former Republican governor. I started flipping through this thing. I said, "Gosh! This looks familiar. It looks like it's plagiarized from the Children's Defense Fund." I even recognized the tables. So the Republican welfare reform document was based on proposals from one of the most far-left groups in Washington, D.C. And that's typical of what goes on with the issue of welfare in the state governments.

So if you think welfare reform is merely devolving welfare from Washington down to the state level, what you are actually arguing for is taking about \$250 billion per year taken from the taxpayers at the federal level and turning it over — with no strings — to liberal organizations at the state level that make federal bureaucrats and welfare lobbyists look relatively moderate. This is not reform.

If we look at the general theory of welfare, we can outline three distinct options for reform in the context of federalism.

The first of these I would call *true federalism*. True federalism adheres to two rules. One is that the state governments run welfare, but the other is that the state governments also fund welfare. There is nothing conservative about taxing people at the federal level and then giving the money down at the state level and letting the states spend it. If you want to make the state governments accountable for welfare, then the state governors and state legislators should be accountable to the taxpayers for the money they're spending. This true federalism is very popular among House freshman Republicans. We are working with Congressman Steve Chabot (R-OH) on a bill that would take some eighty major federal welfare programs — Medicaid, food stamps, AFDC — and simply abolish them. But rather than turn the money over to the state capitals, we would take that money and return it to the taxpayers in each state. This Congress would say to each governor, "If you want to run welfare, don't come with your hand out to Washington. We've now given the money for welfare back to your taxpayers. You go to the taxpayers. Take that portion of the money that we have returned. Take whatever you want and use it to run welfare in your state without a single hint of a federal string. You are now totally free. But you are now also totally accountable to your own constituents for how you are spending this money." Needless to say, I think the strongest opponents of this approach will be the governors, who are very much in favor of lots of freedom and latitude to spend welfare funds but do not wish to have any accountability in raising those funds.

The second option has been called *no-strings block grants*. Under this approach, almost all of the welfare funding is raised in Washington, D.C., and turned into big block grants to the states. So we just throw money down onto the state governments and say, "Do whatever you want because we know that you have all of these bold reforms in mind." This is a bit like saying to someone, "We would like to buy you a car, buy the tires, buy the gasoline, and then we will drive it wherever we would like to go."

Besides the lack of accountability, another drawback of this approach is that when state bureaucracies and governors receive federal money, they treat it like anything else that is free. In New York State, the name for federal funds is Chinese dollars — the fake money that Oriental people burn at funerals — because the purpose of this money is simply to burn it. And the only sin is to be caught with a few residual Chinese dollars on the books at the end of the year. Just burn it.

It baffles me why anyone would think that the conservative way to reform welfare is to tax the national taxpayers to the tune of \$250 billion a year and then take that money and dump it on states where liberal bureaucrats are largely in control. This is not federalism. It has nothing to do with state power. It has everything to do with making governors non-accountable. We all know that politicians spend other people's money unwisely. If there's anything less frugal than a politician spending other people's money, it's one set of politicians with no accountability spending money raised by another set of politicians. What the governors are saying is, "We don't want to be accountable to the taxpayers for raising these funds, and we don't want to be accountable to Washington, D.C. for how we spend them." It's a dream world for them. I'd love to be in that position. But it's not conservative; it's not reform.

The third model of reform is what I would call *block grants with moral principles*. This is best embodied in legislation introduced by Senator Lauch Faircloth (R-NC) and Representative James Talent (R-MO), and it's also partially embodied in some of the provisions in legislation passed by the House of Representatives a few weeks ago. The Faircloth bill would end sixty federal welfare programs and fold them into a block grant. If you take all the regulations on those programs today — they each have about five inches of regulations—and you stack them all up, you've got about a forty foot stack of regulations. We fold some sixty programs into a block grant, but then we attach about thirty pages of firm federal requirements. So we get rid of sixty feet of regulations and instead attach ten or thirty pages of firm federal requirements that come with this money. Those requirements basically say, "We want work, not dependence. We want marriage, not illegitimacy."

To my great dismay, what I have found coming from the Republican governors is not delight at getting rid of those sixty feet of regulations; it's "Don't you dare impose these ten pages of conservative requirements on us. We are opposed to those requirements." They have told us they are opposed to work requirements. They are opposed to requirements to reduce illegitimacy. They are opposed to requirements for scientific management of programs. They just want the money.

There are, of course, a few exceptions among the governors. In particular, I would like to set aside Tommy Thompson, who I think is the best governor on welfare reform. He has sincerely reformed his welfare system and has also said, "If we are going to take federal money, we've got to take conservative principles along with it." But most governors say, "We want federal money," and, like welfare recipients, they add "We don't want to be required to do anything for this welfare assistance that we are getting."

Let me give just a few examples here to show that my warnings are based on experience, not theory. Remember the 1988 Welfare Reform Act. We were going to reform welfare. We were going to replace welfare dependence with work. Everybody now knows it didn't work. What people don't generally know is that the reason that there were no actual work requirements in that bill was not solely because of liberal Washington. It was also because the governors, both Republican and Democrat, said, "Don't you dare make us make welfare recipients work. We don't want to do it." They would talk tough about reform in front of the press and then go into the smoke-filled room and say, "No requirements. We want the status quo, plus a little more money."

Let me just give you an example of the negotiations going on today with "conservatives" at the state level. The federal government spends about \$6 billion a year on job training—a tremendous amount of money. We've spent \$215 billion since 1965 on these programs. Any time you run a controlled scientific evaluation of these programs, you find that they do not raise anybody's wage rates. They don't have any positive effect. In many cases, if you

have scientific evaluation, it shows that the program actually lowers people's wage rates. So what do the people from the National Governors' Association say? In effect, "We absolutely insist that we want to continue to get \$6 billion a year from the federal government to use for training. But don't you dare require that we conduct any form of scientific evaluation of the consequences of this money. We just want to spend this money and then issue a press release on how well it worked. And if you try to impose these in any form, even the most minuscule, tiny scientific evaluation, which costs a pittance to run, we'll say that this is a violation of federalism and you're violating states' rights because you're asking us to evaluate our use of federal money."

I could go on and on and on with examples like this that make very clear that a lot of what appears in the press to be a discussion about states' rights has nothing to do with federalism and has nothing to do with conservatism. But it has a lot to do with protecting the bureaucratic training interests at the state level who would be profoundly embarrassed if they were ever required to run scientific evaluations of their programs, which do not work. So they don't want evaluations. They will resist evaluations by claiming that it's a federalism issue. And many conservatives fall for this.

Another example of what I mean is in the area of illegitimacy. The federal legislation that just passed in the House was very modest. Under the current federal system, when a sixteen-year-old is pregnant, we say to that sixteen-year-old, "If — and only if — you have a child out of wedlock, we'll send you a check in the mail." What the House legislation in effect says to states, however, is "It's unwise to pay a sixteen-year-old girl a cash check in the mail on the condition that she has a child out of wedlock. So we're going to stop doing that. We don't want you to use federal money for that purpose anymore. You can give in-kind assistance. You can put the woman into some sort of maternity home. You can do a lot of other kinds of things. Or, if you want to, you can use your own state money; if you believe in your heart that it's best for the children of your state to send checks to sixteen-year-old unmarried mothers, go ahead and do it — but do it with your own money. Do it with state money. We don't want you to do it with federal money anymore. In fact, we'll make it easy for you to use state money for that purpose, because we're going to eliminate all matching requirements. We're going to free up all of the state money that we have tied up with federal regulations. It's all gone. All your state welfare money is now free. All you have to do is, if you want to keep the status quo, use an accounting gimmick. Use your state money to pay the sixteen-year-old when she has a child out of wedlock. Use federal funds for other purposes."

Do you know what the response of the Republican governors has been to this? "No! We don't want to use our money to send the check in the mail to a sixteen-year-old who has a child out of wedlock. We insist on the right to use your money. Who do you think you are, bossing us around this way? We demand the right to use federal money to subsidize illegitimacy. And, in fact, we would prefer that you shut up about illegitimacy altogether, because it embarrasses us."

You can tell there has been a shift in power in Washington because the most conservative body of legislators in the United States today on the issue of welfare is now the House of Representatives. They are pushing reforms which are way to the right of what most state legislatures want to do. You can tell there is something strange going on when you all of a sudden find the *Washington Post* defecting into the ranks of federalists and saying, "On welfare, we need to avoid prescriptive federal solutions and defer to the states." The liberals now support state's rights? Of course, they pretend to do so only because it is a tactic to frustrate true conservative welfare reforms.

If you look at welfare reform, what you find is that the American people are to the right of the U.S. House of Representatives, the House of Representatives is to the right of the governors, and the governors are to the right of their own bureaucracies — which unfortunately control what they think. So, to have real welfare reform — recognizing that most of the money involved here does not come from the states; it comes from the federal level — we need to have what I call a “pincer movement.” Conservatives at the federal level must unite with conservatives at the state level and surround the liberal bureaucracy and attack it from two directions at once, pushing conservative policies both at the federal level and at the state level. We must not, on the other hand, buy into this nonsense of defending the power of liberal anti-reformers on the grounds it’s a federalism issue.

The federal government has created a set of monstrous programs. And the federal government does impede reform at the state level. But for every reform that is impeded by federal regulation, there are two reforms that died stillborn in the cradle inside the state welfare bureaucracies — where they knew how to make a change that was permissible under federal law and they just never told anybody about it. They do this because successful reform threatens them. Successful reform means fewer people on welfare, and who loses from that? The welfare bureaucracies. So it’s time to get past the sterile debate about no-strings block grants and get on to creating a system that does provide vastly more flexibility than the existing federal welfare system. Let’s get rid of that sixty foot stack of regulation. But, at the same time, let’s have a welfare system which promotes marriage, not illegitimacy, and work, not dependence.

