



Western Michigan University
ScholarWorks at WMU

Dissertations

Graduate College

8-1996

Cost Sharing Under Complex Federalism: Welfare Reform Cost Neutrality Calculations

Robert G. Lovell
Western Michigan University

Follow this and additional works at: <https://scholarworks.wmich.edu/dissertations>



Part of the Public Policy Commons, and the Social Welfare Commons

Recommended Citation

Lovell, Robert G., "Cost Sharing Under Complex Federalism: Welfare Reform Cost Neutrality Calculations" (1996). *Dissertations*. 1721.

<https://scholarworks.wmich.edu/dissertations/1721>

This Dissertation-Open Access is brought to you for free and open access by the Graduate College at ScholarWorks at WMU. It has been accepted for inclusion in Dissertations by an authorized administrator of ScholarWorks at WMU. For more information, please contact wmu-scholarworks@wmich.edu.



**COST SHARING UNDER COMPLEX FEDERALISM:
WELFARE REFORM COST NEUTRALITY
CALCULATIONS**

by

Robert G. Lovell

**A Dissertation
Submitted to the
Faculty of The Graduate College
in partial fulfillment of the
requirements for the
Degree of Doctor of Public Administration
School of Public Affairs
and Administration**

**Western Michigan University
Kalamazoo, Michigan
August 1996**

**COST SHARING UNDER COMPLEX FEDERALISM:
WELFARE REFORM COST NEUTRALITY
CALCULATIONS**

Robert G. Lovell, D.P.A.

Western Michigan University, 1996

The American system of welfare for families with children is a partnership between the federal and state governments. Under this partnership, the federal government establishes the basic eligibility policies for the Aid to Families with Dependent Children (AFDC) program, the principal program providing cash assistance to poor families. States determine payment levels and administrative policies. Costs are shared through a formula reflecting each state's ability to pay.

To encourage policy experimentation by the states, a section of the act creating the AFDC program allows the Secretary of the Department of Health and Human Services to waive some provisions. This became a critical welfare reform tool in 1987. The Secretary attaches certain conditions to waivers, including one limiting federal expenditures to the level expected without the demonstration policies. This condition is called "cost neutrality." Demonstration waivers, and, in particular, the role of cost neutrality, are the subject of this dissertation.

Waivers are found to provide the basis for an unstable compromise between the federal government's desire for a uniform national AFDC program and the states'

desires for maximum local flexibility. Despite intense efforts over the last two years to find agreement on more fundamental changes, reforming welfare one state at a time through waivers remains the national policy, supported grudgingly by Democrats and Republicans at both the state and federal levels.

Cost neutrality is found to be a novel and significant aspect of federalism. It protects federal financial interests while encouraging considerable state policy ingenuity, but it inhibits states from carrying out certain demonstrations. Results may provide an early indication of a project's success or failure. Early results from Michigan became part of the national welfare reform debate in 1994.

The methodology adopted for computation of savings or excess costs from waiver demonstration projects, as applied to preliminary results from Michigan's To Strengthen Michigan Families demonstration, is reviewed. Resampling was utilized to estimate the statistical variation in Michigan's reported savings, showing a high level of uncertainty in the results. Implications for the political and practical uses of such results are discussed.

INFORMATION TO USERS

This manuscript has been reproduced from the microfilm master. UMI films the text directly from the original or copy submitted. Thus, some thesis and dissertation copies are in typewriter face, while others may be from any type of computer printer.

The quality of this reproduction is dependent upon the quality of the copy submitted. Broken or indistinct print, colored or poor quality illustrations and photographs, print bleedthrough, substandard margins, and improper alignment can adversely affect reproduction.

In the unlikely event that the author did not send UMI a complete manuscript and there are missing pages, these will be noted. Also, if unauthorized copyright material had to be removed, a note will indicate the deletion.

Oversize materials (e.g., maps, drawings, charts) are reproduced by sectioning the original, beginning at the upper left-hand corner and continuing from left to right in equal sections with small overlaps. Each original is also photographed in one exposure and is included in reduced form at the back of the book.

Photographs included in the original manuscript have been reproduced xerographically in this copy. Higher quality 6" x 9" black and white photographic prints are available for any photographs or illustrations appearing in this copy for an additional charge. Contact UMI directly to order.

UMI

A Bell & Howell Information Company
300 North Zeeb Road, Ann Arbor MI 48106-1346 USA
313/761-4700 800/521-0600

UMI Number: 9639809

**Copyright 1996 by
Lovell, Robert George**

All rights reserved.

**UMI Microform 9639809
Copyright 1996, by UMI Company. All rights reserved.**

**This microform edition is protected against unauthorized
copying under Title 17, United States Code.**

UMI
300 North Zeeb Road
Ann Arbor, MI 48103

**Copyright by
Robert G. Lovell
1996**

ACKNOWLEDGMENTS

This research would not have been possible without the support of my employer, Michigan's Family Independence Agency (formerly the Michigan Department of Social Services), and my supervisor, Nancy Duncan. The support of my committee, particularly that of my chair, Dr. Peter Kobra, was also critical. Many friends and colleagues reviewed sections of this dissertation, freely offering their comments and encouragement.

Finally, I wish to acknowledge the many sacrifices made by my family, Jennifer and Kathryn Lovell. Without their support, this dissertation could not have been started, much less finished.

Robert G. Lovell

TABLE OF CONTENTS

ACKNOWLEDGMENTS	ii
LIST OF TABLES	ix
LIST OF FIGURES	x
CHAPTER	
I. THE CONTEXT OF STATE WELFARE REFORM	1
Welfare in America	1
History of AFDC Waiver Cost Neutrality	4
Obtaining Welfare Reform Waivers	10
Cost Neutrality	10
Interaction With State Welfare Programs	12
Two Common Groups of Waivers	13
The Standard Federal Waiver Cost Neutrality Calculation Method	15
Estimating Administrative Costs	16
Costs and Savings From Child Support Policy Changes	19
Problem Significance	21
II. WELFARE REFORM, 1988-1996	22
AFDC Reform From 1935 Through 1987	22
Radical Decentralization Proposals	23

Table of Contents—Continued

CHAPTER

	Incremental Reform	27
	The Family Support Act of 1988	31
	Welfare Reform Waivers, 1989-1996	34
	Criticism of Waiver Demonstrations	41
	The Work and Responsibility Act of 1994	45
	The Contract With America	47
	The Governors and Welfare Reform	53
	Conclusions	55
III.	WELFARE REFORM WAIVER COST NEUTRALITY IN MICHIGAN, 1992-1994	59
	Sampling Implementation	59
	Results	61
	Benefit Costs	61
	Administrative Costs	65
	Statewide Total Costs	66
	Use of Cost Neutrality Results	69
IV.	RESEARCH DESIGN	76
	Primary Research Questions	76
	General Methodology	77

Table of Contents—Continued

CHAPTER

Implementation	77
Use of Sampling-Based Information	78
Statistical Characteristics	80
Study Propositions	81
Generalizability	83
V. WAIVER COST NEUTRALITY AND FEDERALISM	84
Fiscal and Policy Roles of Federal, State and Local Governments in AFDC	84
Defining Federalism	87
A Categorical Model of Federalism	89
Categorization by Broad Purpose	89
Block Grants and Categorical Grants	90
Lump Sums and Matching Funds	91
Appropriations and Entitlements	92
Competitive Grants	93
Placing AFDC Within a Federalism Context	94
The Role of Waiver Cost Neutrality in Federal-State Relations	97
An Evolutionary Model of Intergovernmental Relations	101
Reforming Welfare Through Administrative Reform	105

Table of Contents—Continued

CHAPTER

Reforming Welfare by Reforming Federalism	108
Reforming Federalism by Reassigning Responsibilities	109
Federalism and Perverse Legislative Incentives	111
Permissive Federalism	113
Federalism Reform Efforts That Ignore Welfare	115
The Devolution Revolution	117
Waiver Cost Neutrality as a New and Significant Aspect of Federalism	119
VI. THE FEDERAL COST NEUTRALITY FORMULA	122
Heuristic Development	122
The Population and the Research Sample	125
The Michigan Sample	129
AFDC Calculations	132
Food Stamps and Medicaid Calculations	136
Administrative Costs	137
Total Excess Costs and Savings	137
State Program Calculations	138
VII. THE FINDINGS: CONFIDENCE INTERVAL CALCULATIONS . .	139
Confidence Intervals	139

Table of Contents—Continued

CHAPTER

Calculating Parametric Confidence Intervals	140
Calculating Confidence Intervals With the Bootstrap Method	143
Resampling	143
Example of Resampling and Bootstrapping	144
Percentile Confidence Intervals for Michigan's Cost Neutrality Results	147
Creating the Research Benefit File	147
Comparing the MDSS and Research Benefit Files	149
The Benefit Bootstrap Sample	151
Creating the Research Administrative Cost File	152
Converting Time Study Results to Administrative Costs . . .	153
Comparing the MDSS and Research Administrative Cost Files	156
The Administrative Cost Bootstrap Sample	157
The Bootstrap Percentile Confidence Intervals	158
Reliability of Percentile Confidence Intervals From the Bootstrap Estimates	158
Interpreting the Results	163
Michigan's Time Study	166
Summary	168

Table of Contents—Continued

CHAPTER

VIII.	SUMMARY, CONCLUSIONS AND RECOMMENDATIONS	170
	Summary	170
	The American Welfare System	170
	AFDC Reform, 1935-1996	170
	Waiver Cost Neutrality and Federalism	175
	Cost Neutrality in Michigan, 1992-1995	180
	Conclusions	187
	What Is the Role of Welfare Cost Neutrality in National Welfare Reform?	187
	What Place Does it Have in Theories of Federalism? How Do Theories of Federalism Explain the Reasons for Imposing This Requirement?	188
	How Reliable Is the Federal Estimator of Cost Neutrality? Is This Reliability Great Enough to Support the Uses Made of Cost Neutrality Results? How Does the Use by a Governor and His/Her Top Executives of Politically Sensitive Data Change When the Idea of Statistical Uncertainty is Introduced?	188
	How Can the Statistical Characteristics of Results Obtained With the Federal Calculation Method for Welfare Reform Cost Neutrality Be Determined? What Are the Characteristics of Results Obtained With the Current Method?	189
	Critique	190
	Recommendations	191

Table of Contents—Continued

CHAPTER

Review Methods of Estimating Administrative Costs	191
Review Use of Cost Neutrality Results by Other Political Leaders	192
Reconsider the Federal Formula	192
Consider a National Research Strategy	193
BIBLIOGRAPHY	194

LIST OF TABLES

1.	Michigan AFDC Grant Determination for Families With Income	14
2.	Income Disregard Waivers Approved or Pending January 1, 1992 - January 19, 1993	43
3.	Cost Neutrality Results for Michigan's Waivers, October 1992 - March 1995	63
4.	Family Groups in Office j	126
5.	Michigan Sample Sizes, October 1992 - March 1995	131
6.	Realized and Theoretical Payments	133
7.	Initial Sample	141
8.	Sample Replicates Under Resampling	145
9.	Sample Means Obtained Through Repeated Sampling With Replacement	146
10.	Average Benefit Cost Per Family, Quarters 1 Through 10, October 1992 Through March 1995	150
11.	Final Time Study Frequency Categories	155
12.	Average Administrative Cost Per Family, Quarters 1 Through 10	157
13.	Savings From Welfare Reform in Michigan, October 1992 Through March 1995	159
14.	Savings From Welfare Reform in Michigan, October 1992 Through March 1995	184

LIST OF FIGURES

1.	Michigan Welfare Administration	2
2.	Average Benefit Cost	63
3.	Average Administrative Cost	64
4.	Estimated Statewide Costs	67
5.	Experimental Costs as a Percent of Control Costs	68
6.	Cost Neutrality Results by Quarter	71
7.	Michigan AFDC Caseloads	72
8.	Comparing Total Federal Savings From 2000 Replications and the Normal Distribution	160
9.	Comparing Total Michigan Savings From 2000 Replications and the Normal Distribution	161
10.	Comparing Total Savings From 2000 Replications and the Normal Distribution	162
11.	Michigan Percentile Confidence Intervals	164

CHAPTER I

THE CONTEXT OF STATE WELFARE REFORM

Welfare in America

The American system for ensuring a minimum level of financial well-being for families with children is a partnership between the federal and state governments. Under this partnership, the federal government establishes the basic policies for the Aid to Families with Dependent Children (AFDC) program,¹ the Food Stamps program² and the Medicaid program³ (see Figure 1). States are permitted to choose among some options, reporting most of their choices to the responsible federal agencies for approval. The states set payment levels (within some federal limits). Administrative costs for the three programs are shared equally. The federal treasury pays all benefit costs for Food Stamps

¹AFDC provides cash grants, job training and related services to poor families with children; the Department of Health and Human Services' Administration for Children and Families is the responsible federal agency.

²The Food Stamps program provides poor families with coupons redeemable for food and gardening products; the Department of Agriculture's Food and Consumer Service is the responsible federal agency.

³Medicaid provides health care to poor people; the Department of Health and Human Services' Health Care Financing Administration is the responsible federal agency.

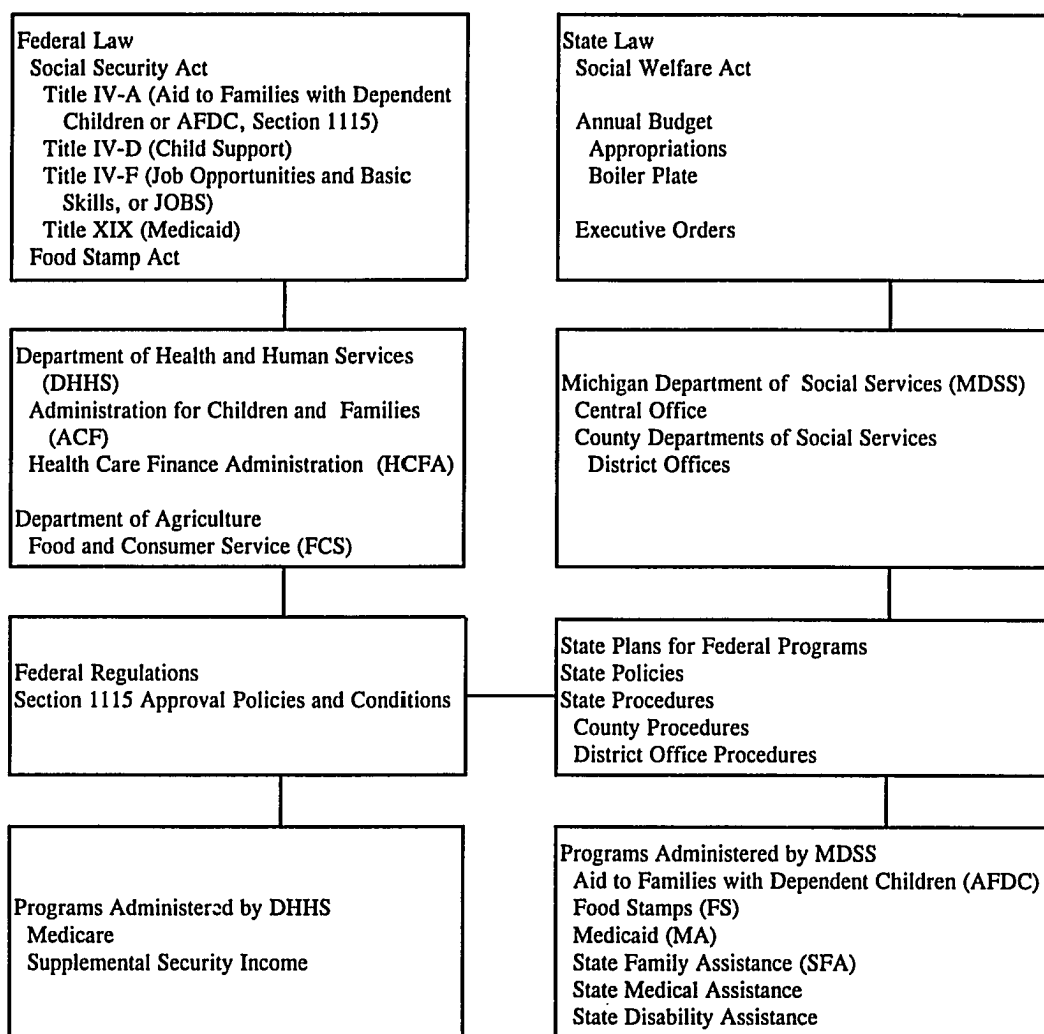


Figure 1. Michigan Welfare Administration.

and at least half of the benefit costs for AFDC and Medicaid; the exact federal share depends on a formula which considers the relative wealth of each state.

Since 1962, states have been able to request authority to operate a demonstration project designed to test the effectiveness of alternative policies not otherwise permitted under federal law. More than half of the states have done so. The

federal government will not match state expenditures for such demonstrations beyond the expected cost of federal programs in the absence of the demonstration. This condition, called cost neutrality, has significant technical dimensions and policy implications not previously explored in the literature.

This dissertation⁴ begins this exploration with a review of the cost neutrality requirement, then focuses on its application to Michigan's 1992 demonstration, called To Strengthen Michigan Families.⁵ Chapter II discusses recent national welfare reform initiatives. Michigan's cost neutrality results for the first 30 months of its demonstration project are reviewed in Chapter III. Chapter IV contains the research design. Chapter V reviews the AFDC program, its demonstration programs, and the cost neutrality requirement in particular. It places this relatively new concept of cost neutrality within the context of the literature of federalism. The technical details of cost neutrality calculations are discussed in Chapter VI. Chapter VII contains findings concerning Michigan's cost neutrality results. Chapter VIII draws conclusions on the significance of cost neutrality and its implications for federalism.

⁴The author, as Director of the Staffing and Program Evaluation Division of the Michigan Department of Social Services, has responsibility for Michigan's cost neutrality calculations. Since July, 1994 assistance has been ably provided by Deborah S. Meizlish, a Governor's Management Intern assigned to the division.

⁵Acronyms are a fact of life in welfare administration. Programs are frequently given awkward names that yield felicitous acronyms, but only gubernatorial preference explains To Strengthen Michigan Families, or TSMF, which seems felicitous neither as full name or acronym.

History of AFDC Waiver Cost Neutrality

The AFDC program was created by the Social Security Act's Title IV-A in 1935. As originally enacted, AFDC was intended to be a nationwide system, uniform except for payment levels (Douglas, 1939, pp.194-95). Thus, there appeared to be no need to permit states to experiment with alternative policies. By September, 1961 this perception had changed. The Report of the Ad Hoc Committee on Public Welfare of the Department of Health, Education and Welfare called for "A long range program of support for research and demonstration programs" to be carried out by the states and by social agencies or institutions of higher learning (Stevens, 1970, p. 631).

The Social Security Act was amended on July 25, 1962 to include Section 1115 [42 U.S.C. 1315] (West, 1991, p. 528). This section permitted the Secretary of Health, Education and Welfare (now, the Secretary of Health and Human Services) to grant waivers of provisions of Section 402 of the Social Security Act, covering eligibility and payment levels for AFDC.

Michigan, along with several other states, used the waiver process to operate a variant of the Work Incentive (WIN) welfare-to-work program when Congress passed this initiative in 1981. Evaluations of these programs were completed (Babcock, 1989; Michigan Department of Social Services, 1989; and Gueron & Pauly, 1991), but cost neutrality calculations were not required. These waivers were limited to WIN itself, and thus were not an attempt at comprehensive welfare reform.

The Department of Health and Human Services (DHHS) admitted in 1987 that

prior to creation of the [Interagency Low Income Opportunity Advisory, or ILIOAB] Board [in 1987], the process was hollow and ineffective, discouraging states from even trying demonstration projects. Exercise of this waiver authority tended to be fragmented among the separate agencies dealing with public assistance.

Approvals were considered under separate criteria. This process inhibited state creativity in developing multi-program demonstration projects (DHHS, undated and unpaginated; approximately 1988). The length of time needed to obtain approval was also an issue. In 1982, Undersecretary of the Department of Health and Human Services David B. Swoap wrote (p. 123) that Secretary Richard Schweiker has initiated a "fast track system to facilitate review of secretarial discretion requests." However, the waiver process was not then at the center of welfare reform efforts. Swoap (pp. 125-26) emphasizes deregulation, technical assistance and block grants as the principal paths to reform.

The ILIOAB was created by President Reagan on July 20, 1987 "to accelerate efforts to make America's welfare system more effective" (Department of Health and Human Services, undated, approx. 1988). Members included six departments and several executive office agencies. It accepted and passed judgement on state applications for waivers of regulations under the AFDC, Food Stamps, Medicaid and other welfare programs. One set of policies and procedures applied to all proposals.

As a result, proposals from thirteen states were approved in the next eighteen months. Provisions from some of these proposals presaged provisions of the Family Support Act enacted on October 13, 1988 (see Chapter II). It would not be accurate,

however, to say that these demonstration projects provided information about the effects of the demonstrations' provisions suggesting that they would be effective. As of January 1993, few evaluation reports were available from any of them (DHHS, 1993a, p.1). Rather, as Mead (1992, pp. 195-98) observes, research initiated by economists Mary Jo Bane, David Ellwood and June O'Neill on the length of time families remain on welfare influenced the debate. Studies by the Manpower Demonstration Research Corporation of workfare programs in the early 1980s were also influential. These studies showed that families spent an average of 6.6 years on AFDC in multiple spells, and that workfare programs could have some effect on reducing this level of dependency. Thus, the Family Support Act emphasizes employment programs, setting goals for participation for those remaining on AFDC.

The ILIOAB applied three criteria in reviewing state demonstration applications. First, the proposal "must have a chance of reducing welfare dependency while continuing to meet the needs of the population the program was intended to address."

Second, total federal costs for AFDC, Food Stamps and Medicaid in each year of the demonstration must not exceed those which would otherwise have occurred. The congressional authors of Section 1115 believed it necessary to include protection for the federal government from possible additional costs from policy demonstrations initiated by the states. Paragraph (b)(2)(B) says that states may "use to cover the costs of the project such funds as are appropriated for payment to such State with respect to

the assistance *which is, or would, except for participation in a project under this subsection*, be payable to individuals...” (emphasis added). However, this language was not cited by DHHS in support of this requirement. Instead, only the country’s fiscal situation was cited.

Third, there must be a sound evaluation plan. Although other options would be considered, the Board preferred an evaluation with an “experimental design,” which generally means random assignment of families to control and experimental groups. The experimental design was also expected to support the cost neutrality requirement. With variations and elaboration, these criteria remain in place as of this writing.

The cost neutrality requirement was also applied to waiver applications prior to establishment of the ILIOAB, with separate accounting required for each program affected. This made comprehensive demonstration proposals impracticable from a fiscal standpoint. While including all affected programs was a major improvement, the requirement, as posed by the ILIOAB, still included annual accounting, thus inhibiting states from pursuing demonstration projects likely to incur higher early costs to achieve later savings.

In his 1992 State of the Union address, President George Bush said about renewed interest in waivers, “We are going to help this movement. Often, state reform requires waiving certain federal regulations. I will act to make that process easier and quicker for every state that asks our help,” (DHHS, 1993a, p.1). This short paragraph was enthusiastically received by the Congress and the voters. This approach

shifted the responsibility (or opportunity) to propose reforms to the states. As part of the promised simplification, the requirement of annual cost neutrality was removed by the Bush administration at some point prior to August 1992. Demonstration projects were required to be cost-neutral only over the life of the project. AFDC demonstration projects were approved for nine states during the Bush administration, including Michigan's, entitled To Strengthen Michigan Families. Three of these states, Wisconsin, New Jersey and Maryland, had also received waivers during the Reagan administration, so the unduplicated count of states with AFDC waivers reached nineteen.

Both before and after a short-lived national welfare reform proposal announced June 14, 1994 (see Chapter II), the Clinton administration also supported reform through state-by-state waiver demonstration processes (even though Arkansas had not used this approach while the President was its governor). In February 1993 President Clinton promised the National Governors' Conference "relief from the cumbersome process" of waiver approval. Draft policies were announced on August 18th (DHHS, 1993b).

In a letter to Michigan Governor John Engler (and presumably sent to all governors) only a month following the announcement of the President's welfare reform proposal, Secretary of Health and Human Services Donna Shalala gave nearly equal emphasis to the Clinton administration's record of granting waivers to fifteen states as she gave to the proposal. Nine of these were new (including Arkansas), bringing the

total to 28 different states with waiver projects. Wisconsin led the pack at this point with four different demonstrations.

Responding to questions about the criteria used to evaluate waiver requests, on September 27, 1994, DHHS completed the process begun in February of the preceding year by finalizing its internal policies for granting waiver approval (1994, Federal Register Vol 59, No. 186, pp. 49249-51). Cost neutrality remained a feature of all approvals because "The Department's fiduciary obligations in a period of extreme budgetary stringency require maintenance of the principle" (p. 49250). The Bush policy of assessing cost neutrality over the life of the project was reiterated, and the possibility of alternate budget neutrality arrangements was suggested, but no examples were given. Mary Jo Bane, Assistant Secretary for the Administration for Children and Families of the Department of Health and Human Services, suggested in 1995 that the cost neutrality requirement plays another role in the waiver approval process; since the federal purse is protected, the federal government does not carry out a complicated review of state demonstration budgets. DHHS continues to receive, review and approve AFDC waiver requests as this is written. Waivers permitting Connecticut to limit AFDC payments to employable adults to 21 months, with extensions when good faith efforts to obtain employment fail, were announced in a December 18, 1995 press release from DHHS (Kharfen, 1995), which also cited approval by the Clinton administration of "50 demonstration projects in 35 states."

Obtaining Welfare Reform Waivers

By law, then, the Secretary of Health and Human Services may waive most AFDC program requirements when the state requesting the waiver is willing to meet certain conditions. The two most important conditions are the completion of a comprehensive evaluation and the limitation of federal costs to the level at which they would have been absent the waivers. The second condition is usually called "cost neutrality," and limits the states' waiver projects to those for which the states can assume all financial risk.

If a state wishes to modify a federal policy, it applies for a waiver. The federal agencies review the request, and a process intended to reach a negotiated agreement on the final policy changes begins. Shortly after President Bush's speech, Michigan chose to pursue welfare reform through these waivers. The negotiation process began in June with the Governor's welfare reform proposal, "To Strengthen Michigan Families," or TSMF (Engler, 1992). The negotiations were completed by FAX to and from Air Force One as it flew the President to Detroit for a campaign appearance; announcement of TSMF became a major part of the governor's and the president's campaign speeches.

Cost Neutrality

Two significant conditions are imposed by the federal agencies in granting waivers: a comprehensive evaluation of the implementation, results and ratio of costs

to benefits must be completed by an independent evaluator, and a determination must be made of the relative costs or savings resulting from the policy changes. The second condition is called "cost neutrality." The technical details of cost neutrality determination are discussed in Chapter VI, while its fiscal and policy implications are discussed in Chapter V.

The Department of Health and Human Services prefers that an experimental research design be implemented in one or more sites to meet both the cost neutrality and evaluation requirements, but will accept a quasi-experimental⁶ design. Families in the research design sites receive either the new, or experimental policies or the old, or control policies. The families in the study sites must resemble all families assigned to the experimental policies throughout the state. Many states limit the assignment of experimental policies to families in the study sites. Michigan, however, implemented its experimental policies statewide except for those families in the study sites assigned to control policies for research purposes.⁷

Michigan's design is not formally an experimental design because it is based on observations made at four study sites not chosen at random, but rather chosen

⁶In general, an "experimental design" is characterized by randomized assignment of individual families to either the previous (or control) policy or to the new (or experimental or waiver) policy. Quasi-experimental designs use one of a number of assignment schemes which approximate this random assignment; for example, control policies might be assigned to some locations and experimental policies to others.

⁷An exception was also made for a continuing study of another set of experimental policies; see below.

purposely to match the state as a whole on several characteristics thought important to the possible performance of the waivers—race, number of children, fraction living in Wayne County (where Detroit is located), and fraction employed. This design was selected to avoid the possibility of an atypical sample of locations appearing in a random sample of four locations from a group of over 100 possible locations. Despite this feature, the federal government and the state treat the resulting samples of control cases and experimental cases as if they were a single simple random sample of all Michigan AFDC cases. (See The Federal Cost Neutrality Formula below.)

Interaction With State Welfare Programs

In addition to AFDC, Food Stamps and Medicaid, some states, including Michigan, also offer a program covering families with children who are poor enough to qualify for AFDC, but fail a technical requirement. Generally, these families also receive Food Stamps, and the children usually qualify for Medicaid. Adults in these families usually do not qualify for Medicaid; Michigan also offers limited medical coverage for these individuals. In Michigan these programs are called State Family Assistance (SFA) and State Medical Assistance (SMA).

In general, administrative costs for AFDC are shared equally by the states and the federal government, although the federal government pays none of the cost of administering supplementary state programs like Michigan's State Family Assistance program. Cost sharing rules for benefits paid to families vary by program. All benefit

costs for Food Stamps are paid by the federal government. Benefit costs for AFDC and Medicaid are shared by the states and the federal government through a formula designed to reflect each state's ability to pay.

Two Common Groups of Waivers

States have carried out demonstration projects requiring waivers of many different federal policies, but two groups of waivers are frequently requested. First, states often seek waivers to eliminate the hundred hour and work quarter rules described above. These waivers effectively transfer families failing these requirements from a program which is entirely state funded (SFA in Michigan) to AFDC, a program for which the federal government will pay at least half of all costs.⁸

The other frequently sought set of waivers involves the way in which income earned by families on welfare is considered when grant levels are determined, called the income disregard policy. Federal law is complex and seems to discourage employment lasting longer than four months (see Table 1). In 1992, Michigan sought and received waivers of the hundred hour rule, the work quarter rule, and the income disregard rules. Waivers were also received regarding treatment of children's earnings and savings, but these were expected to have relative small effects.

⁸Even when grant levels are equal under AFDC and the state program, as in Michigan, other minor differences in medical coverage and job training requirements may exist.

Table 1

Michigan AFDC Grant Determination for Families With Income

Results for a family consisting of two children and one adult living in Wayne County and earning \$402 per month, the average wage of those with earnings in Fiscal Year 1991:

	Both Policies		Control (Old) Policies		Experimental (New) Policies
	Before Employment	First 4 Months of Employment	Subsequent 8 Months of Employment	Thirteenth and All Subsequent Months	All Months
AFDC Grant	\$459	\$362	\$268	\$238	\$297
Earned Income	\$0	\$402	\$402	\$402	\$402
Total Income	\$459	\$764	\$670	\$640	\$699

As Table 1 shows, families receiving the control policies have \$764 - \$699 = \$65 per month higher incomes in the first four months of employment, gaining \$260 over families covered by experimental policies. Families receiving experimental policies regain \$232 of this difference in the next eight months of employment. They have more total income over the first thirteen months (by \$31) and remain ahead thereafter. Including the value of Food Stamps coupons received by the family (which varies inversely with the family's total income) would have only minor effects on these calculations.

The Standard Federal Waiver Cost Neutrality Calculation Method

When, as in Michigan, the research design is considered equivalent to two simple random samples of all AFDC cases (one covered by old policies and the other covered by new policies), a standard formula for calculating any excess federal costs or savings incurred is specified by DHHS. The formula is complex, but upon reflection and study (see below), the heuristic used makes intuitive sense and should fairly reflect both costs or savings. The strategy adopted by the formula's designers is to determine separately the costs to the federal government of serving the families in the research sites under the control and experimental policies, then to project these costs statewide. The difference is then excess federal costs or savings. Both the direct cost of benefits and the cost of program administration are included in the calculation. If this calculation shows that excess federal costs have been incurred, the state must reimburse the federal government.

The number of families involved in the research design is generally small. In Michigan, about 12,000 active cases (6,000 control and 6,000 experimental) are included in the four research sites selected, about five percent of the state's total AFDC caseload.

In some states (Wisconsin and New Jersey are examples), all families covered by the waiver are in the research design. In these cases, the state's potential liability for excess costs is limited. However, Michigan, California and a few other states have implemented their waiver policies statewide, greatly increasing their risk. For these

states, cost neutrality calculations have significant financial implications. In all states with waivers, the cost neutrality calculations have political significance because one important factor considered by the voters in evaluating welfare reform proposals is cost reduction.

Despite the importance of the formula, its statistical characteristics, in particular its sampling uncertainty, have not been determined. Without such determination, the formula chosen cannot be compared with possible alternatives, and the adequacy of the sample used in the research design cannot be evaluated. More importantly, the usefulness of the resulting value in policy discussions is not known.

Estimating Administrative Costs

Benefit costs are easily computed for the control and experimental groups in the research sites. In Michigan a marker was added to each case record in the statewide database indicating which policies (control or experimental) applied to that case. Totals were then obtained as needed. Administrative costs are more difficult to estimate. In Michigan, costs for supervisors, clerks, managers, accountants, and other similar support staff are assigned to programs in the same proportion as the costs for assistance payments workers (the workers who serve welfare recipients directly, determining eligibility and grant levels).

When an assistance payments worker is responsible for administering only a single program, this cost assignment is straightforward. In most cases, however, the

worker may be assigned to any of several programs at any time, perhaps including both federal programs and state programs. Some workers may be assigned to both families receiving control policies and families receiving experimental policies. If each worker kept a detailed log recording all work done by program and time spent, cost assignment would again be straightforward. This approach, however, is cumbersome, error prone and expensive compared to available alternatives.

The simplest alternative is to require a sample of workers on a sample of days to keep logs. However, experienced time study administrators believe that, done infrequently, logs tend to be forgotten until the end of the day or of the week, then completed from memory. Reliability may be very low.

Flat rates, familiar to auto repair shop customers, are another approach. With this method, standard time values (determined through a one-time study) are assigned to all tasks and the numbers of each task completed are reported. Sampling may be involved; hence, only samples of workers or days may be accounted for. Welfare administration involves many complex tasks, however, and determining the flat rates and maintaining their accuracy as policies change would be a formidable task.

Random moment time studies offer another alternative. With this approach, an observer approaches a worker at a randomly-selected time and asks detailed questions about the type of work being done at that moment. Observations are totaled by cost allocation category and costs assigned proportionally. This approach also has shortcomings; it requires staff dedicated only to this purpose (the observers).

Furthermore, many observations record only overhead costs like breaks or general training, workers may not be at the expected location at the time of observation, and workers may change their behavior as they see the observer approach.

Random moment sampling has strengths as well. When the task performed is recorded as well as the program supported, analysis can yield flat rates for major tasks counted through other systems. Further, even though a worker may sometimes alter behavior briefly when the observer approaches, the bias introduced seems less than the bias resulting from attempting to remember complex activities performed hours or days ago. Additionally, it can be easily and quickly modified to reflect policy changes.

Finally, reasonable assumptions about the nature of the changes made may be found agreeable to both the federal and state analysts, permitting estimates of administrative cost changes to be made from existing data--usually staffing, salary and caseload reports.

Through experience, Michigan has come to rely on random moment time studies for cost and staffing allocation purposes. Such a study was used to determine administrative costs for the first three years of TSMF,⁹ including the time period covered by the statistical analysis included in this study. The effect of random fluctuation in time study results must be taken into account when determining the

⁹A second, statewide time study of assistance payments workers also plays a minor role in determining the administrative cost for the families receiving control policies in the pre-existing study of welfare job training.

statistical characteristics of the cost neutrality estimate. The adequacy of the random moment sampling plan adopted in Michigan is a secondary topic for this study.

Costs and Savings From Child Support Policy Changes

Court-ordered child support in excess of \$50 per month is considered as income to custodial parents on AFDC when it is paid, and, as such, reduces AFDC benefit costs. Consequently, both the state and federal governments have a strong interest in expanding child support collections. In 1992, Michigan proposed several enhancements to its child support collection efforts, including: (1) requiring non-custodial parents to inform new employers of their obligations so that wage withholding can begin immediately; (2) requiring Michigan hospitals to record paternity acknowledgments at birth; (3) requiring non-custodial parents not meeting their obligations to participate in a job training program or a community service project; (4) imposing sanctions on custodial parents receiving assistance, including AFDC, if they fail to cooperate with child support efforts; and (5) reporting child support obligations to credit bureaus.

Only the fourth item required a federal waiver, but the Department of Health and Human Services agreed to attribute all child support increases achieved after the start of TSMF (in excess of those already anticipated) to that waiver, and thus to be considered in the cost neutrality calculation (Barnhart, 1992, pp. 10-11).

Measuring these increases proved difficult, however. Because child support involves court orders and parents living in different parts of the state, random assignment was

considered impractical. Agreement was reached to project child support collections and off-setting administrative costs five years (the original period authorized for the demonstration) into the future, based on results from the past five years. Although statistically risky, this arrangement appeared otherwise to be a boon to the state.

The changes sought required legislative action, however, which did not occur. When it became apparent that legislative agreement would not be forthcoming, the department Director, Gerald H. Miller, asked to have child support withdrawn from the cost neutrality calculation (1994). Permission to do so was granted by telephone and confirmed by return letter (Lovell, 1995a).

This may have been fortuitous for Michigan. The underlying model used to project child support collections and administrative costs absent reforms was not sophisticated. In essence, the average rate of increase for the five years preceding the beginning of TSMF was determined and used to project future collections. A much more sophisticated model was developed for evaluation and cost neutrality purposes in the 1987 New Jersey REACH demonstration (Garasky & Barnow, 1992, pp. 630-31). Before the demonstration was completed, the Family Support Act of 1988 was implemented, and the federal government concluded that the model no longer projected costs (absent REACH) accurately, and reopened cost neutrality negotiations. To a large extent, the model was abandoned in favor of a negotiated cost neutrality agreement.

Problem Significance

The results of the cost neutrality calculation have financial, political and policy importance. The requirement that the federal treasury incur no additional costs from state waivers means that states must reimburse the treasury for all excess costs. In Michigan's case, at least, there is no appropriation in the Department of Social Services' (MDSS's) budget for this potential expense; any costs incurred will be heavily scrutinized by both executive and legislative agencies. Further, these costs could become a substantial budgetary problem when reforms are implemented statewide, rather than limited to a few demonstration sites, as Michigan has done. In Michigan, AFDC, Food Stamps and Medicaid (the programs covered by demonstration waivers) cost about \$4 billion per year, so the risk to the state is significant.

The voting public expects welfare reforms to save money. Governor Engler has attached much importance to the small savings (about \$100 million out of \$8 billion spent) achieved in the first year of Michigan's reforms.

Finally, the purpose of demonstration waivers granted to states, from the federal viewpoint, is to test possible national policies. While the outcome side of the cost-benefit analysis will be completed by an independent evaluator, costs must be provided by the state. The cost neutrality calculation provides the most convenient source, and possibly the only source, of comparative costs for old and new policies.

CHAPTER II

WELFARE REFORM, 1988-1996

AFDC Reform From 1935 Through 1987

The Aid to Dependent Children (ADC) program has been the object of reform efforts since its inception in 1935. (ADC became Aid to Families with Dependent Children, or AFDC, in 1950 when mothers were added to the grant. Both names are in common use today.) This is not surprising because AFDC was itself a radical reform of the welfare system in place prior to passage of the Social Security Act in 1935. It replaced a polyglot mixture of state and local programs, overwhelmed by the Great Depression (Dilger, 1989, pp. 51-57), with a somewhat uniform program. Its final form was the result of a compromise in Congress between liberals, who wanted an all-federal program, and conservatives who opposed one. State-to-state uniformity was to be reinforced through the lure of federal matching money. Although payment levels were set by the states, eligibility rules were set at the federal level, so it was inevitable that they would be viewed as too restrictive by some and too lenient by others. Overall, the result was a substantial transfer of power over welfare programs from the states to the federal government.

Welfare provisions of the Social Security Act, including AFDC, echoed four features in common with the English Poor Laws. These features had also generally governed American public welfare prior to the Great Depression (Dilger, pp. 51-57; and Handler, 1995, p. 3): (a) a largely decentralized administrative structure was established; (b) local residency was a requirement; (c) children and the able-bodied adults were expected to work while the mentally and physically incapacitated were not; and (d) an attempt was made to distinguish the “deserving poor,” who received cash grants, from the “undeserving poor,” who did not.

Handler (1995, p. 14) notes that the Royal Poor Law Commission Report of 1834 added two principles which resonate in the U. S. today: (1) “poverty is caused by urbanization, immigration, and intemperance while ‘pauperism’ is caused by welfare;” and (2) those on welfare should be worse off than the lowest paid worker (the so-called “doctrine of less eligibility”). The first principle is reflected in the theory that welfare creates dependency, while the second effectively caps payment levels.

Radical Decentralization Proposals

Variations on these features have formed the basis for regular welfare reform efforts in the intervening 60 years. Handler (p. 2) argues that four factors, whether real or merely perceived by the public, trigger welfare “crises,” leading to demands for reform. The first factor is increased public costs, while the remaining three are

moral issues—threats to the work ethic, threats to family values (extramarital sex, illegitimacy and absent fathers), and threats to the social order.

Since the liberal-conservative compromise in 1935, five significant attempts have been made to settle questions of decentralization by placing all responsibility and authority for family welfare programs at either the state level or at the federal level:

1. The Family Assistance Program was introduced by President Richard M. Nixon in 1969. This plan would have replaced AFDC with a national minimum income based on family size. It was defeated twice, in 1970 and 1971. Opposition came from liberals who found the proposed payment levels too low and conservatives who found them too high (Aaron, 1973, pp. 22-24). The result would have been a complete transfer of power over programs for poor families with children to the federal government.

2. Democratic presidential candidate in 1972 and U. S. Senator George McGovern proposed, as part of his campaign, that each citizen receive a "Demogrant" of \$1,000, with costs covered by a 33-1/3 percent income tax surcharge. This proposal ended with the re-election of President Nixon (Aaron, p. 27). Again, the result would have been a complete transfer of power over programs for poor families with children to the federal government.

3. President Jimmy Carter proposed the Better Jobs and Income Program in 1977. This plan would have federalized AFDC and resulted in 1.4 million federally created jobs and job-training slots. It combined a national minimum income based on

family size with a requirement that able-bodied clients either work or be enrolled in job training. It was opposed by conservatives who objected to the cost and feared the publicly-created jobs would compete with private industry, and by liberals who felt the grants were too low and objected to the “workfare” provision. This opposition could not be overcome, and the plan was defeated in 1978 (Trattner, 1994, pp. 356-58).

4. In his 1982 State of the Union message, President Ronald Reagan proposed the “New Federalism.” Under this proposal, the federal government would accept full responsibility for the Medicaid program while AFDC and Food Stamps would be the responsibility of the states. It found little support, and died in Congress (Trattner, pp. 365-66). This proposal would have redistributed power over programs for poor families with children, leaving health care entirely with the federal government while income maintenance would be wholly a state responsibility.

5. In 1995-96, first the Republican Governors’ Association, the House Republican caucus, and then the National Governors’ Association proposed that block grants be given to the states to operate the AFDC and Medicaid programs under policies developed in each state. The success of state waiver demonstrations and the onerous burden of the waiver process were cited as reasons for adopting this proposal. Its fate is unclear as of this writing. The power shift from this proposal is likely to change with time. Much of the discussion in Congress has concerned what restrictions, if any, should be placed by Congress on the states’ implementation of these block grants. Clearly, Congress is tempted to apply restrictions and, if enacted,

there will always be a temptation for future Congresses to add or modify restrictions. States could eventually find themselves with less control over programs for poor families with children than they have at present.

Handler argues, however, that programs for the “deserving poor,” such as Supplemental Security Income (SSI) which serves the indigent aged, blind and disabled are considered rational, and can be successfully administered at the federal level. Programs for those perceived to be the “undeserving poor” (the “deviant poor” in Handler’s terminology), such as AFDC, are “morally ambiguous” (p. 90) and are assigned to the local level because “moral conflicts are felt most keenly in local communities and these communities want to keep control over deviant behavior” (p. 7). Therefore, legislators devolve decision making for these programs downward to avoid conflict, a view consistent with Peterson’s legislative theory of federalism (see Chapter V). From this viewpoint, attempts to centralize AFDC at the federal level are doomed to political failure, and Congress will generally avoid setting restrictions once a block grant is in place. Still, since the states’ competitive incentives to keep taxes low make funding at the state level problematic, the compromise reached in 1935 as modified by the waiver process may be the only point of equilibrium, albeit a very uneasy one.

Incremental Reform

As shown above, radical reforms of AFDC's administrative structure have been unsuccessful. By contrast, the other features of AFDC (residency requirements, work expectations, and determining who belongs among the "deserving poor") have undergone regular change, though largely incremental in character.

The exception to incrementalism is residency. Despite a history extending from the Plymouth Colony in 1642, the U. S. Supreme Court in 1969 declared residency requirements for AFDC unconstitutional in *Shapiro v. Thompson*, 394 U. S. 618 (Trattner, p. 21 and Stevens, 1970, p. 875). This decision reduced state power over programs for poor families with children without clearly adding to federal power. It ended all state residency requirements and began a series of reform attempts by states with grant levels higher than those in neighboring states to avoid becoming "welfare magnets," i.e., attracting welfare recipients from other states. The existence of the magnet effect was established analytically by Peterson and Rom (1990, pp. 79-80), who proposed a national minimum benefit as a solution (p.120).

The definition of the "deserving poor" received two important incremental changes. First, support for single parents of eligible children was added in 1950. Second, support for two parent families was made a state option in 1961. (In 1988, states were required to offer this coverage for at least six months each year; see the discussion of the Family Support Act below). The final effect of these changes was to increase federal control of AFDC.

Work expectations also underwent incremental changes. In 1967 Congress created the Work Incentive Program, or W. I. P. As Trattner (p. 331) observed,

Whereas mothers' pensions and the Social Security Act had stressed the needy child's right to public support and to a mother's care, this measure affirmed the right to remove that child from the welfare rolls and to force his or her mother to work outside the home for such support.

W.I.P. was the stick, but a carrot was also added. Until 1967, AFDC benefits were reduced dollar-for-dollar when a recipient went to work, after reasonable expenses of employment were deducted. As a result, an AFDC recipient had no financial incentive to seek work. Under the 1967 reforms, a working AFDC recipient would be allowed to keep the reasonable costs of employment as before and, in addition, the next \$30 earned each month. Further, his or her AFDC grant would be reduced by only two-thirds of the value of any remaining pre-tax earnings (Burtless, 1989, pp. 128-9 and Mead, 1986, p. 105). This provision is commonly called the "thirty and a third disregard." Overall, these changes increased federal control of AFDC. States still had some discretion, however, and a combination of exemptions for parents of young children and slow development of job training programs softened the impact of this change.

W.I.P. was renamed WIN and became known as WIN I when the Talmadge Amendments to the Social Security Act were enacted in 1971. This legislation created WIN II by repealing the states' authority to determine who would be referred to job training programs. All adult AFDC recipients were required to register for WIN II,

except single parents of children under six. States not placing at least 15 percent of registrants in jobs or job training were subject to loss of some federal matching money.

Once again, the federal government's control of the AFDC program increased.

In 1981, the "thirty-and-a-third disregard" was reduced to apply only to the first four months of employment. In the eighth through the twelfth months all income earned above reasonable work expenses plus \$30 was budgeted against the AFDC grant. After the twelfth month, only work expenses (up to a maximum of \$75) and day care expenses were disregarded. Using a complex federal provision allowing separate "need standards" and "payment standards," a state could optionally allow working recipients to keep up to 20 percent of earnings, but this procedure also applied to such unearned income as disability payments. Including unearned income added to the expense of the policy (later named "fill the gap budgeting") without encouraging additional work, making this provision less attractive to states.

States were granted authority to make minor changes in their WIN programs, which were then called "WIN Demonstrations" or "WIN Demos." Michigan chose this option (Michigan Department of Social Services, 1989), and broadened the categories for mandatory participation in WIN. However, compared with required changes in income disregards, required coverage of two parent families and similar new federal requirements, "WIN Demos" were based on minor increases in state flexibility. Once again, the overall effect of change was to increase federal control of AFDC.

In 1987, President Ronald Reagan encouraged a different form of incremental change through the creation of the Interagency Low Income Opportunity Advisory (ILIOAB), as described in Chapter I. Rather than attempting to improve AFDC through incremental policy changes to be applied nationally, individual states were encouraged to make policy changes which would apply only at the local or county level. These changes would not necessarily be limited or incremental in scope. As a result, proposals from thirteen states were approved in the next eighteen months. As noted in Chapter I, provisions from some of these proposals presaged provisions of the Family Support Act enacted on October 13, 1988 (see below). However, most were implemented after the Act was adopted.

President Reagan's ILIOAB initiative reversed the 37 year trend of incremental changes which increased federal power over programs for poor families with children. States were empowered to suggest and implement their own reforms.

The greater rationality imposed on the waiver process by the ILIOAB may explain the sudden burst of enthusiasm by the states for welfare experimentation, but the increasing professionalism of state governments may also have been a contributing factor. Writing in 1967, North Carolina Governor Terry Sanford said that the "states are indecisive, antiquated, timid, ineffective, non-responsive, uninterested in their cities, and unwilling to face their problems" (p. 1). While this description is extreme and unlikely to have applied uniformly to all states, it does suggest that the environment was not ripe for state-initiated welfare experiments. It may also provide

a partial explanation for the steady erosion of state control over AFDC.

Public administrator Carl W. Stenberg, writing in 1996 (pp. 39-42), notes some of the major reforms undertaken since by the states: new constitutions, longer terms for governors, reelection for governors, additional legislatures which meet every year, less fragmentation for legislative committees, and professional staff for legislatures. By 1992, David Osborne and Ted Gaebler noted, "many state and local governments are not only more effective than the federal government, but more progressive as well" (p. 277). Thus, the environment had changed radically between 1967 and 1992, and state welfare innovation became at least possible.

The Family Support Act of 1988

By 1988, Congress and President Reagan were ready for an approach to welfare reform with a scope somewhere between the incremental changes and the grand redesigns proposed by Nixon, Carter and Reagan himself. Further, as Handler notes, the liberal orthodoxy had shifted from the belief that it is unfair to require welfare mothers to work to the belief that they should be expected to work (pp. 28-29). One result of these major shifts in viewpoint was the Family Support Act. As Reischauer describes it:

The passage of the Family Support Act was accompanied by an outpouring of enthusiastic rhetoric and hyperbole to the effect that it represented landmark legislation, a policy revolution, and a radically new approach to the welfare problem. A more dispassionate judgement would conclude that the changes made by this legislation were quite modest. While they represented important shifts of policy emphasis and

direction, they will not, by themselves, provide long-run solutions to the nation's problems of poverty and dependency. Future administrations and Congresses will thus be compelled to revisit the same policy battleground (1989, p. 11).

Major changes to AFDC included (Staff of the National Governor's Association, October 5, 1988, unpaginated) the following:

1. The Job Opportunities and Basic Responsibilities (JOBS) program and eligibility requirements were established, replacing WIN II. While exceptions were made for pregnancy and single parents with children under three years old, most healthy individuals working less than 30 hours per week were required to participate. States were required to provide certain services to AFDC recipients under JOBS, including an initial assessment, an employability plan, high school completion or General Equivalency Diploma (GED) classes, job skills training, job readiness activities, and job development and placement. In addition, two of the following were required: job search, on-the-job training, work supplementation, or Community Work Experience Program (CWEP) or a comparable state-designed work program.

2. The federal matching rate was set at 90 percent for JOBS expenditures up to a state's 1987 WIN allocation. Expenditures above this level were matched at the AFDC matching rate (which varies by state and by year) or 60 percent, whichever is greater.

3. This matching rate was to be reduced to 50 percent if participation rates (of eligible AFDC families) did not meet a targeted level. For single-parent families, the level started at 7 percent for 1991, then rose gradually to 20 percent for 1995. The

targets for two-parent families started at 40 percent for 1994 and rose to 75 percent for 1997.

4. The matching rate would be also be reduced unless 55 percent of expenditures were made to support job training for parents under 24 years old and not enrolled in high school or possessing a high school diploma or GED; to support training of parents whose children are within two years of ineligibility; or to support training of parents who have received AFDC for more than 36 of the preceding 60 months.

5. All states were required to offer AFDC to two-parent families. States not currently offering this option could choose to offer it for a limit of six months out of twelve. States already using this option (previously permitted only on a full-year basis) could not change to part-year coverage.

6. The maximum value of the standard earned income disregard for work-related expenses was increased to \$90.

7. States could require minor parents to live with their own parents in order to receive benefits.

Although changes were also made to child support provisions, day care funding and Medicaid, the overwhelming emphasis of the Family Support Act was on employment training for adults receiving AFDC. Significantly, there were no targets for employment, and no time limits for receipt of benefits for most families. The

problem of illegitimacy was addressed only through the relatively weak provision permitting states to require minor parents to live at home.

The Family Support Act did provide measurable targets for participation in training programs, once again increasing federal control over AFDC. Michigan initially adapted its WIN demonstration program to meet the demands of JOBS. In 1991 it was augmented by Education Designed for Gainful Employment (EDGE), a program designed to integrate basic education with job training through involving local school districts. EDGE was succeeded by Work First, a program emphasizing the search for a job over training through involving the Private Industry Councils and the Service Delivery Areas formed under the Job Training and Partnership Act (JTPA). These efforts produced Fiscal Year 1995 monthly average job training participation rates of 21.8 percent for one-parent families and 50.08 percent for two-parent families, sufficient to meet the JOBS targets of 20 percent and 50 percent.

The increasing targets meant that the Family Support Act would not be fully implemented until 1995, seven years after passage. Welfare reformers would not wait this long to address “welfare magnets,” employment, illegitimacy, and time limits.

Welfare Reform Waivers, 1989 - 1996

States resumed their pursuit of welfare reform through waivers shortly after passage of the Family Support Act. Seven of the thirteen demonstration projects approved by the Reagan administration were approved after the Family Support Act

became law. The reasons for this continued state initiative immediately after a national reform had been enacted are varied and complex. Taking a systems theory approach, Donald F. Norris and Lyke Thompson (1995) identified five exogenous factors pushing welfare reform to agenda status in the states (pp. 217-20):

1. "Who uses welfare, why, and for how long" (p. 217) gave the problem political saliency. Conventional wisdom painted a very negative picture of the typical welfare recipient, including multi-generational use, long term dependency, large families, many children born while on welfare, many teenage mothers, and many illegitimate births.

2. The prevailing public opinion was that the welfare system was broken and must be fixed.

3. The welfare debate became more ideological. Conservatives emphasizing personal responsibility struggled with liberals pointing to economic victimization. There was little middle ground to occupy.

4. A slowing economy with rising federal spending and widening federal deficits introduced a climate of budgetary restraint.

5. Apparent successes in some states led to emulation or competitive policy development in other states.

In addition, Norris and Thompson identify seven internal factors whose importance varied from state to state: (1) state budget deficits; (2) rising welfare

caseloads; (3) ideology; (4) partisan politics; (5) illegal aliens; (6) citizen initiatives; and (7) policy entrepreneurs (p. 221).

Most demonstrations approved by the Reagan administration included variations on job training programs. None of these demonstrations addressed the “welfare magnet” problem, the problem of illegitimacy, or time limits for receipt of AFDC. To encourage employment, Ohio demonstrated a mandatory work program, while Maryland, New York, Washington, and Wisconsin tried variations on income disregard policies, allowing working families to increase their total income. Thus, the demonstrations approved during the Reagan administration can be viewed as extending the Family Support Act.

In his 1992 State of the Union address, President George Bush said about waivers, “We are going to help this movement” (DHHS, 1993a, p.1). His support led to a total of 22 waiver projects in 16 states granted or pending between January 1, 1992 and January 19, 1993 (Wiseman, 1993, pp.23-25). One was Michigan’s To Strengthen Michigan Families demonstration, implemented October 1, 1992. By 1992, asserts Mark Greenberg of the Center for Law and Social Policy (1994, p. 7),

It was generally known by those following the waiver process that anything a state submitted would be rapidly approved so long as agreement could be reached on evaluation design. It was generally recognized that objections relating to wisdom, harm, constitutionality, or any other factor played no role amidst the election year rush to approve waivers.

None of these demonstrations included a time limit on receipt of welfare. To discourage illegitimacy, four states (Arkansas, California, New Jersey, and Wisconsin)

included a “family cap” demonstration eliminating additional payments when babies are born to families on AFDC, and limits were placed or proposed on benefits for minor parents in California and Vermont. Demonstrations in Illinois, Wisconsin and Wyoming were designed to reduce the “welfare magnet” effect. Five states (California, Maryland, Missouri, Oklahoma, and Virginia) proposed or implemented “learnfare” demonstrations (requiring school attendance for children in families receiving AFDC), joining Wisconsin’s demonstration begun earlier. Most included variations on job training, income disregards or other measures to encourage employment.

Despite introducing his own comprehensive welfare reform package (see below), President Clinton also continued President Bush’s support for the waiver process, considering them important in identifying ways to reform welfare and determining their effectiveness (Clinton, 1993). President Clinton introduced his Work and Responsibility Act in June, 1994. In a Report to the Nation’s Governors (1994b, unpaginated) sent one month later, DHHS Secretary Donna E. Shalala reiterated her Department’s “continuing commitment to state flexibility.” As evidence, she pointed to the approval of 16 demonstration projects since the beginning of the Clinton administration, the expected approval of several more, and the institution of a “streamlined review process to evaluate and act on waiver requests in a timely and efficient manner, even with a dramatic increase in the number and complexity of waiver submissions in the last year.”

This was followed on August 30 by a "Fact Sheet" on state welfare demonstrations sent to Michigan DSS director Gerald H. Miller by DHHS Region V Administrator Marion N. Steffy, (and presumably to all other state welfare directors by their regional administrators). Demonstrations were described for 15 states. No explanation for the discrepancy with Secretary Shalala's count of 16 was offered, but multiple demonstrations in some states may account for it.

The application and approval dates in the "Fact Sheet" do not clearly support Secretary Shalala's assertion that the review process had been streamlined. The average processing time for the first eight states was 5.6 months, with a range of 4 to 10 months. The last seven states averaged 5.3 months, with a range of 1 to 8 months.

No demonstration in this group was focussed on the "welfare magnet" problem. Six states adjusted their job training program rules. Five adjusted their earned income disregards to encourage work, while four others acted to require work or community service. The problem of illegitimacy was addressed by five states, with three each implementing family caps and limitations on teen parents (Arkansas implemented both). Three states implemented time limits on receipt of AFDC.

On July 13, 1994 the federal judiciary entered the welfare waiver arena (Greenberg, 1994, pp. 1-2). In 1992 California had been granted a waiver allowing a reduction in benefits below the minimum levels in effect in May 1988. A waiver was needed to avoid a financial penalty which would also affect the Medicaid program. California asserted that this demonstration was intended to test the work incentive

effects of grant reductions. A suit to block these grant reductions was filed in the United States District Court for the Eastern District of California, Beno v. Shalala (July 1, 1993, Civ. S-92-2135). The District Court refused immediate relief and appeal was made to the Ninth Circuit Court of Appeals (July 13, 1994, No. 93-16411).

The Circuit Court held (Greenberg, 1994, pp. 2-5) that:

1. Courts may review decisions made by the Secretary of the Department of Health and Human Services to grant waivers.
2. The Secretary has the right to modify or reject waiver applications submitted by states.
3. The Secretary must examine three issues in considering approval: (a) the demonstration must have research value; (b) it must be likely to promote the objectives of the Social Security Act; and (c) the number of families included in the demonstration and the length of the demonstration must be appropriate.
4. The Secretary must consider objections raised by other parties in granting a waiver.

The Court then returned the case to the Secretary. The court did not reverse the waiver decision itself, and did not rule on substantive objections to the grant reduction. However, the case served as a warning to the Secretary that the review process must be thorough, and established the precedent that the court would review such decisions in the future.

Interest in waivers continued throughout the congressional debates on national welfare reform proposals made by the Clinton administration, House Republicans and the National Governors' Association (NGA). On July 31, 1995, at an NGA meeting President Clinton announced a faster waiver review process. In August, Secretary Shalala released a "Welfare Reform Demonstration: Special Application Form" for states interested in waivers covering the areas of work requirements, time limits, teen parents, child support/required work for non-custodial parents, or subsidized employment. A checklist of possible policy demonstrations was provided for each. States able to describe their waiver requests through these checklists could expect rapid consideration from DHHS. According to the newsletter Welfare to Work (1995a, p. 1), the first application under this procedure came on August 2 from Florida, requesting extension and modification of its existing teen school performance policy. The waiver was granted on September 6. Subsequent waivers were reported by Welfare to Work (1995a, p. 1, and 1995b, p.1) for Ohio (adjusting previous waiver policies), Washington (time limits on AFDC receipt), Illinois (time limits on AFDC receipt), and North Dakota (combine programs).

Welfare To Work (1996a) reported that the Clinton administration had granted waivers to 37 states by February 5, 1996, despite complaints from several Republican governors that the waiver process "is cumbersome and does not allow them sufficient freedom to institute real change" (Vobejda, p. A10). New proposals were reported by Welfare To Work (1996b) from Maryland (devolving welfare administration to

county governments) and Indiana (changes to paternity establishment and required job search and community work).

In October 1995, President Clinton reiterated his support for the waiver process in a letter to the members of congress reported by Jennifer Dixon of the Associated Press. Calling first for national welfare reform with tough work requirements, but which does not harm children, he said failure to send such a bill to him for signature would force him “to continue to end welfare through the waiver process, one state at a time, until Congress gets it right” (Dixon, p. 3A).

Despite the limits set by Beno, this period represents a clear shift of control over AFDC from the federal government to the states. Much of the uniformity achieved over the previous decades was eroded.

Criticism of Waiver Demonstrations

In his 1993 review article (p. 34), poverty researcher Michael Wiseman evaluated this period through President Bill Clinton’s inauguration.

1. “Welfare reform continues to be an important political issue,” he contended and accurately anticipated further waiver requests from the states.

2. “States cannot be expected to coordinate efforts at experimentation...” he added. “Without leadership, effort and time will be dissipated in demonstrations too disparate for synthesis and too idiosyncratic for credibility... ‘Rigorous evaluation’ isn’t enough” to assure relevance and replicability.

3. "Welfare is complex," he maintained. "Perhaps the most significant accomplishment of Reagan-Bush waiver policy has been the interagency coordination achieved." This precedent for coordination should not be lost, and coordination, indeed, should be expanded.

This analysis was supported by Wiseman's review of the 22 waiver projects in 16 states granted or pending January 1, 1992 through January 19, 1993 (pp. 23-25). Extending his work by focusing on variations on a single reform theme, consider the changes made to the standard AFDC earned income disregard policy. Eight of the 16 states proposed or implemented such a change. These changes are described in Table 2.

At first look, the states' approaches to income disregards, taken as a group, look promising. A variety of bases and percentages were proposed or implemented, leading to an income increase for a family earning \$340 in a month of \$170 to \$340. Evaluation results will eventually be available for each demonstration project, and one could hope to learn a great deal about the impact of disregards on client employment try combining them. An analyst might, for example, combine the cost-neutrality results from these demonstrations to look for a point at which AFDC benefit cost decreases due to higher employment rates and the costs of higher disregards given to families who would have worked even at lower disregard levels increases. This would suggest an optimal disregard policy which could be adopted by Congress, or at least become a popular waiver option.

Table 2

Income Disregard Waivers Approved or Pending
January 1, 1992 - January 19, 1993

Location	Work Expenses	Base	Percentage	Earnings*	Other Initiatives
National/Months 1-4	\$90	\$30	33.33 %	\$193	
National/Months 5-12	\$90	\$30	0.00 %	\$120	
National/Months 13+	\$90	\$0	0.00 %	\$90	
South Carolina	\$0	\$0	50.00 %	\$170	Private, for-profit businesses may participate in work experience.
California	\$90	\$30	33.33 %	\$193	Overall benefit reduction.
Vermont	\$0	\$150	25.00 %	\$198	Requirement to accept subsidized employment unless working.
Utah	\$0	\$100	45.00 %	\$208	Intake diversion program, change in asset rules, cash out Food Stamps.
Illinois	\$0	\$0	66.67 %	\$227	None.
Michigan	\$0	\$200	20.00 %	\$228	Requirement to sign a social contract.
Wisconsin	\$0	\$200	50.00 %	\$270	Applies only to new applicants under 20 years old, changes to child allowances.
New Jersey	\$0	\$0	100.00 %	\$340	Applies only to families who have additional children while on AFDC, and are denied additional AFDC benefits.

*Additional income before taxes and work expenses when a family earns \$340 in a month by, for example, working 80 hours (½ time) at the federal minimum wage of \$4.25/hour. Assumes no "fill-the-gap" policy is applied. Except for national policies, no time limits apply.

Sources: Wiseman, 1993, pp. 23-25, and Strawn, Dacey & McCart, 1994, pp. A-2 and A-7.

Enthusiasm is tempered by the final column of Table 2, however. Each disregard option is accompanied by a different set of additional policy changes which will confound any analysis. For example, the cost neutrality results for Michigan's demonstration disregard policies cannot be separated from the results of the social contract implemented simultaneously and applied to the same set of study families. (That is, the effect of the new disregard policy is fully confounded with the effect of the social contract.)

This problem holds generally, because each state seeking waivers has independently chosen a different set of demonstration policies. Neither DHHS nor any other national body (for example, the National Governor's Association or the American Public Welfare Association) has attempted to coordinate these demonstrations to allow valid, national inferences to be drawn, or to address national objectives (Wiseman, 1995, p. 11; and Baillargeon & Cook, 1995, pp. 22-3).

Other complaints about the waiver process also emerged. Child advocates warned that the federal role in providing an economic safety net for families was eroding (Greenberg, 1995, p.14), and the effects of the Family Support Act were being obscured (p. 15). Waivers are limited only to the eligibility and payment provisions of AFDC (Bane, 1995, p. 8). For example, Michigan has been unable to obtain authority to become a payor for the Earned Income Tax Credit (EITC) for AFDC families, because this program is not covered by Section 1115 of the Social Act, the source of waiver authority. As discussed in Chapter VI, the cost neutrality provision

is the subject of considerable criticism, as is the cost of a comprehensive evaluation (Baillargeon & Cook, p. 24). For his part, A. Sidney Johnson, executive director of the American Public Welfare Association (1995, pp. 19-20), criticized the slowness of the process and the requirement to rigorously evaluate provisions previously tested in other states.

The Work and Responsibility Act of 1994

During his presidential campaign, Bill Clinton frequently promised to “end welfare as we know it” (Whitman & Cooper, 1993, p. 30). When he became President, he focussed first on health care reform, arguing with many others that loss of Medicaid was a serious barrier to those trying to leave AFDC through employment. Political pressure, perhaps most significantly from Senator Daniel Patrick Moynihan, forced him to announce his welfare reform proposal before congress would agree to act on health care. As chair of the Senate Finance Committee, Senator Moynihan would have considerable influence in the health care debate. As principal architect of the Family Support Act, he was the Senate’s acknowledged expert on welfare. The Senator’s threat to hold health care reform hostage to welfare reform eventually forced the President’s hand (Jehl, 1994, p. A10).

The President chose a low-key venue to introduce his plan, selecting a June 14, 1994 speech to 250 people in a Kansas City, Missouri bank lobby (Jehl, p. A1). The principal features affecting AFDC were (MDSS, 1994c, pp. 1-3):

1. States would have the option to eliminate the special eligibility rules applied to two-parent families that required limiting eligibility to families who have a recent work history, but who are not working more than 100 hours per month. Michigan and other states had obtained waivers allowing them to test this policy.

2. Minor parents would be required to live with a parent, legal guardian or in another adult-supervised home.

3. The minimum earned income disregard would be \$120, indexed for inflation; states could adopt more generous policies.

4. An automobile worth up to \$3,500, indexed for inflation, would be exempt from any assets test.

5. Up to \$10,000 deposited in an Individual Development Account (IDA) would be exempt from any assets test. An IDA must be used for education, first-home purchase or business capitalization.

6. At their option, states could refuse additional benefits for children conceived while the parent is on AFDC (that is, a child cap would be optional).

7. Parents born after 1971 would have a lifetime limit of 24 months' AFDC benefits. At their option, states could extend this provision to more families. Parents exceeding this limit would be placed in a subsidized employment program.

The principal changes proposed for AFDC were available to the states as waivers, and most were being tried in one or more states. As with the Family Support Act, however, no results were yet available from these demonstrations. Once again,

welfare innovations were adjudged politically successful before evaluation or cost neutrality results were obtained.

Only the child cap and 24 month time limit could be considered radical changes, and they were surrounded with exceptions and phase-ins to limit their impacts on families and costs. The limited policy significance of the proposal lay in the first-ever acceptance of a child cap and a time limit by a Democratic president. No action beyond congressional hearings occurred, and with the Republican capture of both houses of congress the following November, the plan died. As Douglas Jehl noted in the New York Times (p. A1):

While a pledge to overhaul the welfare system was a central feature of Mr. Clinton's 1992 campaign for President, aides say he has no intention of pushing hard for the passage of legislation this year. The White House and most Congressional Democrats are determined to focus their energy first on a health care overhaul.

Today's announcement was instead in no small part an effort to insulate a President facing sharp criticism from the right as he and his party look apprehensively toward the mid-term elections in November.

The Contract With America

As they began the 1994 congressional campaign, House Republicans seized on an unusual tactic. 367 of their candidates signed the "Contract with America," a broad-ranging package of promises to bring particular proposals to a vote in the House of Representatives if their party should gain control (Gillespie & Schellhas, 1994, pp. 6-7). Republicans gained control of the House (and of the Senate, but the "contract"

was not part of the Senate Republican's strategy). The contract promised to make fundamental changes in the way the House does business and "to help repair a fundamental disconnection between citizens and their elected officials" (p. 5).

Major provisions included (pp. 8-9): (a) requiring a 3/5ths majority vote to pass any tax increase in the House; (b) voting on a constitutional amendment to require a balanced budget and limit taxes; (c) preventing United States troops from being placed under United Nations command; (d) requiring the loser to pay legal costs in civil suits; (e) voting on a constitutional amendment to set limits on congressional terms; and (f) reforming welfare.

The contract's welfare reform proposal was called the Personal Responsibility Act. It was a mixture of structural reforms and attempts at enforcing moral values (pp. 70-72). In the latter category was a prohibition on welfare payments to mothers under 18 years old with children born out of wedlock. States could, at their option, extend this limitation to mothers aged 19, 20 or 21. Savings from this provision were to be given to the states as block grants to provide services other than cash payments to these mothers.

Other provisions related to moral values included a "child cap," or prohibition of payment increases for children born while their mothers were on AFDC, and a requirement that fathers be identified unless rape, incest or physical danger were alleged. These requirements, as Governor John Engler (1995b) noted, replaced liberal micro management with conservative micro management, and reduced state power

over the welfare system by reducing state options. Although these provisions were, as in the President's reform proposal, included in state waiver demonstrations, again no results were yet available. Changes promoted because of their moral value are not necessarily accompanied by a supporting cost analysis since their primary purpose is to promote morally correct behavior, not to reduce costs. The requirement to find suitable adult supervision for teen parents, for example, could be costly if paid supervision similar to foster care were required for more than a small fraction of cases.

Some required structural changes also reduced state power. Recipients faced an absolute five year time limit, after which no cash assistance could be provided. A proportion of all AFDC cases were required to have a working member in the family, with the proportion growing from 2 percent in 1996 to 50 percent in 2003.

The growth in program costs was capped at the increase in inflation plus the increase in the general population, and the entitlement status of AFDC was ended. That is, states were no longer required to provide benefits when appropriations were exhausted. The effect on state control of welfare of these two provisions depends on an individual state's response to an unexpected rise in the AFDC caseload. If the state wished to limit its costs by refusing or reducing benefits, it would have the power to do so. However, if the state wished to provide benefits to meet demand, it could not expect federal matching funds in doing so.

The major provision of the Personal Responsibility Act from the states' perspective was one allowing a state to leave the AFDC/JOBS system and create its

own welfare and work programs. Federal assistance would continue as a block grant, but no matching state expenditures would be required. Although still bound by the morality and work participation provisions described above, states would have considerably more control over their programs than under existing law. This provision would result in a dramatic transformation of the relatively-uniform, national AFDC program into numerous different programs varying by state. In this case, no state had previously requested comparable waivers, so this radical reform did not even have an implementation example, much less any evaluation or cost neutrality data for support. The principal argument made for this provision was "Recognizing that the best welfare solutions come from the states, not Washington, DC, the Personal Responsibility Act allows states to create their own work programs and determine who should participate in them" (Gillespie and Schellhas, p. 73). That is, the Contract's authors believed that government closer to the problem will produce superior solutions.

The welfare reform proposals in the Contract with America were designed to reduce federal expenditures by capping the growth in spending and by reducing the need for welfare by demanding that welfare recipients work. The authors of the contract estimated the savings at \$40 billion over five years (Gillespie and Schellhas, p. 74). Because a balanced federal budget was part of the Contract as well, the need for cost savings became intertwined with the drive for welfare reform. The Contract opened a long-running battle between the President and the Congress over the 1996 federal budget and plans to bring the federal budget into balance within seven years.

This budgetary conflict dominated the political environment throughout 1995 and early-1996, featuring numerous threats, acrimonious debate, acts of brinkmanship, and government shutdowns. AFDC was only one of many fronts along which this battle was fought; others included income taxes, the Earned Income Tax Credit, Social Security, Medicare, Medicaid, and environmental protection.

A bill named the Personal Responsibility and Work Opportunity Act of 1995, and containing the welfare reform provisions found in the Contract with America, passed the House March 24, 1995, but it encountered resistance in the Senate (Toner, 1995, pp. A1, A17). The restrictions on payments to teenage mothers and the cap on payments for children born on welfare were weakened in the Senate where they became state options rather than national program requirements. The Senate also set minimum financial commitments for states leaving the AFDC/JOBS system. Funding for daycare programs was increased. Most significantly from the view of states seeking flexibility, the option to leave the AFDC/JOBS system was retained. The Senate changes, then, added to the states' authority. The maintenance of financial effort requirement, added by the Senate, is properly viewed only as a speculative decrease in state flexibility, since the House version was not yet law and current law did require financial commitment by the states.

The Senate version of welfare reform received reluctant support from President Clinton prior to its passage (Raum, 1995, p. 1A), because "After months of sometimes bitter debate, we are now within striking distance of transforming the welfare system."

Amidst rumors that existing unfavorable analyses were being withheld, the Office of Management and Budget agreed to review the impacts of the two versions of welfare reform (Staff, 1995d, p. 1). When released November 9, 1995, this review estimated that the House bill would increase the number of children in poverty by 2.1 million, while the Senate bill would produce a 1.2 million child increase (Office of Management and Budget, p. 9). This report fueled opposition from the political middle and left, including the National Council of Churches, the Religious Action Center of Reform Judaism, leaders of Conservative Judaism, African-American church leaders, and the Children's Defense Fund (Steinfels, 1995, p. A11). The National Conference of Catholic Bishops objected to time limits and child caps.

The House and Senate versions were reconciled, resulting in provisions of a budget reconciliation act vetoed by the President on December 6, 1995 and in a separate bill which passed both houses later in December (Pear, 1995, p. A1). As was widely expected by that time, President Clinton vetoed it on January 9, 1996 (Pear, 1996a, p. A10), saying that the bill presented to him "was designed to meet an arbitrary budget target rather than to achieve serious reform" (Clinton, 1996, p.2), a clear signal that he wanted to separate welfare reform from balancing of the federal budget.

The Governors and Welfare Reform

Various state governors, particularly Engler of Michigan and Thompson of Wisconsin, were active in the politics of welfare reform throughout the 1990s. For example, the National Governor's Association (NGA) sent a letter to its members on December 21, 1992 announcing an "initiative to facilitate welfare reform at the national and state levels. The initiative will bring together the Governors to develop state and national strategies to transform the welfare system..." (Florio and Carlson, 1992). In 1994, the NGA completed a comprehensive survey of state welfare reforms (Strawn, Dacey & McCart, 1994). In December 1994, Governors Engler, Thompson and Weld (of Massachusetts) were asked by Speaker of the House Newt Gingrich to "prepare an outline of a plan that meets their requirements..." (Baiz, p. A6). Another letter was sent by the NGA on February 23, 1995 to Representative Bill Archer, Chairman of the House Committee on Ways and Means, requesting that any block grant options for AFDC include certain provisions and exclude certain others. They requested exclusion of the "moral provisions" limiting payments to certain groups of recipients, exclusion of employment targets, inclusion of funding adjustments reflecting the cyclical nature of the economy, and inclusion of the right to withdraw from waiver demonstration projects without incurring any cost neutrality liability

(Dean, et al. 1995, pp. 3-4). However, as late as their July, 1995 meetings the NGA's members were unable to reach consensus on a full set of welfare reform provisions.¹⁰

As the 1995 national debate over welfare and the federal budget extended into 1996, compromise became the NGA goal. Led by Governor Thompson and by Nevada Governor Bob Miller, they began again to search for consensus at their February meetings. Governor Miller emphasized, "We said we'd agree on everything or agree to nothing" (Christoff, 1996a, p. 8A). Agreement was reached on a plan including many of the structural reforms included in the congressional Republicans' plan vetoed by the President. Agreement was thereby reached on block grants for states, employment goals, and a five year limit. (Pear, 1996b, p. A9; and Christoff, 1996b, p. 1A). However, no legislation reflecting this agreement has been introduced as of June 1996. On April 26, 1996, seven months and two government shut-downs into fiscal year 1996, President Clinton signed a budget bill which contained no welfare reform provisions (Pear, 1996c, p. A1).

¹⁰It is interesting to note the rise in national prominence of Governors Thompson and Engler as the welfare reform debate continued. Governor Thompson became chairman of the NGA at the end of the July 1995 meetings, while Governor Engler succeeded him as chair of the Republican Governor's Association the following January (Harmon, 1995, pp. 1-2). In Governor Engler's case, at least, this rise was due in part to relative mastery of the complexity of welfare (Christoff, 1996b, p. 7A).

Conclusions

The Aid to Dependent Children program included in the Social Security Act of 1935 was clearly a radical reform of the state- and locally-directed Mothers' Pensions programs, transferring much authority over and responsibility for welfare for families with children to the federal government. Radical reforms have received serious attention regularly since 1969. Plans have been proposed by Presidents Nixon, Carter, Reagan, and Clinton, and by Presidential candidate George McGovern, the House Republican caucus, and the National Governor's Association. As noted in Chapter V, a variety of plans have been proposed by researchers in and out of government. Most of these proposals would have resulted in a radical shift of authority over welfare to the states, and some would also have shifted the financial responsibility. To the extent that these proposals specified policy changes, they seem largely unrelated to the research available at the time. These policy proposals are often made prematurely when relevant research results could be expected after a reasonable wait. This is particularly perplexing when the demand for a balanced budget and the eventual availability of relevant cost neutrality data are considered. So far, no radical reforms have been enacted at the national level, although several are being tested through waiver demonstration projects.

Meanwhile, many incremental changes have been implemented, either through federal law or regulation, or through state waiver demonstration projects. On the whole, federal authority was expanded under the changes made at the federal level.

Most were enacted between 1950 and 1988. Beginning in 1987, the demonstration projects shifted authority in small increments to the states, with financial responsibility shifting as well through the cost neutrality provision.

It is impossible to predict the future of welfare reform. There is, however, considerable evidence to support the hypothesis that welfare authority and responsibility have reached an uncomfortable but stable point with the current system of federal direction and state waivers. Costs are shared through long-established formulae which reflect, at least roughly, the states' relative ability to pay. Supporters of state-designed systems and supporters of a single national standard can each find features to disparage and extol. Some federal requirements can be waived, providing flexibility and thereby making demonstrations to test new ideas possible. Other requirements cannot be waived, providing a stable national base policy. The current system has few, if any, vocal supporters; nearly all stakeholders would make major changes given the opportunity to do so. But there is no consensus for any single package of changes. Reluctantly, there is more support for not making any single major change.

This uneasy stability appears likely to continue at least through the 1996 presidential election. On May 4, 1996 President Bill Clinton released new regulations for teen mothers on AFDC (Mitchell, p.17A). These allow states more flexibility in encouraging teen mothers to live at home and remain in school, and require reports

from all states on their programs for teen mothers. The next day the following exchange, clearly signaling political deadlock, was reported by the Detroit News:

The President said that if Congress sent him a “clean welfare reform plan, that demands work, demands responsibility, protects children and helps families stay together, I will sign it. Until then, I’ll keep working to do everything in my power to reform welfare step by step and state by state.” (Clinton’s welfare plan..., p. 10A)

Michigan Governor John Engler, chair of the Republican Governor’s Conference, responded: “Bill Clinton and the liberals in Washington are still missing the point: real welfare reform is overdue. We can’t reform welfare and break the cycle of poverty one waiver at a time.”

Michael Wines of the New York Times (May 5, 1996, p. A15) reported that the President appears positioned to take credit for any welfare reform bill he would be willing to sign, and seemed not to have suffered from his vetoes. If this is the case, Republicans are unlikely to seek a compromise before the November election. States can then be expected to continue requesting and implementing waiver demonstration projects. Each such project faces the cost neutrality requirement, and hence understanding the operation and implications of the requirement will remain important to welfare policy developers and researchers.

Finally, even the advent of block grants may not end the importance of waiver cost neutrality. Attempts in 1995 to convert the full Food Stamps program to a block grant met with little support. Waivers and cost neutrality apply to Food Stamps as well as to AFDC, so they are likely to continue to be significant features of the

American welfare system even if AFDC is converted to a block grant program. Thus, even if new forces push the federal government successfully to welfare reform, waivers and cost neutrality will remain interesting aspects of federalism.

CHAPTER III

WELFARE REFORM WAIVER COST NEUTRALITY IN MICHIGAN, 1992-1994

Sampling Implementation

Michigan began its welfare reform demonstration, called To Strengthen Michigan Families, or TSMF, on October 1, 1992. Waivers for the hundred hour rule, the work quarter rule, and the federal income disregard rules were implemented.¹¹ Further, families receiving Aid to Families with Dependent Children (AFDC) or State Family Assistance (SFA) were told that the state expected, in return for their welfare grants, that they would make good faith efforts to become independent of the welfare system. Their commitment would involve at least 20 hours of self-selected activity per week, chosen from a list of activities approved by the state (Miller, 1992). This expectation is called the Social Contract, and was enforced through expressing the intent of the Department to refer those who did not comply (and who were eligible for job training) to Michigan's job training program

¹¹Waivers were also received to allow the state to exclude all children's earnings in considering eligibility or benefits, to allow non-custodial parents to participate in the AFDC job training program, and to allow for a job search period exceeding three weeks prior to assessment for that program (Miller, 1992).

immediately. Appropriations for the job training program were too low to serve all eligible people, and sometimes all available funds were committed to volunteers. To make the enforcement mechanism credible, a waiver was received to end a requirement giving preference to volunteers.

With the exception of control cases needed for the TSMF evaluation and cost neutrality calculations (and for a preexisting study of job training program options), the experimental policies were applied to all cases statewide beginning on that date. Four¹² sites were selected for the evaluation and to provide data for the cost neutrality calculation. (Selection was not random, but purposive; see Chapter VI.) Using the same sites for both evaluation and cost neutrality provides administrative efficiencies since a process for randomly assigning cases to control and experimental policies is then needed in only one group of offices. Combining these activities, however, prevents their results from independently verifying or contradicting each other.

Families receiving AFDC or SFA on the project start date were randomly assigned to control and experimental policies. Families subsequently found eligible for AFDC or SFA were also randomly assigned to control and experimental policies using a process based on the social security number of the grantee (there is always exactly one grantee per case).

¹²Kalamazoo County, the Madison Heights district of Oakland County, and the McNichols/Goddard and Schaefer/Six Mile Districts of Wayne County were selected.

Results

Michigan's cost neutrality calculations for the period from October 1992 through March 1995 showed that \$77.5 million in state costs and \$20.5 million in federal costs were saved. These results are detailed in Table 3. Savings are shown as positive numbers, while excess costs are shown as negative numbers and appear in parenthesis.

Unfortunately, the federal formula produces few details concerning the sources of these savings. The formula can be described as simply a "black box." The mechanisms generating costs or savings are not illuminated. The independent evaluator (Abt Associates) reported reductions in AFDC benefits paid to families covered by the TSMF policies in the first two years of the study (Werner and Kornfeld, 1994, pp. 51, 60-61; and 1995, pp. 61-65 and 73-75). This supports similar results from the cost neutrality calculations. However, the cost neutrality calculation is the only source of administrative cost data.

Benefit Costs

Estimates of the excess costs or savings resulting from Michigan's welfare reforms are the result of projecting the very small differences shown in Figures 2 and 3, and summarized in Figure 5, from the research sites to statewide proportions.

Figure 2 shows that, after thirty months, there is virtually no difference in the differences are shown for Food Stamps, Medicaid and SMA. SFA benefits are

Table 3

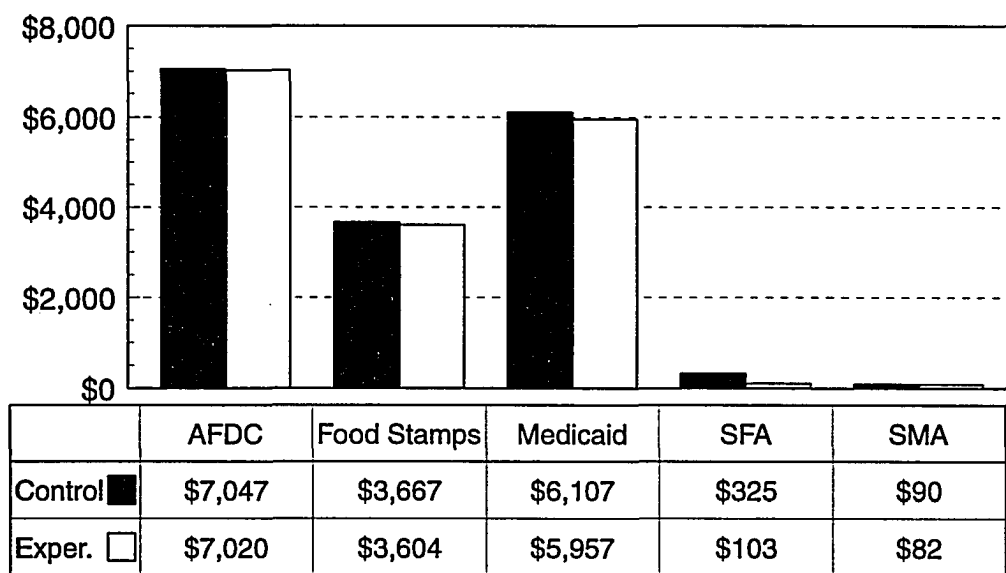
**Cost Neutrality Results for Michigan's Waivers, October 1992 - March 1995
Savings (Excess Costs) in \$Millions**

	Federal	State	Total
AFDC Benefits	\$5.82	\$4.344	\$10.165
AFDC Administration	(\$16.58)	(\$16.58)	(\$33.18)
Food Stamps Benefits	\$23.25	0	\$23.25
Food Stamps Administration	(\$9.64)	(\$9.64)	(\$19.28)
Medicaid Benefits	\$31.32	\$24.39	\$55.71
Medicaid Administration	(\$13.69)	(\$13.69)	(\$27.38)
State Family Assistance Benefits	\$0	\$81.95	\$81.95
State Family Assistance Administration*	\$0	\$3.88	\$3.88
State Medical Assistance Benefits	\$0	\$2.84	\$2.84
State Medical Assistance Administration	\$0	Not Available	Not Available
 Total for Benefits	 \$60.39	 \$113.52	 \$173.92
Total for Administration	(\$39.91)	(\$36.03)	(\$75.95)
Grand Total	\$20.48	\$77.49	\$97.97

Source: Meizlish, 1995, pp. A3 and A5.

reduced by a relatively robust $\$325 - \$103 = \$222$ per family as a result of the near-elimination of the program under the experimental policies. The virtual equality of the AFDC benefit cost averages (\$7,047 for control families and \$7,020 for experimental families) masks two effects which appear to have balanced: AFDC benefit costs were

Michigan Cost Neutrality Results **Average Benefit Cost per Family Ever Served** **October 1992 - March 1995**



Source: Meizlish, 1996, pp. A1-A5

Figure 2. Average Benefit Cost.

Michigan Cost Neutrality Results by Quarter

Fiscal Years 1993 - 1995

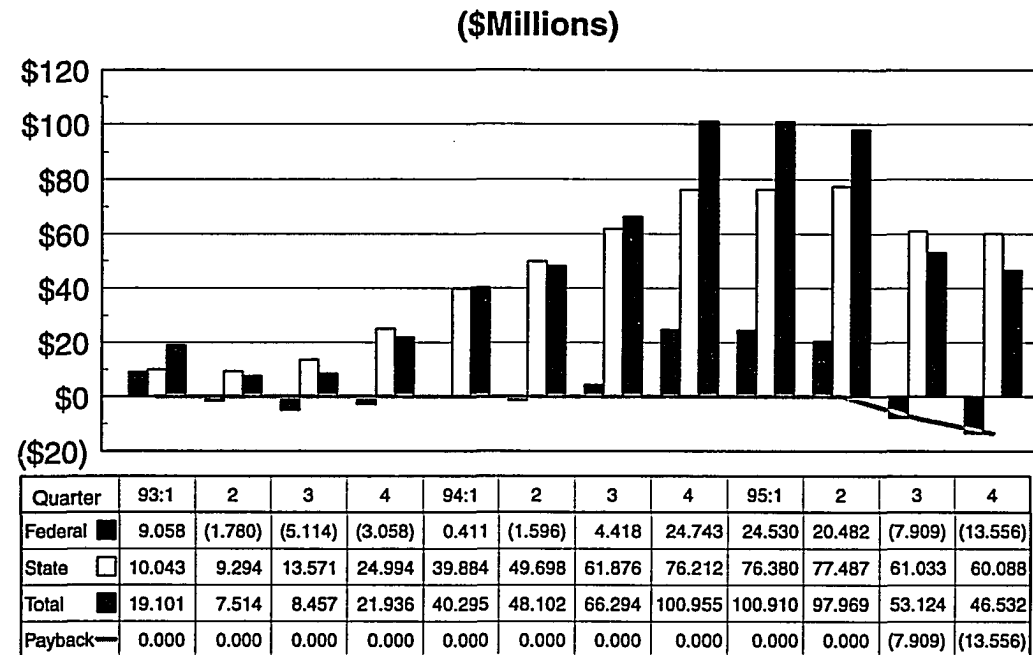


Figure 3. Average Administrative Cost.

increased by adding costs formerly paid under SFA, but they were reduced by some other mechanism. As noted above, the cost neutrality formula does not identify this mechanism, but the outcome evaluation indicates that more families combined work with welfare under the experimental policies, and that AFDC participation may have been reduced. These two outcomes were expected from the policy changes intended to encourage recipients to work, and would result in a decrease in average benefit costs. Food Stamps benefit costs are sensitive to total family income, so the savings in that program should follow from increased earnings, and appear to do so.

The savings shown for Medicaid are not well understood. The argument above explaining AFDC savings fails for Medicaid because families combining work and welfare do not lose Medicaid eligibility. Furthermore, families leaving welfare because of increased income retain Medicaid eligibility for one year, so savings from this group should be greatly attenuated until later in the experiment. Medical costs are subject to greater variation than AFDC benefits, so one possibility is that the observed difference is the result only of random variation. Examination of sampling variance will evaluate this possibility.

Administrative Costs

Except for SFA, where administrative savings resulted from greatly reducing program participation, administrative costs rose for all programs under the experimental policies (see Figure 3). No estimate of SMA administrative costs can be

made from the available data.¹³ The time study which provides the basic information for Figure 3 is limited in its descriptive power. If more extensive analyses of administrative cost results were possible, the policy usefulness of the calculation would be enhanced.

Statewide Total Costs

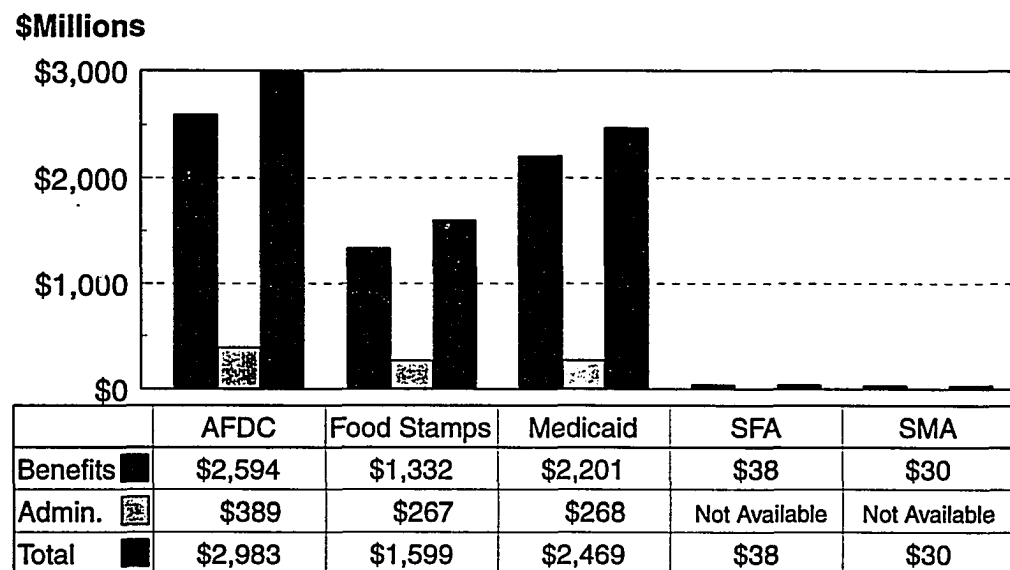
Statewide costs for all programs¹⁴ are needed in order to project results from the experimental sites to statewide values. These costs must be for the cohort of families participating in AFDC or SFA since the experiment began. Existing reports are designed to measure costs incurred for all cases active during a specified period. Costs for specific cohorts are not available, so these statewide totals must be estimated. This problem was anticipated by federal staff in designing the cost neutrality calculation, which implicitly provides formulae for making these estimates for all other costs from statewide AFDC costs (which can be determined from existing reports). The resulting totals are shown in Figure 4.

The ratios shown in Figure 5, representing the savings (ratio less than 100 percent) or excess costs (ratio greater than 100 percent) measured in the experimental

¹³The time study used for cost allocation does not permit administrative costs to be estimated for either SMA or SFA. However, SFA administrative costs are estimated from data available from another time study and caseload counts (MDSS, undated).

¹⁴Statewide counts of families active for AFDC or SFA since the experiment began would also permit projection to statewide costs, but these are not available.

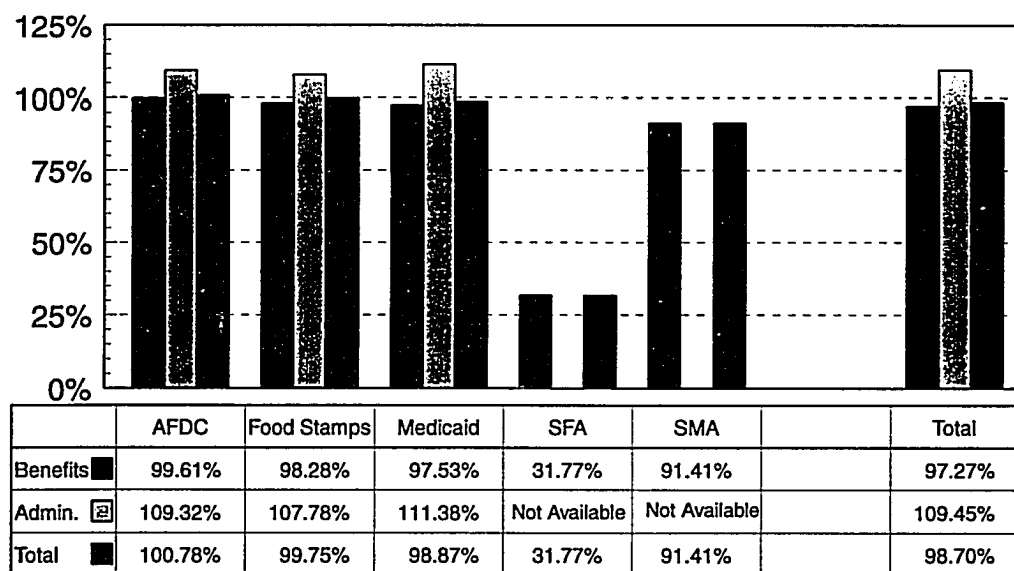
Michigan Cost Neutrality Results Estimated Statewide Costs October 1992 - March 1995



Source: Computed from Meizlish, 1996, pp. A1-A5

Figure 4. Estimated Statewide Costs.

Michigan Cost Neutrality Results Experimental Costs as a Percent of Control Costs October 1992 - March 1995



Source: Meizlish, 1996, pp. A1-A5

Figure 5. Experimental Costs as a Percent of Control Costs.

sites, may differ from unity (100 percent, the point at which control and experimental costs are equal) by less than the expected statistical error. That is, there may be no significant differences between control and experimental values, and the projected savings shown in Table 2 may be illusory. If so, claims of success for Michigan's welfare reform demonstration based on results from the first thirty months are premature. Political leaders naturally want to announce success, but such announcements would prove embarrassing if subsequent data showed a reversal, even if those subsequent results also were too small to be statistically significant. In other words, incautious use of early results in a public, political environment may prove problematic. Michigan's governor and social services director chose to take this risk and made claims of success public.

Use of Cost Neutrality Results

Table 2 shows that the TSMF demonstration resulted in \$173.92 million in savings from reduced benefit costs. These savings were earned, in part at least, through increased administrative efforts, resulting in administrative cost increases. The result is a net savings of \$173.92 million - \$75.95 million = \$97.97 million. While this is only 1.4 percent of the total of \$7.12 billion in expenses (see Figure 4), the result challenges two common perceptions about the cash welfare system. First, it is believed by many advocates for the poor that welfare reform resulting in cost savings will be at the expense of the poor, but TSMF did not require grant or service

reductions—in fact, service costs increased. Second, the “welfare bureaucracy” and out-of-wedlock childbirth are often blamed by fiscal conservatives for the cost of welfare, but TSMF used increases in that bureaucracy to generate net savings without restricting benefits to illegitimate children or their mothers.

Cost neutrality results are intended primarily to measure and trigger repayment of excess federal costs incurred as a result of a state’s demonstration projects. In Michigan, computations for the April-June 1995 and July-September 1995 quarters indicate that a repayment may be due eventually (see Figure 6). However, repayment of early excess costs up to \$50 million is deferred. As long as they remain below this level, repayment does not begin until the eighteenth quarter of the demonstration (January-March 1997).

It would be reasonable to expect that those responsible for preparing Michigan’s budget would make use of cost neutrality results in their work. However, budget-making requires planning for the future, while cost neutrality calculations review past events. At the earliest, cost neutrality results for Fiscal Year 1996 (October 1995-September 1996) will be available no earlier than November 15, 1996. By that time budget planning will be underway for fiscal year 1998, which begins October 1, 1997.

Michigan planners rely instead on caseload forecasting, a more familiar technique (Drum, 1995 and Duncan, 1996). As Figure 7 shows, caseload trends since the implementation of To Strengthen Michigan Families on October 1, 1992 show a

Michigan Cost Neutrality Results by Quarter

Fiscal Years 1993 - 1995

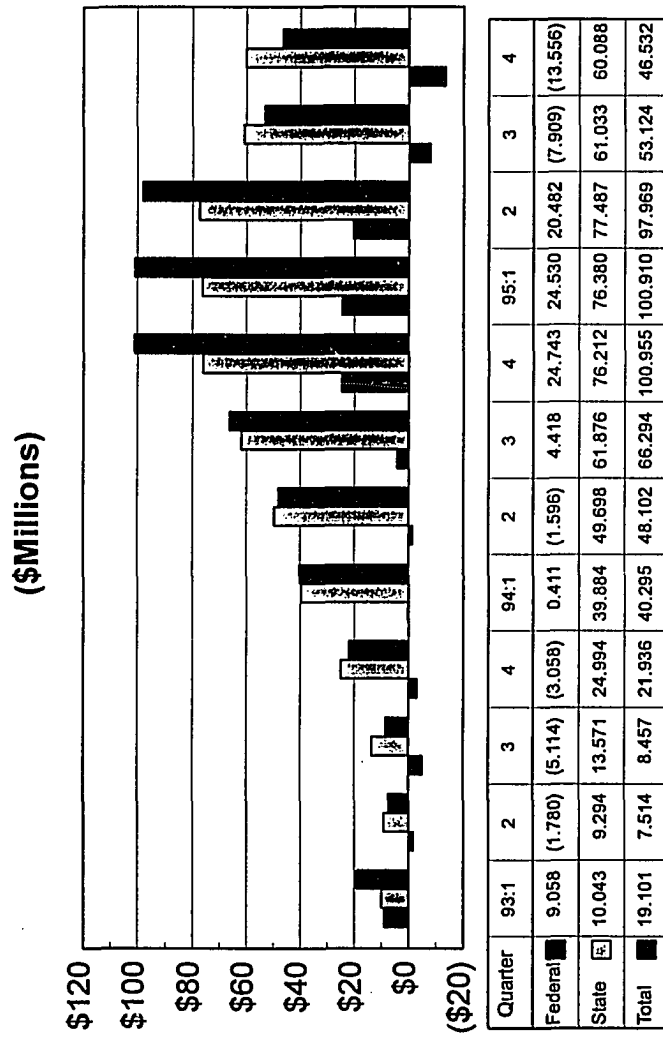


Figure 6. Cost Neutrality Results by Quarter.

Michigan's AFDC Caseload

October 1992 - January 1996

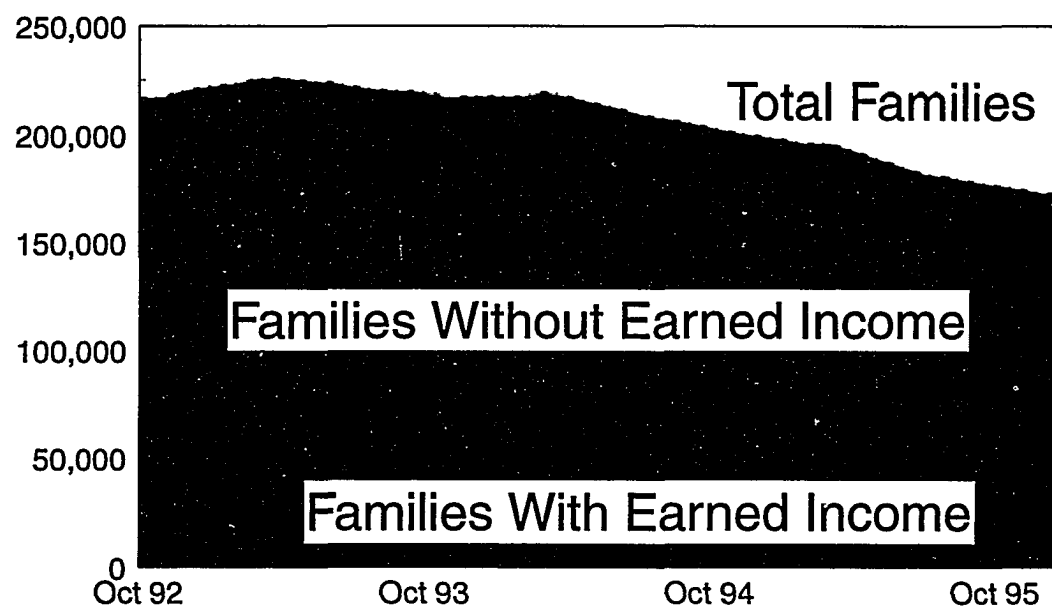


Figure 7. Michigan AFDC Caseloads.

reasonably steady decline for cases without income and a slower but similarly-steady increase in cases with income. The net result is a steady decrease in the caseload, which is projected forward to estimate future budget needs. Savings from TSMF, if any, result from caseload effects included in these trends and thus are included in the budgeting process through caseload forecasting.

Cost neutrality does not play a direct role in the evaluation of welfare reform demonstrations either. Evaluations attempt to answer some of the questions unanswerable through cost neutrality calculations. They focus on discovering particular sources of change and on measures of change other than program expenditures, including family income and participation levels. However, results from the two approaches can provide some support for each other when they agree (as Michigan's do), or cast doubt on one another should they disagree. Both use the same samples of families, so they cannot provide independent confirmation of each other.

The principal uses of Michigan's cost neutrality results have been political. In most cases, the use has been policy-oriented, to rally support for the TSMF approach to welfare reform and for the Governor's belief that the states should be even more free to experiment. The effect of their repeated use has, however, enhanced the career of Governor John Engler. After two years, cost neutrality results indicated that Michigan had saved a total of \$101 million with TSMF. This number began appearing regularly in Governor Engler's public pronouncements, including national television interviews (Stevens, January 13, 1995; Gallman, January 14, 1995; Koch, January 28,

1995; Engler, January 31, 1995). The January 20, 1995 Detroit Free Press carried a four-column photograph of the governor holding a graph describing cost neutrality results during his testimony before the House Ways and Means Committee (Montgomery, p. 6A).

Michigan's cost neutrality results were met with skepticism from both the political right and the political left. Lawrence W. Reed is President of the Mackinac Center for Public Policy in Midland, Michigan. The Center is a "think tank" specializing in free market solutions to public problems, and it is influential in Michigan politics. In January 1995 Reed recognized Michigan Governor John Engler's welfare reform successes, but warned that "Replacing federal reform with state reform will not go far enough, however, unless it further reduces the role of government and makes assistance to the needy a *private* initiative" (emphasis in original). David Whitman of U. S. News & World Report pointed out on January 16, 1995 that "his initiative had increased the proportion of AFDC adults who did some work by only 1.7 percentage points and reduced the welfare roles by 1 percentage point" (Welfare: The Myth of Reform, p.38). Unpersuaded, Governor Engler continued to cite the figure of \$101 million saved throughout the 1995 welfare debate (see Chapter II). His success in welfare reform and other policy areas, including tax cuts and school finance reform, has led to speculation about a vice-presidential or presidential candidacy in The Economist ("The next-," 1996, p. 29), in Time ("If

not," 1996, p. 25), on the National Broadcast Company's "Meet the Press" ("Engler avoids," 1996, p. 1A), and by the Associated Press (O'Brien, 1996, p. 6D).

CHAPTER IV

RESEARCH DESIGN

Primary Research Questions

The primary research questions to be answered by this dissertation are:

1. What are welfare waiver cost neutrality's policy consequences? Cost neutrality is designed to limit states' options in proposing demonstration projects to those they can afford without additional federal funds. Success in achieving this goal and the kinds of demonstrations not proposed are reviewed.
2. What is its role in national welfare reform? National welfare reform and waivers have interacted strongly since 1992; this interaction is discussed.
3. What place does it have in theories of federalism? The unusual features of cost neutrality are examined.
4. How do theories of federalism explain the reasons for imposing this requirement?
5. How reliable are the estimates used? A measure of reliability is developed and results for Michigan computed.
6. Is this reliability great enough to support the uses made of cost neutrality results? Public and internal uses will be considered.

Secondary questions are:

1. How does the use, by a governor and his/her top executives, of politically sensitive data change when the idea of statistical uncertainty is introduced? A percentile interval, similar to a confidence interval, was computed for Michigan's welfare reform savings and introduced into the policy stream. Use of the cost savings results will be compared before and after introduction.

2. How can the statistical characteristics of results obtained with the federal calculation method for welfare reform cost neutrality be determined?

3. What are the characteristics of results obtained with the current method? Answering this question, and demonstrating a method with results from Michigan's welfare reform project, will provide future researchers a practical way to evaluate alternative calculation methods, sample sizes and experimental designs.

General Methodology

Implementation

Implementation and use of Michigan's welfare reform cost neutrality calculations are traced here through internal documents, published reports and newspaper accounts. Since the author is an employee of the Michigan Department of Social Services, use of verbal information, except by explicit permission, would present ethical questions and inhibit exercise of his duties, and so is excluded. However, all final decisions and actions appear in written documents, and all relevant

materials are public under Michigan's Freedom of Information Act. Thus, authors of these documents have no expectation of privacy. Permission was obtained from the Michigan Department of Social Services before beginning this work, and colleagues were made aware of the study.

The place of welfare waiver cost neutrality in federalism theories is determined by reviewing major theories, comparing characteristics of federalism features described by theorists with American welfare system characteristics, welfare reform through waivers, and the cost neutrality provisions applied to waivers. The place of waiver cost neutrality in the history of welfare reform is established through review of historical sources. The questions of waiver cost neutrality's uniqueness and policy implications are considered both through application of theory and through review of events. Public and internal uses of the results are tracked. Finally, the impact, if any, of introducing measures of statistical performance, particularly of confidence intervals, is determined.

Use of Sampling-Based Information

Welfare reform cost savings estimation is an application of social science research methods to a complex accounting problem. Weiss and Bucuvalas (1980) have considered the ways in which social science research is used by decision makers. They suggest (pp. 13-15) that researchers implicitly have a model for this use:

1. Research produces knowledge, by which researchers mean replicable facts and truths.

2. Use of this knowledge by decision makers will result in more rational decisions because means will fit ends, outcomes will be more predictable, and the whole process of decision making will be more efficient.

3. Rational decisions are more beneficial to society.

4. These benefits will be shared uniformly and equitably.

Unfortunately, as Weiss and Bucuvalas point out, research cannot remove conflicts among competing interest groups, and this conflict characterizes political decision making. Political rationality, based on consensus-building, compromise and institutional stability, may overwhelm the scientific rationality of the researchers' model (p. 21), which is based on logic, cause and effect analysis, and the scientific method.

Consequently, research results may not be used by decision makers at all, or may be used in ways not anticipated by the researchers. Weiss and Bucuvalas (1980) offer these possibilities for use:

1. The decision maker may apply research results to an appropriate, specific policy or practice that is consistent with the researchers' implicit model.

2. He/she may use it to reduce his/her level of uncertainty.

3. Research can be used by the decision maker to bolster his/her supporters.

4. It may be used to persuade or neutralize the decision maker's critics.

5. It may be used to reinforce a commitment made previously.
6. The decision maker may refer to research in order to authenticate decisions which have already been made.
7. The decision maker may use research to shift responsibility for unpopular decisions to the researchers.

With the exception of the last form of use, none of these is unethical, but they stray successively further from the researchers' implicit model. These possible usages for cost neutrality confidence intervals are considered in this study.

Statistical Characteristics

The federal formula for estimating excess costs or savings is based on sampling—a sample of locations for the study, samples of families within the study location, and a random moment sample for estimating administrative costs. Like all estimators based on sampling, there is little likelihood that the true savings are exactly equal to the estimate. Usually, the uncertainty introduced by sampling is expressed as a range of possible values, called a confidence or percentile interval, that has a high likelihood (typically 95 percent) of containing the true value of the quantity to be estimated. This interval is logically connected to the idea of hypothesis testing. In particular, if the interval contains zero, the related test of the null hypothesis of no savings or excess costs will result in accepting the null hypothesis. This is clearly a

critical question, but no confidence intervals (or, therefore, hypothesis tests) were previously available for the federal cost neutrality estimator.

This is because the federal formula is too complex for a standard variance analysis relying on known formulae, algebra and numerical approximation. The formula makes extensive use of ratios and products of random quantities, greatly increasing the difficulty of obtaining an analytic formula for the confidence interval. Instead of the standard approach, a relatively new technique called "resampling" has been used here with Michigan data to answer the research questions. A computer program to implement this technique was created and tested. The interval obtained through this process is called a percentile interval, but in use it is identical to a standard confidence interval.

Study Propositions

Following Yin's case study research model (1989), the following propositions concerning use of welfare waiver cost neutrality results were considered:

1. Welfare waiver cost neutrality represents a unique aspect of federalism with significant policy consequences.
2. Political leaders will seldom if ever mention that a sensitive estimate contains any uncertainty if the estimate serves a useful purpose. In the case to be studied, welfare reform cost savings estimates have proven useful to Michigan's governor and sensitive enough to have received considerable press scrutiny. Uses have

included pressing his views through the news media, in Congress, and among his peers at the National Governor's Conference. The extent of his knowledge of the uncertainty in the estimate is unknown, but this information has been given to the Director of the Department of Social Services (Lovell, 1995a).

3. Managers responsible for computing and using the estimator, including the author, will use confidence intervals in attempts to improve and understand the estimation process, regardless of numerical values. (The author's own work will not be considered in support of this hypothesis, but any use of that work by others will be.) Federal officials and officials in other states have expressed interest in the results of the confidence interval calculations proposed here.

This is an exploratory study of events covering roughly the period June 1992 through May 1996.

Discussions of Michigan's results in national media (television network news programs, the New York Times and the Washington Post) and local media (the Detroit News, the Detroit Free Press and the Lansing State Journal) have been collected and analyzed for mention of uncertainty in order to study use by political leaders. Memoranda, reports and other internal documents provide the database to study use by program managers in the U. S. Department of Health and Human Services and the Michigan Department of Social Services.

Generalizability

The results of this case study should provide a useful guide to the behavior of political leaders and managers in other states with similar technical skills and political leadership. Techniques developed to determine a percentile interval for Michigan's results can be used to determine confidence intervals for other states' results, to further investigate the characteristics of the method used, and to consider alternatives.

CHAPTER V

WAIVER COST NEUTRALITY AND FEDERALISM

Aid to Families with Dependent Children (AFDC) is a joint federal-state program, and the waiver cost neutrality process is an integral part of AFDC. This chapter begins with a description of the federal and state roles in AFDC policy-making and financing. It then considers the role of waiver cost neutrality in the federalism of the 1990's. Finally, consideration is given to how the AFDC program as a whole and waiver cost neutrality in particular are viewed in contemporary prescriptive models for reform of federalism.

Fiscal and Policy Roles of Federal, State and Local Governments in AFDC

In general, administrative costs for AFDC are shared equally by the states and the federal government.¹⁵ Benefit costs for AFDC are shared by the states and the federal government through a formula designed to reflect each state's ability to pay. For Fiscal Year 1994 (October 1, 1993 through September 30, 1994) the proportion

¹⁵The federal government offers to pay more than half the cost for certain activities it wishes to encourage, such as computer acquisition and child support enforcement. Additional technical requirements usually apply.

paid by the federal government¹⁶ varied from 50.00 percent (14 states) to 78.85 percent (Mississippi); 56.37 percent of Michigan's Medicaid and AFDC costs were paid by the federal government.

As Elazar points out (1966, p. 148), "Through the conditional transfer of funds to the states, the federal government gains a voice in making policy in those fields aided by the grants while states remain responsible for day-to-day administration of the programs, with all that responsibility implies in the way of actual policy-making." The federal hold on AFDC policy is in setting many of the eligibility rules, primarily in deciding which assets and income sources must be considered in determining eligibility, and in what efforts must be made to avoid mispayments and fraud. For example, under federal AFDC regulations, the value of savings accounts in the name of a child are considered when determining a family's eligibility unless, as Michigan has done, a waiver is requested and granted. (Cost neutrality and evaluation requirements apply to all such waivers.) Income from unemployment compensation is counted, while the value of federal housing subsidies is not. In order to minimize errors due to income not reported to the welfare agency by AFDC recipients, states must regularly match files of AFDC recipients with files containing reports of earned income maintained by their unemployment compensation agency. In general, administrative requirements such as this cannot be waived.

¹⁶This proportion is called the Federal Medical Percentage (FMAP).

Some regulations provide options for states. For example, a state must offer AFDC coverage to otherwise-eligible families with two parents present for six months out of every year. At their option, states may offer year-around coverage. Once a state offers full-year coverage, it may not be rescinded.

The states set payment standards and establish procedures. As the payment level rises, more families will have income low enough to qualify and will be found eligible. Since the poor have few assets and few sources of income other than earnings, the right to set payment levels gives states considerable control over the number of families eligible for AFDC. Payment standards vary widely, even among similar states. In January 1994, a family of three living in Wayne County (Michigan's most populous county) would receive \$459 per month if there were no other income sources. Similar families in Wisconsin would have received \$518; in Illinois, \$377, in Ohio, \$341; and in Indiana, \$288 (Michigan Department of Social Services, 1994b, p. 22). Payment levels may vary somewhat within a state to reflect varying housing costs.

In some states, including California and Wisconsin but not Michigan, responsibility for procedures and financing is shared with county or city governments. In Michigan, AFDC is said to be state administered, while it is said to be state directed in states like California. A state administered program provides more procedural consistency from county to county, while a state directed system may allow for greater innovation and for procedures better tailored for local conditions.

Defining Federalism

Working definitions of “federalism” vary. Glendenning and Reeves (1977, p. 6) note that “No single definition of federalism is generally accepted: different authorities emphasize various aspects of it.” Anton (1989, p. 3) says that “Federalism is a system of rules for the division of public policy responsibilities among a number of autonomous governmental agencies.” This seems too restrictive, almost focusing on the constitutional framework, with little emphasis on programs involving more than one agency.

Political scientist Paul E. Peterson (1981, p. 67) suggests that “Federalism is a system of government in which powers are divided between higher and lower levels of government in such a way that both levels have a significant amount of separate and autonomous responsibility for the social and economic welfare of those living within their respective jurisdictions.” Applied to AFDC, this definition seems to move away from an interdependent view of the nature of the program and toward the idea of separate spheres of influence for the federal and state governments. This is the intent of the reforms suggested by Rivlin, Walker and Peterson himself, (see below). Dye (1990, p. 5) agrees with Peterson’s definition, adding the “minimal condition” that the autonomy of the subnational governments be protected by a constitution amendable only with the consent of both levels.

Glendenning and Reeves (pp. 7-8) emphasize the pragmatic and contractual dimensions, defining federalism as an arrangement whereby:

(1) the same territory and people are governed by two levels of government, both of which derive their authority from the people and both of which share some functions and exercise other functions autonomously of each other;

(2) the existence of each level is protected from the other; and

(3) each may exert leverage on the other.

Coupled with their definition of intergovernmental relations, this definition seems to encompass the AFDC program as a shared function. Intergovernmental relations, say Glendenning and Reeves (p. 8), “are the interactions, attitudes, and behavior of elected officials and bureaucrats of two or more units of government functioning in their public capacities.”

Federalism, according to Chandler (1982, p. 62), means, “A structure of government that divides power between a central government and regional governments, with each having some independent authority.” This definition includes the idea of allocation of power, an important feature of the AFDC program. Walker (1995, pp. 20-21) would return to Chandler’s definition, while similarly requiring a written constitution dividing the powers of government among levels and also requiring long-term success in “sustaining a territorial division of powers by judicial, operational, representational, and political means.” He finds federalism at the balance between unitary systems and confederations. Intergovernmental relations are then a “web of constitutional, electoral, representational, programmatic, fiscal, administrative, and judicial relationships.” Federalism is a legal structure while intergovernmental relations is a functional structure. Taken together, these seem best to describe

the AFDC program, addressing its power and financial dimensions. The choice of “web” suggests the complexity of relations between the state and federal governments under AFDC. However, even Walker’s definition fails to clearly presage the two-way flow of funds that characterizes AFDC’s waiver provision and quality control system (see below).

A Categorical Model of Federalism

Peterson, Rabe and Wong (1987, pp. 12-64) present a typology for programs under federalism. They classify programs by purpose, by who designates the purpose, and by the fiscal role played by the state. Two additional categorizations follow, based on spending limits and competition.

Categorization by Broad Purpose

Joint federal-state programs serve one of two broad purposes:

1. Programs may be developmental, intended to improve a community’s economy.
2. They may be redistributive (intended to benefit some community members at the expense of others).

Developmental programs generally serve large numbers of constituents, and thus are more likely to be popular with elected officials at both the state and federal levels. Power is largely retained at the federal level, because the types of projects

eligible for funding are described in federal law. State and local authorities may have some control over details like location or design.

AFDC, however, is redistributive, intended to benefit low-income families. The waiver provision and its cost neutrality requirement may marginally inhibit or extend AFDC's redistributive nature, depending on the innovative policies to be demonstrated. For example, increasing the value of an automobile exempted from eligibility considerations increases program coverage, thus increasing its redistributive effect, while a time limit on benefits decreases coverage.

Block Grants and Categorical Grants

In creating a program, Congress may take one of two broad approaches in specifying the way funds from the program may be used:

1. The Congressional statement of purpose may be diffuse, allowing much local discretion. Programs using this approach are typically called revenue sharing or block grants.

2. The Congressional statement of purpose may be precise in designating the purpose of the program. Programs of this type are described as categorical.

The accountability inherent in categorical programs allows the federal government to retain significant power. State officials are likely to prefer the flexibility available with block grants or revenue sharing, which pass power to the

states without adding financial responsibility. AFDC is categorical; Congress clearly states who may receive grants in Title IV-A of the Social Security Act.

The waiver process allows some flexibility to the states in targeting AFDC, but only at the margins of the population to be served. For example, the relatively small group of families having two parents present and working more than 100 hours per month total may be granted AFDC eligibility through the waiver process. However, AFDC money cannot be diverted to create a system of settlement houses and poor farms through waivers. Combining programs like AFDC, Food Stamps and Supplemental Security Income into a single anti-poverty strategy might be an attractive option for some states, but it cannot be done under waivers. The result is that waivers and cost neutrality transfer some power held by the federal government under a categorical program structure to the states, but much more power would be transferred if AFDC became a block grant program.

Lump Sums and Matching Funds

States play one of two broad fiscal roles:

1. Federal funding may be an outright grant—that is, Congress appropriates lump sums to be paid to the states. Or
2. Some local contributions, called matching funds, may be required.

Elazar (p. 70) further divides programs requiring matching grants into two groups:

2a. Proportionate grants, in which the state's share is fixed, and

2b. Percentage grants, in which the state's share varies by state.

A single national program for poor families with children is a major policy goal of the AFDC program. To achieve that goal while controlling state costs a formula is used to set state matching rates at affordable levels. In this way the federal government uses the power of the purse to achieve a policy goal with reasonable efficiency.

Appropriations and Entitlements

Programs not given entitlement status are funded through an appropriation which limits total federal obligations for program costs. Under an entitlement program the government has a legal obligation to provide cash or services regardless of the amounts appropriated. That is,

1. Ordinary federal appropriations limit total federal costs to the amount appropriated.

2. "Entitlements" are "legal obligations created through legislation that requires the payment of benefits to any person or unit of government that meets the eligibility requirements established by law" (Wildavsky, 1987, p. 259).

AFDC is an entitlement program because any family meeting the eligibility requirements is entitled to cash benefits. Further, because it requires matching state contributions, it imposes an entitlement program on each state. Program changes with

fiscal implications made at the federal level have the effect of spending state funds as well as federal funds, and state program changes may similarly affect federal spending. Thus, achieving entitlement status places a program's federal and state managers in a very powerful financial position, able to require both federal and state expenditures be made for program changes. Support for AFDC was stronger when it was created than it is today. While entitlement status might not be granted if it were under consideration today, it is difficult to change once a constituency has been created.

Competitive Grants

Finally, some programs are designed to provide funding only to some of the qualified claimants. Grantees for these programs are selected through a competitive process:

1. Competitive programs are not necessarily funded sufficiently to cover all requests; applicants compete for the funds available. These programs are typically small and may be intended as demonstration projects. For example, the Michigan Department of Social Services received a \$50,000 grant in 1995 from the U. S. Department of Health and Human Services to provide cultural competence training to adoption workers (Duncan, 1995). Such a grant was not available to every state.

2. Non-competitive programs are funded sufficiently to meet all requests meeting program requirements.

The power of selection enhances the authority of the grant-making agency. AFDC is non-competitive, however; all states receive matching funds for expenses incurred while providing benefits under the provisions of federal law. Waivers are also non-competitive, in the senses that any number of states may operate demonstrations simultaneously, and that states may propose a demonstration identical to one under way in another state (1994, Federal Register, Vol. 59, No. 186, p. 49249).

Placing AFDC Within a Federalism Context

AFDC is a redistributive program, because it transfers resources from the general taxpayer to poor families with children. Since only poor families with children are eligible for assistance from AFDC, it is a categorical program. The federal government and the states share the cost of AFDC under a complex formula requiring each state to provide funding proportional to federal expenditures, making it a matching program. All states are eligible to participate at the levels they choose individually, so it is a non-competitive program. Finally, poor families with children are eligible for assistance regardless of federal or state budget appropriations, so AFDC is an entitlement program.

These characteristics are likely to make AFDC, at best, moderately popular with elected officials at the federal level and, again at best, moderately unpopular with elected officials at the state level. Not all programs to help the poor are unpopular

with elected officials, however. Consider, for example, the Women, Infants and Children program (WIC) and Head Start. As Wildavsky pointed out (1987, pp. 333-47), these programs have received wide political support, with expansion supported even by politicians calling for reductions in other welfare programs. These programs support infants and pre-school children, the most sympathetic of the poor in the eyes of the public at large. The WIC program provides coupons similar to Food Stamps to purchase food for young children, together with counseling and nutrition training for low income mothers. Head Start provides federally-funded preschool classes for low income children. Arguably, they provide the age-appropriate services most likely to reduce future dependency, and thus the services most likely to have wide public appeal. No state matching funds are required. Since WIC services are delivered through local public health departments, state and local officials can take some credit without the cost of raising taxes to cover the cost.

In a budget with many reductions in social welfare programs, House and Senate 1996 congressional budget conferees supported an increase for WIC of \$260 million over its 1995 budget of \$3.729 billion. The President recommended an additional \$50 million for 1997. In the same action, funding for Food Stamps was reduced \$1.2 billion from its 1995 level of \$28.8 billion (staff of the Economic Opportunity Report, 1995c, p. 363, and staff of the Northeast-Midwest Economic Review, 1996d, p. 14). Head Start has also continued to receive support; its \$3.5 billion 1995 budget was unchanged 1996, even amidst congressional questions about quality consistency. It has

a projected increase to \$3.98 billion in the 1997 executive budget (staff of the Economic Opportunity Report, 1996c, p. 103, and 1996e, p. 153; and Baily, 1996, p. 1B).

Unpopular programs are subject to frequent adjustments intended to remove their flaws. Severe critics may declare the program irreparable and propose ending it. AFDC has been subjected to regular incremental tinkering at both the state and federal levels. Since income and asset discovery and reporting are the major tools of AFDC administration, most such revisions deal with details in these areas. The changes represent attempts to limit or extend benefits to groups at the margin of being among the deserving poor, or to discover and limit benefits to those who misrepresent their circumstances to collect benefits illegally. More significant reforms are less frequent, with the most recent being the Family Support Act of 1988 (see Chapter II).

Regular proposals for abolition and replacement of AFDC with another approach have been issued (see Chapter III). Prior to the 1995-1996 reform effort, incomplete as of this writing, the most recent such proposals were in President Richard Nixon's Family Assistance Plan¹⁷ in 1969, and President Ronald Reagan's 1982 offer, rejected by Congress, to fully federalize Medicaid while assigning full responsibility for AFDC and Food Stamps to the states (Trattner, 1994, pp. 365-6). Thus AFDC, in contrast to WIC and Head Start, appears to be relatively unpopular, as suggested by

¹⁷The Family Assistance Plan would have provided a national guaranteed minimum income, payable to the poor through the income tax system (see Chapter II).

the program characteristics described above. However, federal grant programs are robust in the face of political opposition. The first grant was created in 1879 and was intended to assist in the public education of the blind. It continues today as the American Printing House for the Blind (Anderson, p.177). Similarly, despite many changes, AFDC still strongly resembles the program created in 1935.

The Role of Waiver Cost Neutrality in Federal-State Relations

Experimentation by the states is one of the expected benefits of federalism, but detailed federal laws and regulation have had a stifling effect on welfare policy experimentation by the states. For example, prior to enactment of Section 1115 of the Social Security Act in 1962, states had no flexibility under federal law to vary the financial incentive for AFDC families to obtain part-time work. The waiver process succeeds in increasing state flexibility, even though the federal government includes a cost neutrality requirement limiting the range of state innovations. Waivers also succeed in reducing political pressure on the federal government to reform welfare by transferring some of that responsibility to the states. President Clinton has clearly made this case in successfully claiming that he is keeping his campaign promise to reform welfare by granting waivers (in an October 1995 letter to the members of congress reported by Jennifer Dixon of the Associated Press). This has reduced pressure on him to agree to welfare reform on terms dictated by the Republican congress.

The effect of this cost neutrality provision is that state experiments carrying a risk of significantly higher costs are still stifled. In broad terms, the cost of AFDC can be changed by varying grant levels, the population of eligible families, the income earned by families on assistance, or the average time families remain on assistance. States already have the authority to set grant levels, and thus could raise or lower payments to eligible individuals without requesting a waiver. Thus, payment levels for these individuals can be presumed to be at the level considered optimal by the state before any demonstration projects have begun (subject to a provision of the Family Support Act prohibiting reductions below levels in effect in 1988). Waiver cost neutrality, then, provides no protection for the federal government from excessive grant levels applying to all AFDC families; the requirement for matching state funds provides this protection.

Waivers seeking to directly limit time on assistance may also be seen as limiting the eligible population. Thus, waivers with financial implications may be sought to affect the eligible population or to encourage work. The effect of cost neutrality is to inhibit states from trying riskier strategies for attaining these goals. A. Sidney Johnson III, executive director of the American Public Welfare Association, argues for eliminating the cost neutrality requirement, saying, "Cost neutrality requirements hinder innovation, quality of services, and benefits to recipients. States should be encouraged, not discouraged, to seek better programs" (1995, p. 20). Diane Baillargeon of the New York State Department of Social Services (Baillargeon &

Cook, 1995, p.24) echoed these comments in arguing that "In seeking to encourage innovation without assuming any risks, the federal government abridges and diminishes the states' potential for developing new ideas that could transform the welfare system and benefit the nation."

For example, states, through demonstration projects, could use AFDC funds to purchase family counseling by a social worker, believing that this would ultimately encourage work. Delivered with sufficient intensity to be effective, these services would be expensive.¹⁸ If the strategy does not work, cost neutrality requires the state to absorb all excess costs, rather than sharing them with the federal government. If the strategy works, the federal and state governments share the savings according to the standard matching proportions. Thus, high-risk strategies are discouraged.

Mark Greenberg, Senior Attorney at the Center for Law and Social Policy, (1995, p. 16 and 1996) offers three more fundamental welfare reforms which the cost neutrality requirement discourages. First, states could operate a guaranteed child support payment system to largely replace AFDC. Second, day care support could be significantly extended to remove this barrier to employment. Third, a time limit on welfare receipt leading to a requirement to accept a job provided by the government could be adopted as an alternative to a time limit leading to the end of all financial

¹⁸If counselors earned \$20 per hour plus 50 percent for fringe benefits and 50 percent for supervision and other overhead, providing one hour of counseling per week for each of 200,000 AFDC families in Michigan would cost over \$400 million.

assistance. All three of these strategies have risks of high costs, however, and states may be reluctant to undertake these risks without a federal partner.

The need for federal protection from profligate or overly optimistic states, if it exists at all, should be attenuated by the matching formula, which forces states to share in additional costs in any case. The cost neutrality provision is effective only in a situation in which a state decision maker finds a set of policy options attractive when state risk is at the matching rate but not at full cost. In this situation, the options would be rejected, because waiver cost neutrality would force the state to accept the full risk. If the options are attractive at full risk, they would be adopted even if the waiver cost neutrality requirement shifted all risk to the state. If they are not attractive even at the state matching payment level, they would not be adopted regardless of the presence or absence of a waiver cost neutrality requirement.

Katherine L. Cook of the Maryland Department of Human Resources (Baillargeon & Cook, 1995) argues that the cost neutrality requirement forces the states to propose reforms which create “winners” and “losers” so that costs will balance, but this is not strictly true. For example, investments in job training can be recouped from the recipient who received them through reduced need for AFDC payments in the future. In this instance, both the recipient and the government are “winners.”

Welfare researcher Michael Wiseman views this coercive feature of cost neutrality as a possible federal policy tool (1995, p. 10). States propose reforms without sufficient information about the families to be affected or the extent of the

problem to be solved “in a depressing number of cases.” The federal government should budget funds to encourage “well-designed demonstrations that are consistent with the national reform agenda.” Grants could then be made from these funds to offset excess costs in the selected states only. The cost neutrality requirement would protect the federal purse from excess costs generated by poorly designed demonstrations and from demonstrations not consistent with the national agenda. Earlier, Wiseman (1993, p. 34) ascribed policy making importance to the coordination of AFDC, Food Stamps and Medicaid policies achieved by the cost neutrality requirement.

A federal official present at the development of the cost neutrality concept stated that the emphasis on cost neutrality figures presented as dollars did not reflect the original federal intent, which was to consider them as percentages of total program costs (Lovell, 1995c). However, the federal formula (see Chapter VI) computes amounts in dollars, and must be modified to determine percentages. Further, dollars must be recovered in the event of over expenditures. Finally, no matter how large this amount is, it will have political implications because the public expects welfare reform to save money, not to spend more.

An Evolutionary Model of Intergovernmental Relations

Wright (1987, p. 220) argues that federalism “is an honorable but muddled and imprecise idea.” He prefers the term “intergovernmental relations” to denote the

collection of processes under discussion, encompassing “government institutions and officials, especially administrators, the human dimension of management, the persistent patterns and long-term regularities of official interactions, and prominent policy components such as finance and accountability.”

Wright (1987, pp. 225-48) describes four phases through which intergovernmental relations have passed, concluding with the Calculative Phase. According to Wright, three features characterize this period. Each can be related to waiver cost neutrality:

1. The cost of obtaining a federal grant may exceed its value. For example, in 1995, Michigan’s Department of Public Health turned down a \$4.9 million grant from the U. S. Department of Housing and Urban Development to pay for removal of lead-based paint in 270 old homes. John Truscott, Governor John Engler’s spokesperson, argued that “The requirements made it more hassle than it was worth,” (Miner, 1995). In this case Democrats in the state legislature disputed the executive branch’s reasoning, pointing out that 55 of 56 localities eligible for this grant had accepted it. Thus, other issues may have been involved, and, clearly, the “hassle” could be controlled or reduced. The perception of extraneous costs related to federal grants is now pervasive enough, however, that they may can be cited as a reason for not participating in an otherwise-appealing project.

This is also a major reason why Michigan obtained several unrelated AFDC waivers in a single package in 1992. Only one application process was required, and

only one study for evaluation, cost neutrality, and cost-benefit analysis was needed. Another reason was to manipulate the cost neutrality formula favorably (see below).

2. Attempts are made to make financial formulae favorable to the administrator's organization. Two aspects of the cost neutrality formula are relevant here. First, early versions of the formula developed by the Department of Health and Human Services required cost neutrality separately in each fiscal year—that is, costs incurred early in a program could not be offset with later savings. This was corrected later at state urging. A state can thus now recover early costs of reforms, for example, to job training programs, through offsetting savings in subsequent years (see Chapter I). Second, states are allowed to combine several largely unrelated reforms into a single package. In planning its 1992 demonstration, Michigan planned to offset costs of encouraging work with savings from higher child support collections (Barnhart, 1992).

3. The high cost of compliance with intricate, technical requirements leads to trade-offs between financial advantage and complexity and to incomplete compliance. Perhaps the best example is the federal AFDC quality control system, which attempts to control state operations through financial penalties. A random sample of cases are reviewed and any discrepancies with policy noted. The benefit levels appropriate for each case, after discrepancies are removed, are computed and compared with the benefits actually paid. If the comparison indicates overpayments were made, the percentage overpaid is computed and compared with a target. The federal matching

amount of overpayments exceeding the target are then payable by the state to the federal government. A complex implementation design involving cluster sampling, multiple levels of stratification, re-review adjustments and corrective action plans has developed around this system. States attempt to minimize their cost of reviewing cases while controlling possible exposure to fiscal sanctions from sampling error (see below).

Waiver cost neutrality calculations also display a high level of complexity (see Chapter VI). They are due quarterly, but, due to their complexity and to competing demands for scarce resources, Michigan has never delivered its calculations on time.

The distinguishing features of the calculative stage—concern over the cost of federal grants, attempts to manipulate rules and formulae favorably, and concern over the cost of technical grant requirements—are essentially conservative. Figuratively, these concerns encourage a long look before one leaps. The waiver process, which brings waiver cost neutrality into play, encourages planning for the “leap” of implementing a demonstration project, but the “leap” is encouraged nonetheless. The feature of waiver cost neutrality allowing early high costs to be offset by later savings encourages long-term investment strategies. These are inherently risky to the extent that they depend for success on a growing economy which extends even to low-income citizens.

The particular forms of control characteristic of the calculative phase—administrative oversight resulting in high overhead and formulas for cost

allocation—are only partially characteristic of AFDC and waiver cost neutrality. Certainly, cost neutrality is based on a complex formula which may be manipulated to the advantage of one party or the other. But the subtle control exerted by the federal government as it encourages a limited range of innovations is not captured by the calculative phase model.

Many features of AFDC, its waiver process, and waiver cost neutrality in particular are thus seen to conform to Wright's calculative stage of intergovernmental relations. However, even with cost neutrality as a limitation, the waiver process involves both political and financial risks not consistent with Wright's model. Further, the model does not address the policy control features of waiver cost neutrality. Waivers and cost neutrality are more subtle policy tools than the administrative oversight and cost allocation formulae of interest to Wright.

Reforming Welfare Through Administrative Reform

Perhaps the most unusual characteristic of waiver cost neutrality is the possibility that states may be required to return federal matching funds spent in good faith and in accordance with all other program rules. There is one other mechanism by which the federal government may reduce AFDC matching funds otherwise properly earned. The federal quality control (QC) system measures the rate at which states grant benefits to families in excess of the level to which they are entitled.

Viewed from the standpoint of federalism, this system provides an informative parallel to the waiver process. Participation by the states in the QC system is mandatory.

The QC system is administered jointly by the states and the federal government. States review eligibility and entitlement levels for a random sample of AFDC cases every month. The total of all overpayments made to the sample families in a year is divided by the total of all payments to produce the *state mispayment rate*. The Department of Health and Human Services then re-reviews a small subsample of these cases and adjusts the state mispayment rate to reflect any errors made by the state reviewers. The result is the *federal mispayment rate*. When this value exceeds a tolerance level established by the U. S. Department of Health and Human Services, the excess is projected statewide and matching funds on this amount are denied.

Brodkin (1986) uses the AFDC quality control system to illustrate a form of state-federal interaction which may be considered a model for some aspects of federalism. She captures well the significance of quality control tolerance levels when she argues that what she termed “administrative reform:”

constituted an alternative to legislative means of responding to the welfare explosion of the sixties. It was an alternative that largely avoided the legislative process, appealed to divergent interests, and lacked obvious political content. Nevertheless, it appears to have produced systematic policy effects... The chief mechanism of administrative reform was quality control... (pp. 4-5)

Certainly, mispayments declined; the national rate was 16.5 percent in 1973 and 7 percent in 1981. But Brodkin argues that even if it is effective, the initiation of such administrative reform is inherently undemocratic and thus undesirable (p. 113).

Further, the mechanisms available for administrative reform in the 1980's were largely effective in limiting benefits; there was no administrative process available for expanding coverage or services. The waiver process was little used until the Interagency Low Income Opportunity Advisory Board was created by President Reagan in 1987 (DHHS, undated), although waivers were available.

Since both waivers and the quality control system can result in the return of AFDC matching funds to the federal government, one could argue that waivers fall within administrative reform as a model of federalism. However, other significant features differ. The effect of waivers is to increase state administrative flexibility, while the opposite is true of the quality control system. Further, although Michigan's 1992 waivers were largely obtained and implemented through administrative means, testimony was given to legislative committees describing the reforms, and extensive public discussion occurred. For the most part, no legislation was required,¹⁹ but the reforms could have been blocked by the legislature if there had been strong objections. Since Brodtkin describes administrative reform as fundamentally undemocratic, waivers, and waiver cost neutrality, do not fit her model of federalism.

¹⁹Legislation was requested to implement some changes to the child support enforcement system, but the legislation was not approved and the related waiver requests were withdrawn.

Reforming Welfare by Reforming Federalism

The attempts to reform the American welfare system discussed so far have focused on reforming the AFDC system, its principal component. An alternative approach is to reform the federal system itself, thereby forcing changes in the welfare system thought to be beneficial.

Dye (1990, pp. 13-17) argues that the health of American federalism rests in adopting a competitive model, in which states and the federal government compete in providing the goods and services only they can provide, with consumer-taxpayers choosing to live in the area which best matches their preferences. This model must be adopted so that the self-interest of government officials will coincide with the interests of society at large. This is the only sure way to protect minorities from the tyranny of the majority, because constitutions are not self-enforcing (p. 2). This result, Dye believes, can be achieved by supporting the values of individualism, competition, efficiency, and equality against the values of hierarchy, collectivism, redistribution, and equality of results.

To the argument that the poor in particular would be harmed by these policies when wealthier consumer-taxpayers demand low welfare benefits as a condition of residency, Dye responds (pp.17-19) that Americans' personal utility functions include compassion as well as monetary benefits. "We feel better when others are ensured of a decent existence," and we are willing to pay "to mitigate the suffering of others," says Dye. He gives no specific welfare program recommendations, but it seems clear

that the level of control over the states exerted by the federal government through the AFDC program is unacceptable. Locally designed and funded programs would be preferred.

John Shannon and James Edwin Kee argued in 1989 that, due largely to the constraints imposed on the federal government by its rising deficit, Dye's competitive phase of federalism came about in the early 1980s (pp. 12 and 18). While this may have been so in other areas of government activity, AFDC remained a joint federal-state program with competition limited to interstate differences in payment levels and to a few limited policy choices.

Reforming Federalism by Reassigning Responsibilities

Citing national economic and political paralysis due to confusion about the roles of state and federal governments, economist Alice Rivlin has offered a proposal to revive American federalism through reassignment of state and federal responsibilities (1992, pp.7- 8 and 117-19). This reassignment would have significant impacts on the poor, without explicitly specifying changes in the AFDC program.

According to Rivlin, the federal government must concentrate on problems of global interdependence (p. 10) and problems which cross state lines, such as air traffic control, pollution control, and scientific research (p. 12). Health care finance, including a universal health insurance program, is included in this category.

The states must concentrate on economic productivity issues, including education, job training and infrastructure repair and development (p.8). Rivlin argues, however, that the federal budget deficit absorbs the savings needed for investments to enhance productivity, so she suggests a two step process for funding this work through state government. First, once state and federal roles are clarified as described above, the federal government must balance its budget without significantly raising taxes. Presumably, this could be accomplished by eliminating federal programs in the areas assigned to the states. Second, the states are to enact a shared taxation system, perhaps based on a value-added tax or a sales tax on services (pp.142-47). This tax would be shared on the basis of need.

Interestingly, Rivlin (p. 119) assigns only AFDC and certain types of environmental protection problems jointly to both the federal and state governments. The Food Stamps program would remain a federal responsibility (p. 122). This could “give both levels of government incentives to try hard to reduce welfare dependency.” That seems a thin argument, since assigning any responsibility to both levels would have the effect of encouraging hard work by both levels to reduce problems in that area. Why should welfare and environmental protection alone deserve this special treatment? Why not, for example, interstate transportation as well, or even national defense? One answer could lie in the possibility that local understanding would improve government’s response to welfare and environmental problems, while states could try to export them to another state, through bus tickets purchased for the poor

or pollution dumped into rivers or the air. In any case, Rivlin does not address this issue directly, but this appears to be what she has in mind.

As part of their responsibilities for economic development, the states would be responsible for other services to the poor, including day care, job training and education. Rivlin argues that because the poor are a significant portion of the workforce, states will not scrimp in this area. This argument seems optimistic; the record of state spending on the poor in these areas is mixed. Michigan, for example, has never claimed all the federal matching funds available under the 1988 Job Opportunities and Basic Skills (JOBS) program because state appropriations have not been sufficient to reach the required matching level.

Rivlin's vision of a revised federalism would result in massive program changes in every area of domestic policy except AFDC and Food Stamps. She supports continued state experimentation, presumably including welfare demonstration projects. It is unclear, however, how the financial risks of these projects would be shared, so the role of waivers and waiver cost neutrality are similarly unclear.

Federalism and Perverse Legislative Incentives

Paul E. Peterson (1995, p. 15) believes that contemporary federalism, under which domestic policy is shared among levels of government, has benefits but exacts a heavy price by producing regional inequalities and inefficient administration. The first is certainly present in AFDC's widely-varying benefit levels, while the second

may also be present. He offers two theoretical perspectives on federalism (pp. 4-5, 14, 16). The first, called the functional perspective, argues that the American federal system is well designed, being consistent with national economic and political needs. In general, the national government takes responsibility for redistributive programs while the states concentrate on economic development programs. To the extent that this perspective matches reality, much of what Rivlin prescribes is in place (although Rivlin assigns AFDC, a redistributive program, to both the state and national governments).

Peterson's second perspective, called "legislative," is more troubling. Seen through this perspective, perverse incentives shape politicians' decisions. There are rewards, in the form of votes, for weakening federalism, and there is blame for strengthening it. Legislators seek to expand government in those areas where they can claim credit for helping voters and seek to shift burdensome decisions to other levels of government or to the executive branch.

In preparing his prescription for improving the federal system, Peterson (pp. 186-95) makes two assumptions. Reformers, should, first, do no harm. Second, they should recognize the political limits imposed by the fact that legislators are elected to bring home their district's fair share of government spending; failure to do so may become a campaign issue. Within these limits, Peterson recommends that responsibility for welfare and health policy be accepted by the federal government while federal participation in traditional pork barrel projects be reduced in favor of states accepting

responsibility for economic development. His prescription, then, is to emphasize the functional perspective and de-emphasize the legislative perspective.

Permissive Federalism

David B. Walker (1995, pp. 305-11) describes federalism in the 1990s as “permissive federalism.” Power is shared between the states and the federal government, but the state share of power is determined by the federal government. This system, says Walker, is not healthy. State and local governments do not have sufficient constitutional, political or representational protections. Permissiveness is not enough; the states must be freed to meet the challenges facing the country.

Walker then identifies five paradoxes (pp. 306-11):

1. There is no clear answer to the question of whether a state-centered system or a nation-centered system has been strengthened in recent years.
2. It is not clear whether the current federal system is competitive or cooperative.
3. It is not clear whether the current system is co-optive and centralized or collaborative and decentralized.
4. It is not clear whether this is a time of government activism or of government constraint.
5. It is not clear whether the federal system is overloaded or not.

These conflicting views exist because:

1. There is no clear consensus on the needs of the states.
2. "Particularistic philosophic propensities," namely, politicians who take singular viewpoints that damage consensus, have come to dominate.
3. Governments at all levels have fiscal problems.
4. There is a "new political system" of ever expanding national pressure groups.
5. Reformed state governments are able to take on more responsibilities, and are demanding them.
6. The Supreme Court has issued decisions resulting in more centralization.
7. The values of egalitarianism and libertarianism are actively in conflict.
8. Similarly, the values of economic growth and protectionism are actively in conflict.

Walker concludes (pp. 326-27) that a "Big Swap" of responsibilities is needed to replace "permissive federalism" with "protected federalism." His "Big Swap" would strongly resemble Rivlin's and Peterson's prescriptions, with the federal government accepting responsibility for cash assistance (except AFDC), health care, research and development, information gathering and interstate transportation. The states would accept responsibility for the infrastructure, job training, housing, rural services, economic development, social services and drug control. Responsibility for environmental protection, natural resources development, AFDC, higher education,

and student loans and grants would be shared, although some versions of welfare reform might modify the placement of AFDC.

Federalism Reform Efforts That Ignore Welfare

In contrast to Rivlin, Peterson and Walker, three other notable government reform efforts of the early 1990s fail to single out welfare for special consideration. First was the National Commission on the State and Local Public Service, sponsored by the Nelson A. Rockefeller Institute and usually called the Winter Commission after William F. Winter, its chair. Its first report, Hard Truths/Tough Choices: An Agenda for State and Local Reform (1993b), offered ten recommendations. The first nine are general prescriptions for more effective and efficient government. The tenth focusses attention on health care, inviting the federal government to “lead, follow, or get out of the way” (p. 60), demonstrating that specific government sectors were considered by the Commission. Health care reform was also the subject of a second volume issued by the Commission, Frustrated Federalism: A Roadmap for State and Local Health Care Reform (1993a).

Vice President Al Gore’s National Performance Review contains much greater detail, offering 130 recommendations for reform. Many refer to specific government activities, including environmental protection, trade regulation and dispute resolution. Welfare, however, is not among these.

Finally, the Republican Governor's Conference issued the "Williamsburg Resolves" at its November, 1994 meetings. "Recognizing the urgency of the need and uniqueness of the opportunity for reform," they stated, "we declare our common resolve to restore balance to the federal-state relationship and renew the framers' vision." (staff of the Rockefeller Institute Bulletin, 1996e, p. 17). They offered a four point agenda, mentioning welfare (along with health care and environmental protection) only to indicate the range of programs with unfunded mandates.

These efforts, roughly representing the political middle, left and right, seem problematic. Welfare reform was arguably the most prominent domestic issue of 1995 (replacing health care reform, the dominant issue of 1994). If welfare reform deserved this lofty position on the national agenda, could it have been achieved suddenly in 1995? If not, how could these three thoughtful reform efforts fail to address it? This opens at least the possibility that welfare reform's dominance was not truly reflective of its urgency, and that the failure of all major reform efforts reflected this underlying lack of real urgency. Other explanations are possible, of course: the Williamsburg Resolves are deliberately general, and the Vice President might have chosen or been asked to leave welfare reform for the President, for example. But when the 1995-1996 reform period passes, this hypothesis should be considered.

The Devolution Revolution

Federalism is in part characterized by the struggle between the federal government and the states implicit in Glendenning and Reeves' (p. 8) observation that "each may exert leverage on the other." The relative power of each level, then will wax and wane with public opinion, especially as expressed in elections. The 1992 congressional elections (see Chapter II) was one such expression. Based on a general disappointment with the federal government's role in welfare and the early success claimed for some waiver demonstrations, control of Congress passed to those who would enhance the states' role in welfare while containing federal costs. Block grants were their chosen vehicle.

Based on House Republican intentions to create a "huge leap upward this year" in block grants (p. 1), political scientist Richard P. Nathan declared a "devolution revolution" (title page) to be underway (1995). This revolution is based on demands from the governors for more authority and on the acute budget pressures faced by all levels of government (p. 5). The "New(t)" Federalism of this period is characterized by many block grant proposals, and is part of a national movement to limit government (pp. 12-13).

Nathan notes (pp. 13-14) that block granting AFDC may require rewriting the formula used to distribute the federal share of program costs. Under current policies, the federal role in determining distribution lies in setting the level at which state expenditures will be matched. This is done by formula and produces a matching rate

related to each state's economic condition. The rate falls between 50 percent and 80 percent. The states set the total to be spent by setting payment levels. Under a block grant, the congress has responsibility for both setting the total and distributing it among the states.

Before computers, says Nathan, formula writing was done in a political back room. Now, everyone is watching, noting which states are winners and which losers under each variation. This led him to three lessons:

1. "An old formula is a good formula." The least disruptive alternative will be considered the best.
2. Several iterations may be needed for any new approach to become effective and politically feasible.
3. To be successful, a formula should at least sound simple.

Nathan finds the heart of the problem of AFDC's proper location in the federal system to be the program's purpose (pp. 14-15). His reading of the literature of federalism suggests that social service programs, such as job training and placement, belong to the states, while income transfer programs belong with at the federal level. He notes that, since the Family Support Act of 1988, AFDC's emphasis has become muddled. One possibility he doesn't note is that the location might determine the emphasis, rather than vice-versa.

Nathan (p. 23) calls for extensive state accountability under block grants. To avoid proliferating unfunded mandates, he proposes that block grants include funding

for data systems, regular evaluation reports, and research on post-block grant outcomes. These reports and research studies should not depend on prescribed performance measures because the states will “game” these; a wider view is needed. The federal government should support (with funding) state efforts at “goal-setting, data-gathering and reporting systems” and “demonstration-type studies of best practices, using rigorous research methods to examine and report on how they worked.” This suggests that the cost neutrality methodology may continue to be important following implementation of block grants.

Waiver Cost Neutrality as a New and Significant Aspect of Federalism

Waiver cost neutrality as a static phenomena can be understood through the “calculative phase” of Wright’s intergovernmental relations model. This description, though, does not adequately account for either the innovation demanded by the federal government if waivers are to be granted or the opportunity that waiver cost neutrality offers to the federal government as an indirect policy control mechanism.

Similarly, such federalism reformers as Dye, Rivlin, Peterson and Walker do not anticipate the complexities of waiver cost neutrality, even though Rivlin and Walker continue to assign responsibility for AFDC jointly to the states and the federal government. Nathan, anticipating the replacement of AFDC by block grants and the need for information about states’ subsequent programs, suggests federal funding of

studies which could easily depend in part on the same methodology as waiver cost neutrality.

Waiver cost neutrality, then, is a novel and significant characteristic of federalism in the 1990s. It may result in the reduction of a state's effective federal matching rates for AFDC, an established entitlement program, even when all program requirements have been met, a situation which arises only in the quality control system otherwise. Federalism reformers seldom mention it as a tool, while welfare reformers find it a faulty one. As grander reform efforts fail in the congress or are vetoed, however, waivers and the accompanying cost neutrality requirement:

1. Increase state flexibility;
2. Transfer some pressure for reform from the federal level to the state level;
3. Protect federal financial interests from riskier reforms;
4. Serve as an intermediate model to block grants on one hand and continued federal control of welfare policy on the other; and
5. Partially preserves AFDC as a uniform national program by preserving basic characteristics not subject to waiver.

Under this model, the federal government retains significant power over welfare policy making by allowing the AFDC program to become less uniform from state to state, partially sacrificing an important policy goal in order to save the program. States propose policy changes which the U. S. Department of Health and

Human Services accepts or rejects, after negotiation. Cost neutrality guarantees that there will be no change in fiscal power.

Ultimately, this model is limited and tentative. Significant improvement in the welfare system may be possible only by spending more money, which is just what waiver cost neutrality is designed to prevent. Waivers depend individually on scientific design and analysis, but the lack of coordination from state to state makes any significant gain in knowledge unlikely. Finally, due to limitations in the authorizing legislation, some policy options cannot be tried under waivers. The waiver system, then, seems an unlikely long-term support for the uncomfortable but stable point which forces seeking welfare reform have reached.

Attempts in 1995 to convert the Food Stamps program to a block grant met with little support. Waivers and cost neutrality apply to Food Stamps as well as to AFDC, so they are likely to continue to be significant features of the American welfare system even if AFDC is converted to a block grant program. Thus, even if new forces push the federal government successfully to welfare reform, waivers and cost neutrality will remain interesting aspects of federalism.

CHAPTER VI

THE FEDERAL COST NEUTRALITY FORMULA

The documents approving Michigan's welfare reform demonstration (called To Strengthen Michigan Families, or TSMF) contained the expected requirement that "the operation of this demonstration is to be cost-neutral to the Federal government with respect to benefit and administrative costs for AFDC, Food Stamps, Child Support Enforcement, and Medicaid," (Barnhart, 1992, p. 9 of second attachment). Instructions for calculating federal savings or excess costs were provided by DHHS in narrative form (pp. 10-12). Michigan's first efforts to carry out this calculation were incorrect, and a sample calculation was FAXed by Phillip Springer to the author (Springer, 1993) for clarification. The cost neutrality requirement was continued without change when Michigan's demonstration was expanded to new policy areas and extended by two years in 1994 (Bane, p. 7 of attachment). The calculation formula was unchanged.

Heuristic Development

The cost neutrality formula for federal costs was developed through a simple heuristic, with two clever additions. The following example describes the calculation, beginning with benefit cost for Aid to Families with Dependent Children (AFDC):

1. Using random sampling, the average federal AFDC benefit costs per family under the control policy and under the experimental policy are obtained.

2. The control policy average is divided by the experimental policy average to obtain the average cost ratio.

3. The average cost ratio is multiplied by the statewide total federal AFDC benefit costs for families covered by the experimental policies to estimate what these costs would have been under the control policies.

4. The statewide total federal cost of AFDC benefits for families covered by the experimental policies (the same quantity as in step 3) is subtracted from this estimate to estimate excess costs or savings incurred for AFDC benefits by the federal government. In this formulation, positive results indicate savings while negative results indicate excess costs.

The unavailability of statewide costs for administration and for other programs¹ led to the first clever addition:

5. The ratios of the average values per family for the additional quantities of interest under the experimental policies in the study sites to the average federal AFDC benefit cost for these families are obtained. These ratios are multiplied by the

¹Unavailability of these costs is an artifact of the accounting and reporting systems used by the states and the federal government. The Food Stamps and Medicaid programs serve many families not included in the study groups, and their costs cannot be separated from costs incurred by families included. Similarly, statewide administrative costs are determined for each program, but not separately for families included and families not included.

statewide total federal AFDC benefit costs for families covered by the experimental policies (again, as in step 3) to estimate what these quantities were statewide under the experimental policies. The result is multiplied by the average cost ratio (as defined in step 2 above) to obtain statewide estimates of costs under control policies.

The second clever addition is to consistently use average costs for all families ever included in the control and experimental study sites when computing average costs, including families which no longer receive any welfare benefits or which never received benefits from a particular program.² However, a family must have received benefits from AFDC (or, in Michigan, SFA) to enter the sample. As a result, the sample size is the same for all programs, varying only between control and experimental policies.

All values are computed cumulatively, beginning with the first day of the demonstration. A family's assignment to control or experimental policies is permanent, as long as they remain in one of the research sites. That is, if the family's case closes and then reopens, or the family becomes eligible just for Food Stamps or Medicaid, its policy assignment is not changed, and the new costs are accumulated along with older costs. One consequence of this approach is that only the final calculation, done at the end of the demonstration project, has any official standing (although repayments may be due if early interim results indicate high excess costs).

²The error made by Michigan in its first attempt to calculate its savings was to use separate counts of families served for each program.

All earlier calculations are advisory only, and subject to revision. Another consequence is that there are no formal results for individual quarters or years, although these may be estimated by successive differences.

The Population and the Research Sample

Offices 1, ..., l are designated as research offices. Families in these offices receiving AFDC (and, in Michigan, State Family Assistance, or SFA) at the beginning of the experiment are assigned randomly to control and experimental policies, as are families which begin receiving AFDC (or SFA) during the experiment. Data from these offices are used in the cost neutrality calculation and in the evaluation of the effects of the experiment on family welfare use. Families in office j fall into four groups as shown in Table 4.

Group CN would have no members in most states implementing statewide reforms. However, Michigan was one of the host states for a national JOBS demonstration project, and the terms and conditions included in Michigan's waiver approval required that families in that project continue to be administered under the pre-waiver (control) policies. Groups XR and CR are empty for locations $l+1, \dots, L$. In this notation, n_{LCN} represents the statewide total number of families receiving AFDC or SFA between the start of the experiment and the date on which the cost neutrality calculation is made. Cost neutrality calculations are made quarterly, and are

Table 4
Family Groups in Office j

Group	Families	Number in Group	Description
XR	$n_{(j-1)CN} + 1, \dots, n_{jXR}$	$m_{jXR} = n_{jXR} - n_{(j-1)CN}$	Receive experimental policy and are in the research sample
CR	$n_{jXR} + 1, \dots, n_{jCR}$	$m_{jCR} = n_{jCR} - n_{jXR}$	Receive control policy and are in the research sample
XN	$n_{jCR} + 1, \dots, n_{jXN}$	$m_{jXN} = n_{jXN} - n_{jCR}$	Receive experimental policy but are not in the research sample
CN	$n_{jXN} + 1, \dots, n_{jCN}$	$m_{jCN} = n_{jCN} - n_{jXN}$	Receive control policy but are not in the research sample

(Figures are for Michigan, October 1992 through March 1995.)

When $j=1$, set $n_{(j-1)CN} = n_{0CN} = 0$.

Source: Meizlish, 1994, p. A1.

cumulative—that is, all costs incurred since the beginning of the experiment are included, and once a family enters the sample it remains there.

Families who move in and out of the research sites present a special problem. Control policies are generally not available outside of the four research sites, so all families transferring to other offices will receive the experimental policies in their new locations. Their experience with the experimental policies may have changed their behavior, so they cannot return to the experiment even if they return to one of the study offices. Families in Groups XR and CR who move away from the research sites

are treated as if their cases had closed; no further costs are accumulated. They are assigned to Group XN as if their cases were newly opened; they retain this status even if they subsequently return to a research site. This practice reduces the representativeness of the sample because families who move their home are clearly more mobile than those who do not, and may differ in other characteristics more directly related to welfare use. However, it avoids the necessity of serving cases under the control policies outside of the four research sites (an administratively cumbersome activity). Finally, statewide case counts are not used in the cost neutrality estimator, so the double counting which might result is of no practical consequence.

No counts of families transferring out of Michigan's experimental sites are available. Counts of families transferring into two of the four offices in Michigan's sample are, however, available. In the first ten quarters of the experiment, 1,809 AFDC families transferred into those sites, 11.5 percent of the total number of control families, experimental families, and families transferring into the sites (Meizlish, 1995, p. D4). These families are assigned to Group XN, receiving experimental policies but not included in the research sample. If the same number transfer out of those sites (as would be true of the full sample if, as assumed, it is representative of the state), up to 20.6 percent of the families in Michigan's study could be affected by the rules governing sampling of transfer cases only two and one-half years into a planned seven year study (the actual percentage would be reduced by families who both transfer in and transfer out of a site). Thus, treatment of transfer cases could become a significant

problem as the demonstration nears completion. Monitoring the impact of case transfers is one of the outside evaluator's duties.

In Michigan, families receiving SFA are also included because the demonstration policies allow some families to receive AFDC who would be eligible only for SFA under the control policies. It is not possible, using the available database, to separate these families from families who would have received SFA even under the experimental policies, so all SFA families are included in both the control and experimental samples.

While this appears to be an extra complication for Michigan, it has a silver lining. Without the SFA program, some applicants would be found eligible for AFDC under the experimental policies while identical families assigned to the control policies would be found ineligible. To keep the control and experimental samples equivalent, the future welfare use and income of the second group of families would have to be tracked for cost neutrality and evaluation purposes. Including all AFDC and SFA families in both the control and experimental groups ensures comparability without the need to track families not on assistance.

No total count of SFA families ever served is available. However, the average numbers of SFA families eligible during January, February and March 1995 in the four research sites are given by Meizlish (1995, p. E18); there were 224 under control policies and 87 under experimental policies. These figures are 2.6 percent and 1.0 percent of the sample totals respectively.

The Michigan Sample

In Michigan, four research offices were selected³ ($l = 4$). This selection was not made at random, but purposively to force a rough match with statewide values on four variables thought to affect the likelihood that a welfare family will have earnings: employment rate, family size, race, and average welfare grant.

When the experiment began on October 1, 1992 random assignment of families to the control group and to the two experimental groups was accomplished by keeping the caseloads of individual welfare workers intact. That is, in statistical terms, assignment was by clusters, each cluster consisting of the group of families served by a single worker. Since some workers specialized in particular kinds of families (those with income, for example), care was taken to ensure that the control and experimental samples had equal numbers of specialists. In statistical terms, the population was stratified by worker speciality before random assignment of clusters of families took place. The federal terms covering sample implementation permitted this approach (Bane, pp. 5-6).

Data from the control policy group and the first experimental policy group (called the experimental/research policy group in Michigan, but referred to hereafter as simply “experimental”) are used in the cost neutrality calculation and in the

³Kalamazoo County, the Madison Heights district of Oakland County, and the McNichols/Goddard and Schaefer/Six Mile Districts of Wayne County were selected.

evaluation. The remaining experimental policy group (called the experimental/non-research policy group in Michigan) was created to force the proportions of cases in the total sample of control and of experimental/research cases which were in Wayne County⁴ to match the statewide proportion. This was accomplished by randomly assigning 30 percent of the families in the two Wayne County research sites to the experimental/non-research group. These two groups of families are assigned to Group XN. The remaining clusters of families were divided evenly, at random, between control and experimental policies.

As new families became eligible for AFDC or SFA, 30 percent of those in the two Wayne County research sites were assigned to Group XN. The remaining new families in the Wayne County research sites and all new families in the two outstate research sites were randomly assigned to Groups XR and CR in approximately equal numbers.⁵ Nearly all families outside of the four research sites receive the experimental policies.⁶

⁴Wayne County contains the city of Detroit, which has consistently higher unemployment than the rest of Michigan, and consequently has a higher concentration of welfare recipients. This concentration and related economic factors could affect the success of the experiment, so balance was considered important.

⁵Randomization of new families is accomplished through the social security number belonging to the family member receiving benefit checks.

⁶Three locations in Michigan were cooperating in a national study of job training programs for welfare recipients. All families in these locations continued to receive the old (control) policies until the samples needed for that study had been selected. At that time, families not in the study were assigned to the experimental policies.

At the end of the tenth quarter of Michigan's demonstration, the sample sizes were as shown in Table 5:

Table 5
Michigan Sample Sizes, October 1992 - March 1995

Group	Number in Group	Description
XR	$m_{XR} = \sum m_{jXR}$ = 11,232	Receive experimental policy and are in the research sample
CR	$m_{CR} = \sum m_{jCR2}$ = 11,005	Receive control policy and are in the research sample
XN	$m_{XN} = \sum m_{jXN}$ [Unknown]	Receive experimental policy but are not in the research sample
CN	$m_{CN} = \sum m_{jCN}$ [Not Given]	Receive control policy but are not in the research sample

Source: Meizlish, 1995, p. A1

In summary, the Michigan control and experimental samples are not simple random samples from the statewide AFDC/SFA caseload. However, several steps were taken to make these samples resemble simple random samples:

1. Sites were selected to produce a pool for sample selection which resembles the statewide caseload in characteristics thought to be important for the study.
2. Excess Wayne County cases were discarded.
3. The remaining cases and all new cases were randomly assigned to control or experimental policies.

4. Transfer cases received special treatment.

As a result of these steps, the federal cost neutrality formula and the evaluation design treat the control and experimental samples as if they were simple random samples from the statewide caseload.

AFDC Calculations

Let a_{ijk} = AFDC payments due to the i^{th} family, $i = 1, \dots, m_{j1} + m_{j2} + m_{j3} + m_{j4}$, in the j^{th} office, $j = 1, \dots, L$, under policy k ; $k = X$ for experimental policy or $k = C$ for control policy. Only half of the a_{ijk} are realized; the others represent theoretical payments under the policy family i was not assigned to receive, as shown in Table 6.

The realized a_{ijk} are the result of calculations done by welfare workers on the same observable quantities (family size, income, assets, and location) under both policies. Since these quantities are recorded, it might be supposed that the theoretical entries above could simply be computed. However, the intent of Michigan's reforms is to modify behavior, encouraging higher earnings and thus lower welfare payments. Simply computing the theoretical values would assume that this effect did not occur.

The theoretical control values for families in Groups 1 and 3 are of particular interest, since they represent the costs which would have been incurred if no experiment had taken place. The goal of the cost neutrality calculation is to estimate the difference between the total of these values and the total of the realized experimental values for these groups.

Table 6
Realized and Theoretical Payments

Group	Experimental Policy (k=X)	Control Policy (k=C)
XR	Realized	Theoretical
CR	Theoretical	Realized
XN	Realized	Theoretical
CN	Theoretical	Realized

Let

$${}_pA_k = \sum_{j=1}^L \sum_{i=n_{p-1}+1}^{n_p} a_{ijk}, \quad n_{j0} \equiv 0. \quad (1)$$

Some of these are known (values given are Michigan's federal AFDC costs for the period October 1992 to March 1995; see Meizlish, 1996, pp. A1-A2):

${}_{XR}A_X$ = Total payments received by families in Group XR (experimental policies, research cases)

= \$45,151,325

${}_{CR}A_C$ = Total payments received by families in Group CR (control policies, research cases)

= \$45,328,231

${}_{XN}A_X$ = Total payments received by families in Group XN (experimental policies, non-research cases)

$$= \$1,479,757,699.$$

We wish to estimate

$$D_A = {}_{XR}A_C + {}_{XN}A_C - ({}_{XR}A_X + {}_{XN}A_X) \quad (2)$$

the savings in AFDC benefit costs attributable to using experimental policies.

This quantity exemplifies the accounting basis for the federal cost neutrality requirement, in contrast to a research basis. A typical research question might be “How much extra would applying the experimental policies statewide save?” D_A does not answer this question, because its formula does not contain an adjustment for the savings from applying the experimental policies to the groups given control policies (Groups CR and CN). Rather, the formula seeks to estimate only the additional savings actually attained by applying the experimental policies where they were implemented (Groups XR and XN).

These are unknown:

${}_{XR}A_C$ = Total payments which would have been received by families in Group XR if control policies had been applied (control policies applied to experimental/research cases)

${}_{XN}A_C$ = Total payments which would have been received by families in Group XN if control policies had been applied (control policies applied to experimental/non-research cases)

Thus, the last two terms on the right hand side of (2) are known, while the first two terms are not. The federal estimator (Meizlish, 1996, pp. A1-A3) for October, 1992 - March, 1995 is :

$$\hat{D}_A = \frac{\frac{1}{m_2} \overline{XRA_C}}{\frac{1}{m_1} \overline{XRA_X}} (\overline{XRA_X} + \overline{XNA_X}) - (\overline{XRA_X} + \overline{XNA_X}) \quad (3)$$

$$= \frac{\frac{1}{11,005} \$44,412,143}{\frac{1}{11,232} \$45,151,325} (\$45,151,325 + \$1,440,519,255) - (\$45,151,325 + \$1,440,519,255)$$

$$= 1.003918 \times \$1,485,670,580 - \$1,485,670,580$$

$$= \$5,820,978$$

That is, the average cost per control case in the research sample is divided by the average cost per experimental case in the research sample. This ratio is multiplied by the total cost of all cases receiving the experimental policy to estimate what their costs would have been under the control policy. The total cost of all cases receiving the experimental policy is subtracted from this result to estimate costs or savings due to the policy change. A negative result would have indicated that the experimental policies were more expensive than the control policies, while the positive result obtained indicates that they were less expensive by \$5,820,978.

Food Stamps and Medicaid Calculations

Now let f_{ijk} and m_{ijk} be defined as a_{ijk} for Food Stamps payments and Medicaid payments respectively. Define ${}_pF_k$ and ${}_pM_k$ as ${}_pA_k$ as ${}_pA_k$ was defined, where p represents the group designation. Again, we wish to estimate D_F and D_M defined as D_A was. However, the Medicaid and Food Stamps programs also serve families who were never AFDC participants (or, in Michigan, SFA participants), and thus are not part of the experiment. Available reports do not separate costs for these families from costs for those who are part of the experiment, so ${}_XN F_X$ and ${}_XN M_X$ are not available. Instructions from the U. S. Department of Health and Human Services anticipate this problem; the federal estimator for Food Stamps becomes:

$$\hat{D}_F = \frac{\frac{1}{m_2} {}_{CR}F_C}{\frac{1}{m_1} {}_{XR}F_X} \left[\frac{{}_{XR}F_X}{{}_{XR}A_X} ({}_{XR}A_X + {}_{XN}A_X) \right] - \frac{{}_{XR}F_X}{{}_{XR}A_X} ({}_{XR}A_X + {}_{XN}A_X) \quad (4)$$

$$= \frac{\frac{1}{11,005} \$40,357,164}{\frac{1}{11,232} \$40,482,891} \left[\frac{\$40,482,891}{\$45,151,325} (\$1,485,670,580) \right] - \frac{\$40,482,891}{\$45,151,325} (\$1,485,670,580)$$

$$= \$23,254,084$$

That is, the equation used to estimate excess AFDC cost (Equation (3)) must be modified to estimate statewide Food Stamps costs for families receiving the experimental policy. The ratio of Food Stamps costs to AFDC costs in the research sites is multiplied by the statewide costs of AFDC for families receiving the

experimental policy to obtain this estimate. (Since the sample sizes for ${}_{XR}F_X$ and ${}_{XR}A_X$ are identical ($= m_1$), no division is needed.) \hat{D}_M is determined similarly;
 $\hat{D}_M = \$31,319,331$ (Meizlish, 1996, p. A3).

Administrative Costs

Associated with a_{ijk} , f_{ijk} , and m_{ijk} are t_{ijk} , u_{ijk} , and v_{ijk} , respectively, representing the administrative costs of making these payments to the family. No attempt is made to measure these individually, but estimates of ${}_{XR}T_X$, ${}_{CR}T_C$, and ${}_{XN}T_X$, and of ${}_{XR}U_X$, ${}_{CR}U_C$, ${}_{XR}V_X$, and ${}_{CR}V_C$ are obtained through random moment sampling. These estimates are used to obtain \hat{D}_T , \hat{D}_U , and \hat{D}_V using formulae analogous to (3) and (4) above, obtaining $\hat{D}_T = -\$16,578,759$, $\hat{D}_U = -\$9,641,953$, and $\hat{D}_V = -\$13,691,809$.

Total Excess Costs and Savings

Federal waiver conditions require only that

$$\hat{D} = \hat{D}_A + \hat{D}_F + \hat{D}_M + \hat{D}_T + \hat{D}_U + \hat{D}_V = \$20,481,871 \quad (5)$$

be computed for federal program costs; it is this quantity which must be repaid by the state to the federal government if it is negative. When, as in the Michigan example, it is positive, it may be "spent" through expanding the waiver experiment, or the federal government will simply accept the savings.

State Program Calculations

There is no waiver condition requiring that state excess costs or savings be estimated. However, failure to do so leaves an incomplete accounting of the effect of the welfare reform experiment on state expenditures. Further, the federal calculation formulae allow a straightforward extension to state costs by defining s_{ijk} , D_s , and \hat{D}_s as for Food Stamps and adding additional variables for additional state programs as needed. Complete results are given in Chapter III.

CHAPTER VII

THE FINDINGS: CONFIDENCE INTERVAL CALCULATIONS

Confidence Intervals

The cost neutrality calculation for Michigan's welfare reform demonstration depends on two distinct samples. The first consists of randomly-selected families receiving either the original (control) policies or the demonstration (experimental) policies. This sample is used to compare costs for the benefits provided to the families. The second is the result of a random moment time study of the work of assistance payments workers, the employees who determine eligibility and benefit levels for families receiving welfare. These samples are combined to compare the costs of welfare under the two policies, resulting in an estimate of excess costs or savings under the experimental policies. The formula for this calculation is specified by the federal government in the terms and conditions granting the waivers (Barnhart, 1992; Springer, 1994; and Bane, 1994). The details of this formula are discussed in Chapter VI.

Since the estimate of excess costs or savings obtained is based on random samples, it is subject to sampling uncertainty. This uncertainty should be considered whenever the estimate is used. The federal terms and conditions, however, neither

require a measure of the uncertainty in the resulting estimates nor suggest any way to calculate such a measure.

One useful measure of uncertainty is the confidence interval, a range of possible values for excess costs or savings, usually surrounding the single estimated value. The confidence interval has an associated confidence level, which is the probability that the interval includes the true value of the excess costs or savings. Confidence intervals are widely used to describe uncertainty in survey results and in other results based on random sampling. Their calculation and meaning are part of most introductory undergraduate statistics and research methods courses, and many newspaper and magazine reports of opinion surveys now include them, usually given as margins of error. Thus, while their technical meaning may not be well-understood, they can be assumed to be familiar to most data users within government.

Calculating Parametric Confidence Intervals

There is no single formula or process for calculating confidence intervals. The choice of method depends on the nature of the data obtained and of the value to be estimated, and on any information available about the underlying distribution for the data. However, one straightforward example will serve to demonstrate the essential ideas used in “parametric inference,” the most commonly used approach.

Suppose that a simple random sample of seven AFDC families has been selected from a large group of cases (called the population) in order to estimate the

average AFDC payment for families in the large group. The population average payment is the “parameter” to be estimated. Table 7 describes the sample.

Table 7

Initial Sample

Sample Case	AFDC Payment
1	\$100
2	\$200
3	\$250
4	\$300
5	\$300
6	\$450
7	\$500

The sample average provides an estimate for the average AFDC payment to cases in the larger group. The uncertainty in this estimate can then be expressed with a confidence interval. For this example, a 60 percent confidence interval will be computed.⁷

1. Compute the sample average. Let the payment for each family in the sample be represented by y_i , where $i = 1, 2, 3, \dots, 7$. Then

⁷In most instances, confidence intervals are computed for a level of 90 percent, 95 percent, or 99 percent, with 95 percent predominating in social science work.

$$\text{Sample Average} = \bar{y} = \frac{1}{7} \sum_{i=1}^7 y_i = \$300 \quad (6)$$

2. Compute the sample variance.

$$\text{Sample Variance} = s^2 = \frac{1}{(7 - 1)} \sum_{i=1}^7 (y_i - \bar{y})^2 = 19,167 \quad (7)$$

3. Compute the standard error of the mean.

$$\text{Standard Error of the Mean} = \text{SEM} = \sqrt{\frac{s^2}{7}} = \$52.3 \quad (8)$$

4. Using a standard table of the Student's t distribution with $7-1 = 6$ degrees of freedom, obtain the ordinate for the $(100 \text{ percent} - 60 \text{ percent})/2 = 20\text{th}$ percentile.⁸ This value is -1.44. Obtain the upper and lower 60 percent confidence bounds as follows:

$$\text{Upper Confidence Bound} = \$300 + 1.44 \times \$52.3 = \$375 \quad (9)$$

$$\text{Lower Confidence Bound} = \$300 - 1.44 \times \$52.3 = \$225 \quad (10)$$

Thus, with 60 percent certainty, the true average family AFDC payment is inferred to lie between \$225 and \$375. One way to interpret this statement is that if this process is repeated many times, different values for the sample mean and the two

⁸This step depends on the application of the Central Limit Theorem, which in this case suggests that the sample average has an approximately normal distribution.

confidence bounds will be obtained each time, but 60 percent of the confidence intervals obtained will contain the population average.

Calculating Confidence Intervals With the Bootstrap Method

The formula used to calculate the estimated excess costs or savings for waiver demonstrations involves ratios of random quantities. Because ratios may have ill-behaved distributions,⁹ confidence intervals for estimates of this form are not reliably computed with standard formulae, such as that used in the example above. The bootstrap process provides a convenient and reliable alternative.

Resampling

Resampling is a statistical technique for estimating population values from samples. This is accomplished by producing additional random samples from an existing sample by repeated sampling, with replacement, from the existing sample. By adding a technique called bootstrapping, percentile confidence intervals (equivalent to confidence intervals) may also be estimated. This approach is particularly useful when the estimation formula, the sample plan, or both are too complex for analytic determination of confidence intervals.

⁹For example, the ratio of two normally-distributed random variables has a Cauchy distribution. This distribution is so ill-behaved that it has no average or variance. The conventional method of generating a confidence interval is inappropriate for such ratios because it requires an estimate of the variance and assumes that the sample averages themselves are approximately normally distributed.

Example of Resampling and Bootstrapping

Suppose again that a simple random sample of seven AFDC families has been selected from a large group of cases (called the population) in order to estimate the average AFDC payment for families in the large group. Table 7 above describes the sample. The sample provides an estimate of \$300 for the average AFDC payment to cases in the larger group. Although the technique described above could be used to examine the precision of this estimate, bootstrapping may also be applied. The bootstrap analogue of the confidence interval used here is called the percentile confidence interval (Efron and Tibshirani, p. 170). To compute the percentile confidence interval, the original sample of seven cases now serves as the population for additional, repeated sampling. Each sample will contain seven families again, but these will be selected with replacement. (In sampling with replacement, unlike in simple random sampling, families may appear in the sample more than once.) Ten new samples are obtained in this way, as shown in Table 8.

Table 9 repeats the 10 sample means shown in Table 8, sorting them from lowest to highest.

Since a 60 percent confidence level is desired, $100 \text{ percent} - 60 \text{ percent} = 40$ percent of the resampling averages must be discarded. Discarding the two lowest sample averages (the bottom 20 percent of the 10 averages obtained) and the highest sample average (the top 20 percent of the 10 averages obtained) gives a 60 percentile

Table 8

Sample Replicates Under Resampling

Sample	1	2	3	4	5
	\$300	\$300	\$500	\$450	\$300
	\$500	\$250	\$450	\$300	\$500
	\$300	\$450	\$500	\$450	\$500
	\$200	\$200	\$450	\$450	\$500
	\$500	\$100	\$500	\$250	\$100
	\$200	\$450	\$450	\$300	\$450
	\$300	\$300	\$450	\$500	\$500
Sum	\$2,300	\$2,050	\$3,300	\$2,700	\$2,850
Average	\$288	\$256	\$413	\$338	\$356
Sample	6	7	8	9	10
	\$200	\$100	\$500	\$500	\$200
	\$200	\$500	\$300	\$450	\$500
	\$250	\$250	\$200	\$300	\$500
	\$200	\$250	\$300	\$100	\$100
	\$250	\$100	\$500	\$450	\$200
	\$300	\$500	\$500	\$500	\$300
	\$450	\$100	\$100	\$300	\$300
Sum	\$1,850	\$1,800	\$2,400	\$2,600	\$2,100
Average	\$231	\$225	\$300	\$325	\$263

confidence interval from \$231 to \$356.¹⁰ If this process were repeated many times, the resulting percentile confidence intervals would be expected to contain the

¹⁰The observations to be discarded need not be divided equally between the upper and lower ranges. For example, if a percentile confidence interval describing the smallest likely values for the population average were needed, the four smallest values would be discarded.

Table 9

**Sample Means Obtained Through Repeated
Sampling With Replacement**

Sample Number	Average AFDC Payment
7	\$225
6	\$231
2	\$256
10	\$263
1	\$288
8	\$300
9	\$325
4	\$338
5	\$356
3	\$413

population average 60 percent of the time.

The bootstrap percentile confidence interval of \$231 to \$356 is slightly narrower than the parametric confidence interval of \$225 to \$375 obtained earlier, but this may not always be the case. The bootstrap interval is not centered on the \$300 mean as the parametric interval always is; this is a likely result. In practice, these intervals are otherwise equivalent. They each may be expected to contain the average AFDC payment for the population of families 60 percent of the time.

In the example given, standard formulae might have sufficed to produce a confidence interval. However, when the quantity to be estimated from the sample is complex, as in welfare reform cost neutrality, estimation formulae are likely to involve ratios of random quantities. As noted above, standard formulae for confidence intervals may then be inappropriate, while the resampling process described above may still be used.

Percentile Confidence Intervals for Michigan's Cost Neutrality Results

To implement the bootstrap process for percentile confidence interval estimation, a large number of sample replicates must be created (2,000 were used in this research). Replicates of both the benefit and administrative cost samples are needed. The remainder of this chapter describes their creation and analysis.

Creating the Research Benefit File

MDSS Bureau of Information Systems staff (Thomas Wrobel and Christine Days) prepared a file containing benefit data for all control and experimental families from the Department's mainframe data system. They used procedures identical to those used in preparing data for the Department's own cost neutrality calculations, but slightly different results were obtained (see below). Wrobel and Days are unable to explain the differences, but they may have resulted from back-dated corrections to the master file as, for example, in making retroactive payments to cases with claims

delayed pending receipt of additional information. Changes of this type could occur after the data for the Department's own cost neutrality calculations were obtained but before the data used for this research were obtained. The result would be slightly different files, as experienced.

Dennis Roberts of the Staffing and Program Evaluation Division copied this file from the Department's mainframe system to his PC network where it was available as Lovell.Dat. This file consisted of a record for each family for each year, containing a unique family identifier (called a case number), a policy identifier (experimental/research, experimental/non-research, and control), office identifiers, and benefit costs for AFDC, Food Stamps, Medicaid, State Family Assistance, and State Medical Assistance.

The file was sorted (beginning with the primary sort) by year, policy and case number. No records appeared for years in which a family received no benefits. A series of SPSS¹¹ steps was needed to prepare a file suitable for the Visual BASIC programs written for the research project, and to remove the family identifier before moving data from the Department's computers to the researcher's home computer. Separate SPSS files named TSMFBobC.Sav and TSMFBobE.Sav containing the control and experimental cases respectively were created, copied to floppy disks, and then copied to the home computer as TSMFCon.Sav and TSMFExp.Sav.¹² These files

¹¹Statistical Package for the Social Sciences. SPSS for Windows Revision 6.0 was used for all work described here.

¹²The .Sav extension on a file name indicates an SPSS system file.

retained the basic record structure of Lovell.Dat, with records inserted for years in which there were no welfare payments. While Visual BASIC could have read this file, the redundant data (records for years with no payment and repeated case descriptors) would have slowed the program down, so ExpASCI.Sav and ConASCI.Sav were created with a single record per family through SPSS. These were translated to ASCII format by SPSS and saved as ExpASCI.Dat and ConASCI.Dat.

Comparing the MDSS and Research Benefit Files

The differences between the data used for the Department's calculations and those used for the research are shown in Table 10. The very close match on sample sizes is tantalizing—perfect for the control sample and off by one in 11,232 in the experimental sample. The 9.4 percent difference in average cost of State Medical Assistance for control cases is, therefore, notable and surprising. However, it will have little effect on overall calculations because this program has very low costs compared to the remaining programs. The remaining nine differences are less than 2.5 percent, with two perfect to (at least) the nearest penny and four others differing by less than 1 percent. There is no apparent bias; four differences are negative and four are positive.

The research file could be artificially adjusted to fit perfectly (by proportional reductions or increases, for example). This was not done because doing so might have unwanted and hidden effects on later resampling results. Further, the MDSS results

Table 10
Average Benefit Cost Per Family, Quarters 1 Through 10
October 1992 Through March 1995

	MDSS Reports		Research File		Means of 2000 Repetitions	
	Control	Experimental	Control	Experimental	Control	Experimental
Sample Size	11,005	11,232	11,005	11,231	11,005	11,231
AFDC Federal Cost	\$4,035.63	\$4,019.88	\$4,129.43	\$4,108.06	\$4,129.40	\$4,108.34
AFDC State Cost			\$3,215.30	\$3,199.02	\$3,215.28	\$3,199.23
AFDC Total Cost			\$7,344.74	\$7,307.08	\$7,344.68	\$7,307.57
Food Stamps	\$3,667.17	\$3,604.25	\$3,667.22	\$3,602.24	\$3,667.30	\$3,602.31
Medicaid Federal Cost	\$3,433.79	\$3,349.05	\$3,433.79	\$3,346.62	\$3,433.49	\$3,346.39
Medicaid State Cost			\$2,671.08	\$2,602.98	\$2,670.85	\$2,602.80
Medicaid Total Cost			\$6,104.87	\$5,949.60	\$6,104.34	\$5,949.19
State Family Assistance	\$324.97	\$103.24	\$324.97	\$102.53	\$324.97	\$102.49
State Medical Assistance	\$89.58	\$81.88	\$81.15	\$82.91	\$80.99	\$82.55

given here are not final; this analysis is based on results from the first ten quarters of a planned seven year study. There seems little value in forcing an artificial fit to interim data. The results match well enough to allow useful inferences to be made about the original, unavailable data set.

The Benefit Bootstrap Sample

A Visual BASIC¹³ program was written to create bootstrap sample replicates through sampling with replacement. Sums of the benefit costs for each program in each year are computed for these replicates and stored in a file. Separate runs are required for the control and experimental samples. The program is called Bootstrap.Mak and the files are called Exp2000R.Sum and Con2000R.Sum. Averages across these 2000 replicates are shown in Table 10. As expected, these match the averages from the research sample extremely well, indicating that the resampling program was successful.

Each file contains 2000 records, one for each replicate. These must be combined to create replicates of the full experiment (control and experimental). They could be combined in any order not depending on their individual outcomes since each sample is generated independently of the others. Lotus 123¹⁴ was used to remove a header record from each file. The files were then read by SPSS and saved as

¹³Visual BASIC is a programming language compatible with the Windows operating system. Visual BASIC and Windows are copywritten by Microsoft, Inc.

¹⁴Lotus 123 for Windows version 5.0 (Lotus Development Corp.)

Exp2000R.Sav and Con2000R.Sav. Finally, they were combined to create B2000R.Sav in the order generated.

Creating the Research Administrative Cost File

MDSS analyst Judith Schaus provided TSMF295a.Sav, an SPSS file containing raw data from the TSMF cost neutrality random moment time study. This file consisted of a single record for each observation. The quarter, site, and policy were encoded, and the programs being worked on at the time of the observation (up to three) were identified.

The time study methodology allows multiple responses to the key question, namely, which program is receiving attention. Up to three programs could be identified at each observation. There are five primary programs: AFDC, Food Stamps, Medicaid, State Assistance (medical and cash), and all others. This allows for ten combinations of two programs each and ten combinations of three each, for a total of 25 possible results. Further, some kinds of work, such as training and union activities, are not associated with a particular program. At other times, the worker may be on a scheduled or unscheduled break, and thus is not working at all. Thus, there are 27 possible results from any random moment observation. Only 16 actually occurred. SPSS was used to determine the frequency of each combination encountered, creating TSMFCst2.Sav in the process.

Converting Time Study Results to Administrative Costs

These frequencies estimate the probability that an assistance payments worker, observed at any randomly chosen time during the work day, will be delivering services related to any particular combination of programs, delivered under control or experimental policies. As a statistical model, each random moment observation can be considered as a multinomial random variable. Resampling for administrative costs is accomplished by generating repeated multinomial random variables, separately for each quarter and each office. Estimates of administrative costs for control and experimental families are computed for each sample replicate following the same procedure used to compute administrative costs for the original sample.

Three systematic problems were encountered in implementing the time study, and each must be accommodated in calculating costs. First, no observations were obtained for the first, second or ninth quarters. Estimates for these missing data are obtained in step 6 below. Second, data for one office in each of the third, fourth, and fifth quarters was dropped when it was discovered that the observer in that office had made errors which could not be corrected. Estimates for these missing data are obtained in step 8 below. Third, observations in the third, fourth, and fifth quarters did not distinguish between experimental families included in the research sample and experimental families not included. An adjustment for this problem occurs in step 7 below. Calculation of administrative cost estimates from time study observations or replicates is accomplished in nine steps, as follows:

1. Observations not assigned to a particular program and observations for workers not working are dropped after resampling has occurred. The effect of this is to spread these costs proportionately among the programs, while preserving any contribution these observations make to the uncertainty of the estimate.

2. Multi-program observations are divided into equally sized fractional counts and assigned to each program in the group observed.

3. Counts for state programs and other programs are added together and treated as a single program. The time study is not used to generate administrative cost estimates for these programs.

4. The third, fourth, and fifth quarter counts for the two offices in Wayne County are summed, as are counts for the two offices in the remainder of the state, called "Outstate." Counts are then available for each of these two strata corresponding to the entries in Table 11.

5. Because no systematic problems resulting in dropped observations occurred in quarters six through eight or in quarter ten, these quarters do not require a stratum breakdown. Otherwise, Table 11 also describes the final frequency counts for these quarters, with the addition of T_N , the total number of observations on services to experimental families not included in the research sample.

6. Divide each entry in Table 11 by $T_c + T_E (+ T_N \text{ for quarters 6-8 and 10})$. The averages of frequencies for the third and fourth quarters are used for the first and

Table 11

Final Time Study Frequency Categories

Serving Control Families	Serving Experimental Families
A_C = AFDC Counts	A_E = AFDC Counts
F_C = Food Stamps Counts	F_E = Food Stamps Counts
M_C = Medicaid Counts	M_E = Medicaid Counts
O_C = Other Counts, Including State Programs	O_E = Other Counts, Including State Programs
T_C = Total Count for Control Families	T_E = Total Count for Experimental Families

second quarters, while the eighth and tenth quarters are averaged to estimate the ninth quarter.

7. The values from step 6 in quarters 1- 5 are multiplied by the proportions of all active experimental families which are in the research sample. This step reduces the observed frequencies to the proportion expected for experimental families in the obtained were for experimental families included in the research sample. For those not included in the research sample, counts were obtained separately, and totaled as T_N .

8. Multiply the results from step 7 by the number of assistance payments workers allocated to the study sites. Stratum separation is maintained for quarters 1 through 5 until these products are obtained; the strata are then added. The result at this point is an estimate of the number of assistance payments workers working on

each program, obtained separately for the control and experimental policies and including time spent not working or not working on an identifiable program.

9. Multiply the results of step 8 by the average cost of an assistance payments worker for each program, then compute totals for each year or partial year. Although worker salaries and benefits are identical for all programs, these costs differ because overhead costs like supervision, policy development and computer support do vary by program and are included. These costs are obtained through a federally-approved cost allocation plan based on a statewide time study. Uncertainty in the cost neutrality administrative cost calculation caused by sampling variation in this study is not included in the estimates obtained here.

Parameters describing the systematic problems in the time study and parameters needed to generate time study frequency replicates and compute administrative cost estimates from them are entered onto a file named LiveTest.TS by a Visual BASIC program named Tim_Stud.Mak. This program allows the user to edit these parameters, which are used by a program named Adm_Bts.Mak to generate administrative cost replicates through resampling.

Comparing the MDSS and Research Administrative Cost Files

The average administrative costs for the Department's calculations and those used for this research are shown in Table 12.¹⁵

¹⁵Costs shown are shared equally by Michigan and the federal government.

Table 12

Average Administrative Cost Per Family, Quarters 1 Through 10

	MDSS Reports		Research File		Means of 2000 Repetitions	
	Control	Experimental	Control	Experimental	Control	Experimental
AFDC	\$957.70	\$1,047.05	\$976.45	\$1,057.24	\$974.82	\$1,056.16
Food Stamps	\$337.65	\$364.23	\$348.55	\$383.16	\$349.44	\$384.21
Medicaid	\$659.70	\$738.51	\$632.63	\$729.95	\$635.39	\$716.14

Differences between costs computed from the research file and those reported by MDSS vary from .97 percent to 5.20 percent of the MDSS costs. The MDSS calculation process uses some manual steps which cannot be reproduced with certainty, so the source of the differences again is indeterminate. The match, as before, is adequate for useful inferences.

The Administrative Cost Bootstrap Sample

Based on the parameters found in LiveTest.TS, the Visual BASIC program

The time study does not support administrative cost estimates for State Family Assistance or State Medical Assistance. Savings from reductions in State Family Assistance administrative costs are estimated by MDSS using a separate methodology which does not depend directly on random sampling.

Adm_Bts.Mak creates administrative cost replicates and stores them in a file named A2000F.AdR. Time study replicates are generated as multinomial realizations based on the frequencies of the program combinations described above. The values needed for the cost neutrality formula are then computed. As shown in Table 12, averages of these replicates match the research sample averages well, but do not match as well as benefit replicate averages. Differences range from .17 percent to 1.89 percent.

The Bootstrap Percentile Confidence Intervals

After using Lotus 123 to remove the header record from A2000F.AdR, SPSS was used to combine the benefit and administrative cost replicates into Fin2000R.Sav, creating A2000R.Sav in the process. Savings (or excess costs) are projected statewide and totaled, again by SPSS. The file is sorted by total savings and the 50th and 1951st values are printed, forming the 95 percent percentile confidence interval. Percentile confidence intervals for federal savings and state savings are computed in the same way. Results are shown in Table 13.

Reliability of Percentile Confidence Intervals From the Bootstrap Estimates

The distribution of the bootstrap replicates should be approximately normal if the number of replicates is adequate. As Figures 8, 9, and 10 show,¹⁶ the distributions

¹⁶These figures show Q-Q plots, which compare the quantiles of a sample with those of a theoretical distribution, in this case the normal distribution. When the sample distribution matches the theoretical distribution except for scale and location

Table 13

**Savings From Welfare Reform in Michigan, October 1992 Through March 1995
(Millions of Dollars)**

	Estimated Value	Lower Bound	Upper Bound	Length of Percentile confidence Interval as a Percent of Estimated Value
Federal Savings				
Administrative	-41.9	-64.1	-18.4	109%
Benefits	62.8	-20.4	152.5	275%
Total	20.9	-61.1	110.9	823%
Michigan Savings				
Administrative	-41.9	-64.1	-18.4	109%
Benefits	110.4	51.6	172.2	109%
Total	68.5	6.2	132.3	184%
Total Savings				
Administrative	-83.8	-128.2	-36.9	109%
Benefits	173.3	38.0	315.5	160%
Total	89.5	-46.5	237.8	318%

of federal savings, Michigan savings and total savings appear approximately normal.

The skewness and kurtosis of the replicates should be approximately zero, as they would be for a normal distribution. The largest value of either for the three

parameters (like the standard deviation and the mean), the Q-Q plot shows a straight line.

Q-Q Plot of Federal Savings

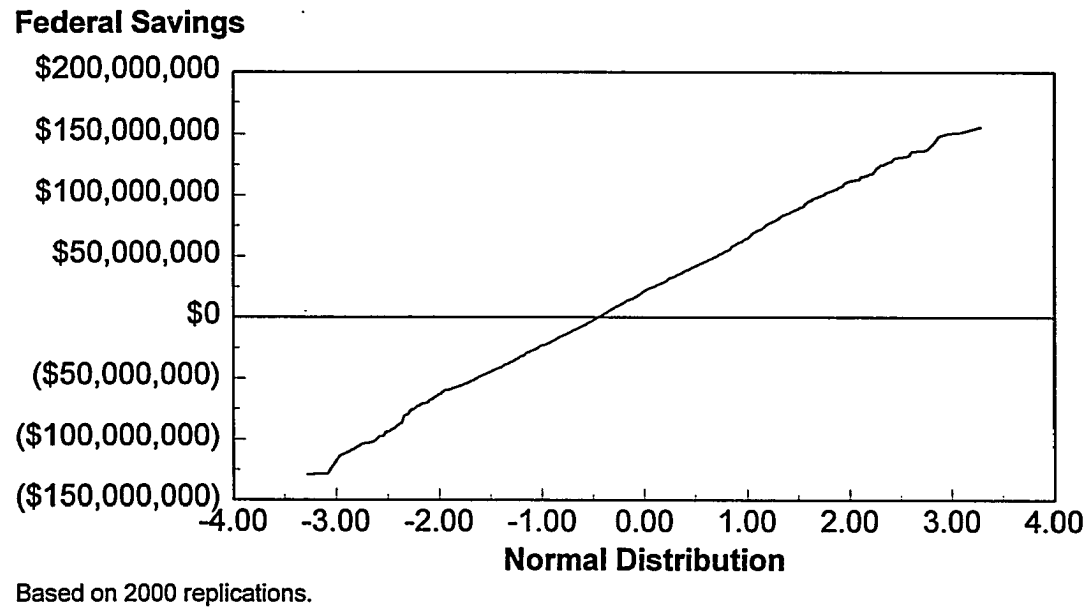


Figure 8. Comparing Total Federal Savings From 2000 Replications and the Normal Distribution.

Q-Q Plot of Michigan Savings

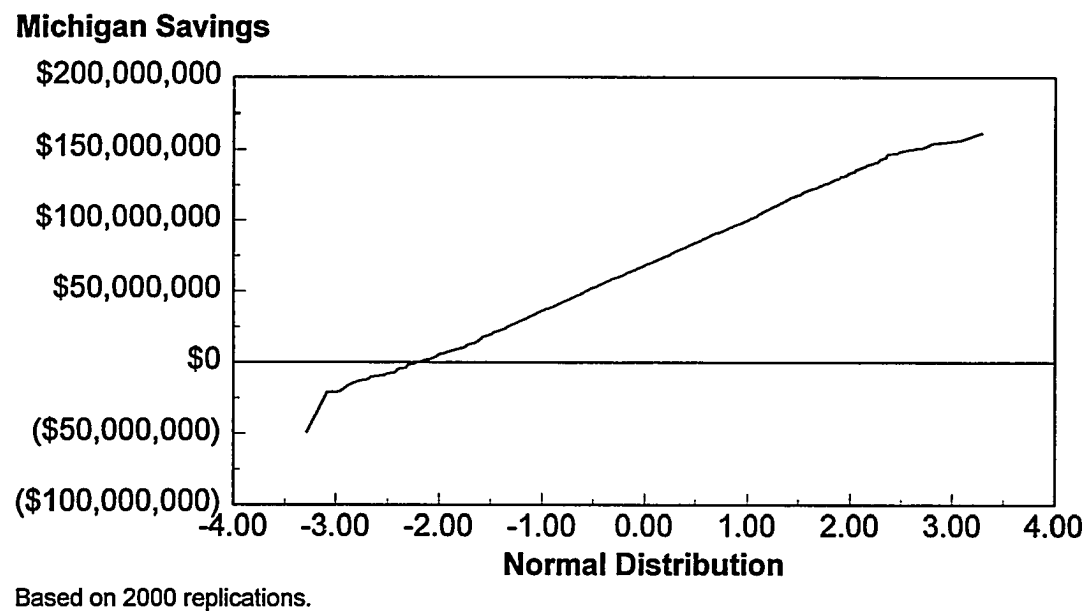


Figure 9. Comparing Total Michigan Savings From 2000 Replications and the Normal Distribution.

Q-Q Plot of Total Savings

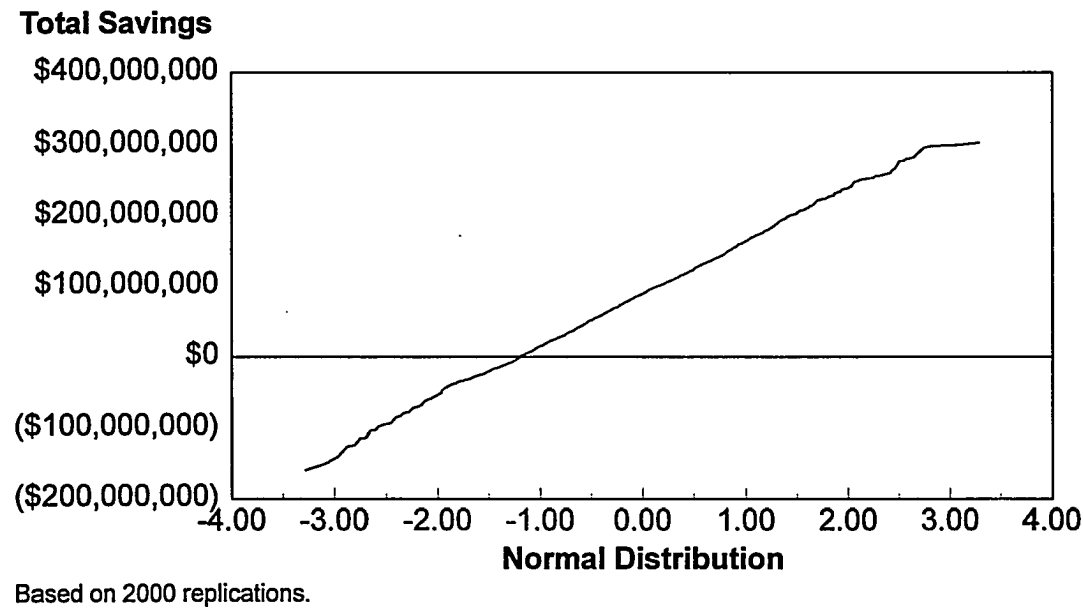


Figure 10. Comparing Total Savings From 2000 Replications and the Normal Distribution.

distributions is .153, and none exceed 1.5 standard deviations. Thus, 2,000 replicates appears adequate to provide useful percentile confidence intervals.

Interpreting the Results

Table 13 shows that there is considerable uncertainty in the savings earned by Michigan's welfare reform demonstration. It is clear that some excess administrative costs have been incurred (between \$36.9 million and \$128.2 million, shared equally by Michigan and the federal government). The percentile confidence intervals for these quantities, shown graphically in Figure 11, do not include zero. Thus, a test of the hypothesis that no change occurred in administrative costs would be rejected at the 5 percent level.

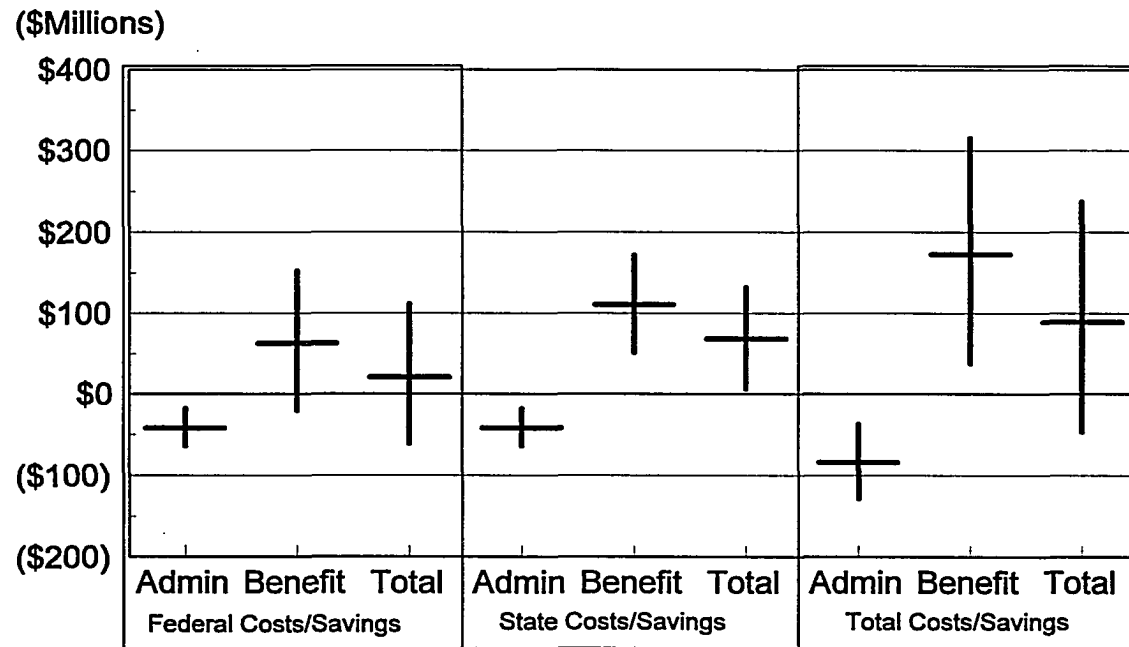
Michigan has saved between \$51.6 million and \$172.2 million in benefit costs, resulting in a total savings of between \$6.2 million and \$132.2 million. Again, the percentile confidence interval does not include zero, so these savings are statistically significant. Total benefit costs (federal and state) have dropped between \$38.0 million and \$315.5 million, also a statistically significant result. It is unclear whether federal benefit costs, total federal costs, or total costs have risen or fallen, since their percentile confidence intervals contain zero.

The width of the percentile confidence interval for each quantity exceeds the estimated value for the quantity. Thus, for example, the federal cost neutrality sample estimates \$89.5 million in savings from all sources for Michigan's welfare reform

Michigan Cost Neutrality Results

95% Percentile Intervals

October 1992 - March 1995



Based on bootstrap calculations with 2000 replicates.

Figure 11. Michigan Percentile Confidence Intervals.

demonstration, with a 95 percent percentile confidence interval ranging from -\$46.5 million (a loss of \$46.5 million) to \$237.8 million. The width of the percentile confidence interval is:

$$\$237.8 \text{ million} - (-\$46.5 \text{ million}) = \$284.3 \text{ million},$$

318 percent of the \$89.5 million estimate. This level of uncertainty is very high. The estimated values should be used cautiously, because results from later time periods, subject to the same high uncertainty, may appear to contradict claims based on these early results.

These percentile confidence intervals were computed under the assumption that the control and experimental samples were simple random samples of the statewide caseload. This is not the case (see Chapter III). Correctly reflecting the fact that the true sampling plan included stratification into two strata (Wayne County and all other counties were separate strata), a sample of two clusters (counties) in each stratum, and then random samples of cases within clusters could well increase the width of the percentile confidence intervals. The analytic approach used accurately reflects the federal approach, however.

After discussion of these percentile confidence intervals, Gerald H. Miller, Director of the Michigan Department of Social Services, asked what probability could be assigned to overall savings for Michigan, for the federal government, and overall. This is equivalent to asking for the confidence level for one-sided confidence intervals on these quantities which have zero as their lower bounds. Of 2,000 replicates, 26 (or

1.3 percent) estimated negative state savings. Thus, the required percentile confidence level is 100 percent - 1.3 percent, or 98.7 percent. Similar calculations yield percentile confidence level of 62.3 percent and 88.4 percent that federal savings and overall savings respectively were achieved (Lovell, 1995a). Dr. Miller thus shifted the question from the size of savings to the probability that some savings existed.

Michigan's Time Study

Analysis of Michigan's cost neutrality data revealed several problems in understanding administrative costs:

1. Michigan had considerable trouble implementing its time study. No data were obtained in the first two quarters, or in the ninth quarter. Further, some data were lost when one of four data collectors misunderstood her instructions, creating blocks of missing data in quarters 3, 4, and 5 .

2. The time study results were erratic and it was difficult to ascribe possible policy reasons for them.

3. The time study had little diagnostic capability to help in ascribing these policy reasons.

4. The time study results for the first 10 quarters indicated an increase of \$75.95 million in administrative costs statewide, with a statewide total of \$924 million. This is a $\$75.95 \text{ million} / (\$924 \text{ million} - \$75.95 \text{ million}) = 9.0$ percent increase over what would have been expected without the demonstration project. MDSS had

independent measures of statewide administrative effort which showed no increases (Lovell, 1995b, unpaginated).

These problems could be expected to add to the uncertainty of the time study results. Thus, it is surprising that benefit savings appear to contribute more to the uncertainty in total savings, based on the values in the last column of Table 13. Sample sizes for benefit estimates will continue to grow as the demonstration proceeds, however, so their uncertainty may decrease in the future.

Since the results of the time study could not be explained as a true increase in administrative costs, other explanations were sought. The most promising seemed to be that the staff in the research offices perceived the experimental cases to be more important than the control cases, and thus shifted some administrative resources from control cases to experimental cases. Some support for this hypothesis was found in the Schaefer/Six Mile office, the only office to fully separate the control, experimental, and experimental/non-research cases. A worker assigned to experimental cases administered 109 cases, while the workers assigned to control and experimental/non-research cases administered 138 and 156 cases respectively (Lovell, 1995b, unpaginated). Higher caseloads mean less administrative effort per case, and thus lower administrative costs per case, so it appears that effort was shifted from experimental/non-research and control cases to experimental cases. This shift is only possible in the research sites since other sites have only experimental/non-research cases.

Uncertainty about the meaning of the time study results led MDSS to request adoption of an alternative strategy for computing administrative costs (Lovell, 1995d, unpaginated). This request was granted with an effective date of October 1, 1995 (Germanis, 1995, unpaginated). From that point forward administrative costs per case will be assumed equal, with any savings or excess costs resulting from increases or decreases in the case closure rate. This mechanical approach has no sampling basis, so subsequent contributions to cost neutrality uncertainty from administrative cost estimates will not be measurable.

Summary

MDSS provided a file intended to be identical to that used for benefit calculations for its own cost neutrality calculations, but there were small, unexplained differences. The differences between the data used for the Department's calculations and those used for the research range from 0 to 9.4 percent, with 11 of 12 comparison values differing by less than 2.5 percent. The match is adequate for useful inferences. A program was written to create bootstrap replications of the control and experimental benefit samples, compute the values needed for the cost neutrality formula, and save them in a file.

MDSS also provided a file of the raw time study results used to calculate administrative costs. Again this file was intended to be identical to the file used for MDSS's tenth quarter calculations, but again small differences were found. The

average administrative costs computed from the research file compare favorably with the MDSS cost neutrality values, but do not match exactly. As before, the match is adequate to allow useful inferences.

As in the case of benefit costs, a program was written to create bootstrap replications of the control and experimental administrative cost estimates, compute the values needed for the cost neutrality formula, and save them in a file.

Administrative and benefit costs are combined and sorted to determine percentile confidence intervals. The two thousand replicates generated were adequate to determine useful percentile confidence intervals. The width of the confidence interval for each quantity exceeds the estimated value for the quantity. Thus, the estimated values should be used cautiously, if at all.

CHAPTER VIII

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Summary

The American Welfare System

The American system of welfare for families with children is a partnership between the federal and state governments. Under this partnership, the federal government establishes the basic policies for the Aid to Families with Dependent Children (AFDC) program, the principal program providing cash assistance to poor families. States are permitted to choose among some options, reporting most of their choices to the federal government. The states set payment levels for families, within some federal limits. Administrative costs are shared equally. The federal treasury pays at least half of the benefit costs for AFDC; the exact federal share depends on a formula which considers the relative wealth of each state.

AFDC Reform, 1935-1996

The AFDC program included in the Social Security Act of 1935 was clearly a radical reform of the state- and locally-directed Mothers' Pensions programs, then

under great stress due to the Depression. It transferred much authority over and responsibility for welfare for families with children to the federal government. Radical reform proposals have received serious attention regularly since 1969. Plans to redesign or eliminate AFDC have been proposed by Presidents Nixon, Carter, Reagan, and Clinton, and by Presidential candidate George McGovern, the 1995-96 House Republican caucus, and the National Governor's Association (also 1995-96). Additionally, a variety of plans for a comprehensive redesign of federalism have included proposals for major reform of AFDC, as noted in Chapter V. So far, no radical reform has been enacted at the national level.

Meanwhile, many incremental changes have been implemented, either through federal law or regulation, or through state waiver demonstration projects. These have included extending coverage to the custodial parent, then to two-parent families; provisions to encourage recipients to work; and provisions for job training and other services in support of employment. On the whole, federal authority has expanded under these incremental changes.

The Social Security Act was amended on July 25, 1962 to include Section 1115 [42 U.S.C. 1315] (West, 1991, p. 528). This section permitted the Secretary of Health, Education and Welfare (now the Secretary of Health and Human Services) to grant waivers of provisions of Section 402 of the Social Security Act, covering eligibility and payments. This provision was rarely used until 1987, when President Ronald Reagan created the Interagency Low Income Opportunity Advisory Board

(ILIOAB) “to accelerate efforts to make America’s welfare system more effective” (Department of Health and Human Services, undated; circa 1988). It accepted and passed judgement on state applications for waivers of regulations under the AFDC, Food Stamps, Medicaid and other welfare programs. One set of policies and procedures applied to all proposals.

As a result, proposals from thirteen states were approved in the next 18 months. Provisions from some of these proposals presaged provisions of the Family Support Act enacted on October 13, 1988 (see Chapter II). It would not be accurate, however, to say that these demonstration projects provided information about the effects of the demonstrations’ provisions suggesting that they would be effective. As of January, 1993, few evaluation reports were available from any of them (DHHS, 1993a, p.1). Rather, what proved influential, as Mead (1992, pp. 195-98) observed, was data showing that families spent an average of 6.6 years on AFDC in multiple spells and that workfare programs could have some effect on reducing this level of dependency. Thus, the Family Support Act emphasizes employment programs, setting goals for participation for those remaining on AFDC.

The ILIOAB applied three criteria in reviewing state demonstration applications. First, the proposal “must have a chance of reducing welfare dependency while continuing to meet the needs of the population the program was intended to address.”

Second, total federal costs for AFDC, Food Stamps and Medicaid in each year of the demonstration must not exceed those which would otherwise have occurred; this provision came to be called *cost neutrality*, and is the focus of this dissertation.

Third, there must be a sound evaluation plan. Although other options would be considered, the Board preferred an evaluation with an experimental design, which generally means random assignment of families to control and experimental groups. The experimental design was also expected to support the cost neutrality requirement. With variations and elaboration, these criteria remain in place as of this writing.

In his 1992 State of the Union address, President George Bush said about renewed interest in waivers, "We are going to help this movement. Often, state reform requires waiving certain federal regulations. I will act to make that process easier and quicker for every state that asks our help," (DHHS, 1993a, p.1). This short paragraph was enthusiastically received by the Congress and the voters. This approach shifted the responsibility (or opportunity) to propose reforms to the states. As part of the promised simplification, the requirement of annual cost neutrality was removed and replaced with a requirement that cost neutrality be attained during the life of the project. AFDC demonstration projects were approved for nine states during the Bush administration, including Michigan's, which was entitled To Strengthen Michigan Families. Three of these states, Wisconsin, New Jersey and Maryland, had also received waivers during the Reagan administration, so the unduplicated count of states with AFDC waivers reached nineteen.

Despite a short-lived national welfare reform proposal of his own (see Chapter II), President Bill Clinton also supported reform through state-by-state waiver demonstration processes. The U. S. Department of Health and Human Services (DHHS) continues to receive, review and approve AFDC waiver requests as this is written.

It is impossible to predict even the immediate future of welfare reform. There is, however, considerable evidence to support the hypothesis that welfare authority and responsibility have reached an uncomfortable but stable point with the current system of federal direction and state waivers. Costs are shared through long-established formulae which reflect, at least roughly, the states' relative ability to pay. Supporters of state-designed systems and supporters of a single national standard can each find features to disparage and features to extol. Some federal requirements can be waived, providing flexibility and thereby making demonstrations to test new ideas possible. Other requirements cannot be waived, providing a stable national base policy. The current system has few, if any, vocal supporters; nearly all stakeholders would make major changes given the opportunity to do so. But there is no consensus for any single package of changes. Reluctantly, there is more support for not making any single major change. This uneasy standoff appears likely to continue at least through the 1996 presidential election. Michael Wines of the New York Times (May 5, 1996, p. A15) reported that the President appears positioned to take credit for any welfare reform bill he would be willing to sign, and seems not to have suffered from his

vetoed. If this is the case, Republicans are unlikely to seek a compromise before the November election.

States can then be expected to continue requesting and implementing waiver demonstration projects. Each such project faces the cost neutrality requirement, and hence understanding the operation and implications of the requirement will remain important to welfare policy developers and researchers.

Waiver Cost Neutrality and Federalism

Experimentation by the states is one of the expected benefits of federalism, but detailed federal laws and regulation had a stifling effect on welfare policy innovation by the states until the establishment of the ILIOAB in 1987. This action made demonstration projects under Section 1115 of the Social Security Act practical. Under that section waivers of some provisions of the Social Security Act can be obtained by states to demonstrate alternative policies. The waiver process succeeds in increasing state flexibility, even though the federal government includes a cost neutrality requirement limiting the range of state innovations. Waivers also succeed in reducing political pressure on the federal government to reform welfare by transferring some of that responsibility to the states. President Clinton has clearly made this case in successfully claiming that he is keeping his campaign promise to reform welfare by granting waivers. This has reduced pressure on him to agree to welfare reform on terms dictated by the Republican Congress.

The effect of the cost neutrality provision is that state experiments carrying a risk of significantly higher costs are still stifled. A. Sidney Johnson III, executive director of the American Public Welfare Association, argues for eliminating the cost neutrality requirement, saying "Cost neutrality requirements hinder innovation, quality of services, and benefits to recipients. States should be encouraged, not discouraged, to seek better programs" (1995, p. 20).

For example, through demonstration projects, states could use AFDC funds to purchase family counseling by a social worker, believing that this would ultimately encourage work. Delivered with sufficient intensity to be effective, these services would be expensive. If the strategy does not work, cost neutrality requires the state to absorb all excess costs, rather than sharing them with the federal government. If the strategy works, the federal and state governments share the savings according to the standard matching proportions.

Mark Greenberg, Senior Attorney at the Center for Law and Social Policy, offers three more fundamental welfare reforms which the cost neutrality requirement discourages. First, states could operate a guaranteed child support payment system to largely replace AFDC. Second, day care support could be significantly extended to remove this barrier to employment. Third, a time limit on welfare receipt leading to a requirement to accept a job provided by the government could be adopted as an alternative to a time limit leading to the end of all financial assistance. All three of

these strategies have risks of high costs, however, and states may be reluctant to undertake these risks without a federal partner (1995, p. 16 and 1996).

The need for federal protection from profligate or overly optimistic states, if it exists at all, should be attenuated by the matching formula, which forces states to share in additional costs in any case. The cost neutrality provision is effective only in a situation in which a state decision maker finds a set of policy options attractive when state risk is at the matching rate but not at full cost. In this situation, the options would be rejected, because waiver cost neutrality would force the state to accept the full risk. If the options are attractive at full risk, they would be adopted even if the waiver cost neutrality requirement shifted all risk to the state. If they are not attractive even at the state matching payment level, they would not be adopted regardless of the presence or absence of a waiver cost neutrality requirement.

Welfare researcher Michael Wiseman views this coercive feature of cost neutrality as a possible federal policy tool (1995, p. 10). The federal government should budget funds to encourage "well-designed demonstrations that are consistent with the national reform agenda." Grants could then be made from these funds to offset excess costs in the selected states only. The cost neutrality requirement would protect the federal purse from excess costs generated by poorly designed demonstrations and from demonstrations not consistent with the national agenda.

A federal official present at the development of the cost neutrality concept stated that the emphasis on cost neutrality figures presented as dollars did not reflect

the original federal intent, which was to consider them as percentages of total program costs (Lovell, 1995c). However, the federal formula (see Chapter VI) computes amounts in dollars, and must be modified to determine percentages. Further, dollars must be recovered in the event of overexpenditures. Finally, no matter how large this amount is, it will have political implications because the public expects welfare reform to save money, not to cost more.

Waiver cost neutrality as a static phenomena can be described through the “calculative phase” of Wright’s intergovernmental relations model (see Chapter V). This description, though, does not adequately account for either the innovation demanded by the federal government if waivers are to be granted or the opportunity that waiver cost neutrality offers to the federal government as an indirect policy control mechanism.

Similarly, such federalism reformers as Dye, Rivlin, Peterson and Walker do not anticipate the complexities of waiver cost neutrality, even though Rivlin and Walker continue to assign responsibility for AFDC jointly to the states and the federal government. Nathan, anticipating the replacement of AFDC by block grants and the need for information about states’ subsequent programs, suggests federal funding of studies which could easily depend in part on the same methodology as waiver cost neutrality.

Waiver cost neutrality, then, is a novel and significant characteristic of federalism in the 1990’s. It may result in the reduction of a state’s effective federal

matching rate for AFDC, an established entitlement program, even when all program requirements have been met. This situation arises only in the quality control system otherwise. Federalism reformers seldom mention it as a tool, while welfare reformers find it a faulty one. As grander reform efforts fail in the Congress or are vetoed, however, waivers and the accompanying cost neutrality requirement: (a) increase state flexibility; (b) transfer some pressure for reform from the federal level to the state level; (c) protect federal financial interests from riskier reforms; (d) serve as an intermediate model to block grants on one hand and continued federal control of welfare policy on the other; and (e) partially preserves AFDC as a uniform national program by preserving basic characteristics not subject to waiver.

Under this model, the federal government retains significant power over welfare policy making by allowing the AFDC program to become less uniform from state to state, partially sacrificing an important policy goal in order to save the program. Cost neutrality guarantees that there will be no change in fiscal power.

Ultimately, this model is limited and tentative. Significant improvement in the welfare system may be possible only by spending more money, which is just what waiver cost neutrality is designed to prevent. Waivers depend individually on scientific design and analysis, but the lack of coordination from state to state makes any significant gain in knowledge unlikely. Finally, due to limitations in the authorizing legislation, some policy options cannot be tried under waivers. The waiver

system, then, seems an unlikely long-term support for the uncomfortable but stable point which forces seeking welfare reform have reached.

Finally, even the advent of block grants may not end the importance of waiver cost neutrality. Attempts in 1995 to convert the Food Stamps program to a block grant met with little support. Waivers and cost neutrality apply to Food Stamps as well as to AFDC, so they are likely to continue to be significant features of the American welfare system even if AFDC is converted to a block grant program. Thus, even if new forces push the federal government successfully to welfare reform, waivers and cost neutrality will remain interesting aspects of federalism.

Cost Neutrality in Michigan, 1992-1995

Michigan began its welfare reform demonstration, called To Strengthen Michigan Families, or TSMF, on October 1, 1992. A waiver for the federal rule for budgeting earned income under AFDC was implemented, as were waivers expanding eligibility for two-parent families. Families receiving AFDC were told that the state expected, in return for their welfare grants, that they would make good faith efforts to become independent of the welfare system. This expectation is called the Social Contract.

With the exception of control cases needed for the TSMF evaluation and cost neutrality calculations (and for a preexisting study of job training program options), the experimental policies were applied to all cases statewide beginning on that date.

Four sites were selected for the evaluation. Families in these sites receiving AFDC on the project start date were randomly assigned to control and experimental policies. Families subsequently found eligible for AFDC were also randomly assigned to control and experimental policies using a process based on the social security number of the grantee.

Michigan's cost neutrality calculations for the period from October, 1992 through March, 1995 showed that \$77.5 million in state costs and \$20.5 million in federal costs were saved. These results are detailed in Chapter III, Table 2. Unfortunately, the federal formula produces few details concerning the sources of these savings. The formula can be described as simply a "black box." The mechanisms generating costs or savings are not illuminated. The independent evaluator (Abt Associates) reported reductions in AFDC benefits paid to families covered by the TSMF policies in the first two years of the study (Werner and Kornfeld, 1994, pp. 51 and 60-61, and 1995, pp. 61-65 and 73-75). This supports similar results from the cost neutrality calculations. However, the cost neutrality calculation is the only source of administrative cost data.

Estimates of the excess costs or savings resulting from Michigan's welfare reforms are the result of projecting the very small differences observed between costs for control cases and costs for experimental cases in the research sites to statewide proportions (see Chapter VI for calculation details).

After thirty months, there was virtually no difference in the average AFDC benefit cost between the control and experimental samples: \$7,047 for control families and \$7,020 for experimental families.

There may thus be no significant differences between control and experimental values, and the projected savings shown in Table 3 may be illusory. If so, claims of success for Michigan's welfare reform demonstration based on results from the first thirty months are premature. Political leaders naturally want to announce success, but such announcements would prove embarrassing if subsequent data showed a reversal, even if those subsequent results also were too small to be statistically significant. In other words, incautious use of early results may prove problematic politically. Michigan's governor and social services director chose to take this risk and made claims of success public.

Table 3 shows that the TSMF demonstration resulted in \$173.92 million in savings from reduced benefit costs. These savings were earned, in part at least, through increased administrative efforts, resulting in administrative cost increases. The result is a net savings of \$173.92 million - \$75.95 million = \$97.97 million. While this is only 1.4 percent of the total of \$7.12 billion in expenses, the result challenges two common perceptions about the cash welfare system. First, it is believed by many advocates for the poor that welfare reform resulting in cost savings will be at the expense of the poor, but TSMF did not require grant or service reductions—in fact, service costs increased. Second, the “welfare bureaucracy” and

out-of-wedlock childbirth are often blamed by fiscal conservatives for the cost of welfare, but TSMF used increases in that bureaucracy to generate net savings without restricting benefits to illegitimate children or their mothers.

Since the estimate of excess costs or savings obtained is based on random samples, it is subject to sampling uncertainty. This uncertainty should be considered whenever the estimate is used. The federal terms and conditions, however, neither require a measure of the uncertainty in the resulting estimates nor suggest any way to calculate such a measure.

One useful measure of uncertainty is the confidence interval, a range of possible values for excess costs or savings, usually surrounding the single estimated value. The confidence interval has an associated confidence level, which is the probability that the interval includes the true value of the excess costs or savings. Confidence intervals are widely used to describe uncertainty in survey results. Thus, while their technical meaning may not be well-understood, they can be assumed to be familiar to most data users within government.

Confidence intervals, however, are computed under assumptions about the behavior of the estimator which may not be met by cost neutrality estimates. By combining two statistical techniques, resampling and bootstrapping, percentile confidence intervals (equivalent to confidence intervals) may be estimated for cost neutrality results. Percentile values for Michigan's October, 1992 through March,

1995 cost neutrality results are shown in Table 13, Chapter VII, and repeated here as Table 14.

Table 14

Savings From Welfare Reform in Michigan, October 1992 Through March 1995
(Millions of Dollars)

	Estimated Value	Lower Bound	Upper Bound	Length of Percentile Confidence interval as a Percent of Estimated Value
Federal Savings				
Administrative	-41.9	-64.1	-18.4	109%
Benefits	62.8	-20.4	152.5	275%
Total	20.9	-61.1	110.9	823%
Michigan Savings				
Administrative	-41.9	-64.1	-18.4	109%
Benefits	110.4	51.6	172.2	109%
Total	68.5	6.2	132.3	184%
Total Savings				
Administrative	-83.8	-128.2	-36.9	109%
Benefits	173.3	38.0	315.5	160%
Total	89.5	-46.5	237.8	318%

The table shows that there is considerable uncertainty in the savings earned by Michigan's welfare reform demonstration. It is clear that some excess administrative costs have been incurred (between \$36.9 million and \$128.2 million, shared equally by Michigan and the federal government). The percentile confidence intervals for these quantities do not include zero, so a test of the hypothesis that no change occurred in administrative costs would be rejected at the 5 percent level.

Michigan has saved between \$51.6 million and \$172.2 million in benefit costs, resulting in a total savings of between \$6.2 million and \$132.2 million. Again, the percentile confidence interval does not include zero, so these savings are statistically significant. Total benefit costs (federal and state) have dropped between \$38.0 million and \$315.5 million, also a statistically significant result. It is unclear whether federal benefit costs, total federal costs, or total costs have risen or fallen, since their percentile confidence intervals contain zero.

After discussion of these percentile confidence intervals, Gerald H. Miller, Director of the Michigan Department of Social Services, asked what probability could be assigned to overall savings for Michigan, for the federal government, and overall. This is equivalent to asking for the confidence level for one-sided percentile confidence intervals on these quantities which have zero as their lower bounds. The result for Michigan is a percentile level of 98.7 percent. Similar calculations yield percentile levels of 62.3 percent that federal funds were saved and 88.4 percent that overall

savings were achieved. Dr. Miller thus shifted the question from the size of savings to the probability that some savings existed.

Weiss and Bucuvalas (1980, pp. 13-15) offer these possibilities for the use of research results by political decision makers:

1. The decision maker may apply research results to an appropriate, specific policy or practice that is consistent with the researchers' implicit model.
2. He/she may use it to reduce his/her level of uncertainty.
3. Research can be used by the decision maker to bolster his/her supporters.
4. It may be used to persuade or neutralize the decision maker's critics.
5. It may be used to reinforce a commitment made previously.
6. The decision maker may refer to research in order to legitimate decisions which have already been made.
7. The decision maker may use research to shift responsibility for unpopular decisions to the researchers.

With the exception of the last form of use, none of these is unethical, but they stray successively further from the researchers' implicit model. Michigan's cost neutrality results have been used by Governor John Engler in most of the first six ways, but not in the seventh or in any other clearly unethical manner. In most cases, the use has been policy-oriented, to rally support for the TSMF approach to welfare reform and for Governor John Engler's belief that the states should be even more free to experiment.

The effect of their repeated use has, however, enhanced the career of the Governor. After two years, cost neutrality results indicated that Michigan had saved a total of \$101 million with TSMF. This number began appearing regularly in Governor Engler's public pronouncements, including national television interviews. The January 20, 1995 Detroit Free Press carried a four-column photograph of the governor holding a graph describing cost neutrality results during his testimony before the House Ways and Means Committee (Montgomery, p. 6A). The Governor's success in welfare reform and other policy areas, including tax cuts and school finance reform, led to speculation about a vice-presidential or presidential candidacy in The Economist ("The next-," 1996, p. 29), in Time ("If not," 1996, p. 25), on the National Broadcast Company's "Meet the Press" ("Engler avoids," 1996, p. 1A), and by the Associated Press (O'Brien, 1996, p. 6D).

Conclusions

What Is the Role of Welfare Cost Neutrality in National Welfare Reform?

As shown above, waiver demonstration projects were an important feature of President Ronald Reagan's welfare reform efforts and lie at the heart of those efforts for Presidents George Bush and Bill Clinton. Cost neutrality serves to significantly limit the options states consider for waivers. Additionally, cost neutrality calculations can be completed more quickly than evaluations, and thus provide the earliest indicators of a demonstration's performance.

What Place Does it Have in Theories of Federalism? How Do Theories of Federalism Explain the Reasons for Imposing This Requirement?

As shown in Chapter V and summarized above, waiver cost neutrality is a novel and significant characteristic of federalism in the 1990s. As grander reform efforts fail in the Congress or are vetoed, waivers and the accompanying cost neutrality requirement: (a) increase state flexibility, (b) transfer some pressure for reform from the federal level to the state level, (c) protect federal financial interests from riskier reforms, (d) serve as an intermediate model to block grants on one hand and continued federal control of welfare policy on the other, and (e) partially preserves AFDC as a uniform national program by preserving basic characteristics not subject to waiver.

Under this model, the federal government retains significant power over welfare policy making by allowing the AFDC program to become less uniform from state to state, partially sacrificing an important policy goal in order to save the program, with no change in fiscal power. Ultimately, however, this model is limited and tentative. The waiver system seems an unlikely long-term support for the uncomfortable but stable point which forces seeking welfare reform have reached.

How Reliable Is the Federal Estimator of Cost Neutrality? Is This Reliability Great Enough to Support the Uses Made of Cost Neutrality Results? How Does the Use by a Governor and His/Her Top Executives of Politically Sensitive Data Change When the Idea of Statistical Uncertainty Is Introduced?

Percentile confidence intervals, similar to confidence intervals, were computed for Michigan's welfare reform savings and introduced into the policy stream. The

intervals were broad, suggesting large uncertainty in the estimates, and thus, that care should be taken in using the results. Interpreting these intervals for his use, Director of the Michigan Department of Social Services Gerald Miller asked that they be converted into statements about the probability that money was saved, thus indicating that the amount was not as important as the direction.

How Can the Statistical Characteristics of Results Obtained With the Federal Calculation Method for Welfare Reform Cost Neutrality Be Determined? What Are the Characteristics of Results Obtained With the Current Method?

The approach used to compute percentile confidence intervals can be extended to include other statistical characteristics. Together with the technical characteristics of consistency and bias,¹⁷ percentile confidence intervals, as computed for this dissertation, provide a standard for comparing alternative versions of the formula prescribed for waiver cost neutrality calculation. Of two competing formulae with approximately equivalent bias and consistency, the one more likely to have the shorter percentile confidence interval is preferred. Results obtained for the federal formula indicated relatively high uncertainty; other approaches to obtaining cost neutrality estimates might produce narrower percentile confidence intervals.

¹⁷An estimator is *consistent* if it is equal to the true population value when the sample size grows to the population size. *Bias* is the difference between the true population value and the expected value of the estimator.

Critique

This research is based on a single case study where the author had little control over events. Consequently, some results have limited validity when used inferentially. That is, when applied to the universe of similar situations.

The conclusions reached concerning the role of cost neutrality in national welfare reform are not affected by this limitation because they are based on cost neutrality's general characteristics, not on characteristics specific to its use in Michigan. Conclusions reached about the place occupied by cost neutrality in American federalism are similarly unaffected, for the same reason.

However, conclusions reached about the statistical characteristics and reliability of the federal cost neutrality formula would be strengthened by using data covering the full demonstration period, from October 1992 through September 1999. Use of similar data from other states would also improve the validity of these conclusions. Further, obtaining the data set at the time official calculations are done is very desirable. This would prevent the need to distinguish the research sample from the official sample.

Finally, results on the use by Governors and top state executives of politically sensitive data with inherent uncertainty would be considerably strengthened by reviewing more cases. Additional welfare reform cost neutrality cases would be helpful, as would cases from other programs. Sensitive results in environmental quality, public health, welfare error rates, and inter-census demographics are often based on sampling, and thus are subject to uncertainty.

Recommendations

Review Methods of Estimating Administrative Costs

As described in Chapters III and VII, Michigan encountered significant problems in implementing and interpreting the results of a time study intended to estimate increases or decreases in administrative costs due to its welfare reform demonstration. The overall result, an increase of \$75.95 million in costs for October 1992 through March 1995, was a change large enough to have impacted the Department's budget, if accurate, but no impact was discernible. One reasonable interpretation of this result is that administrative resources were indeed transferred from control cases to experimental cases in the research sites, but the projection to statewide values is improper because no such transfers can take place in the remaining offices statewide (because there are no control cases outside of the research sites).

In any case, Michigan has asked permission to abandon its time study, and permission has been granted. The Department of Health and Human Services should undertake a review of administrative cost methodologies in use nationwide for the purpose of determining standards of best practice. Results from states approximating these best practices should then be reviewed for their level of impact on final cost neutrality calculations. It is possible that, properly computed, administrative costs are irrelevant and should not be included in waiver cost neutrality.

Review Use of Cost Neutrality Results by Other Political Leaders

This dissertation considers the use of one politically-sensitive, sampling-based result, waiver cost neutrality, by one political leader, Governor John Engler of Michigan. Understanding of this phenomenon would be greatly enhanced by similar case studies of how other governors' have used waiver cost neutrality results or, more generally, use by political leaders of significant information based on sampling and thus inherently subject to random variation. As American society becomes more complex and the demand for information grows, this phenomenon should become increasingly common. It presents risks to politicians and to those they govern.

Reconsider the Federal Formula

The Department of Health and Human Services should undertake these comparisons of other approaches to computing cost neutrality. Some alternatives to consider include quarterly or annual calculations, instead of cumulative calculations, and reflecting the actual sample selection design more precisely than as a simple random sample. The robustness of results in the presence of extreme costs for individuals in the sample (such as unusual medical costs) and minor errors in carrying out the experimental design should also be investigated.

Consider a National Research Strategy

If AFDC is not converted to a block grant, welfare researcher Michael Wiseman's view that cost neutrality may be a federal policy tool (1995, p. 10) should be given further consideration. One approach to the scattered and unsystematic nature of the current collection of AFDC waiver demonstration projects is to approach the whole collection of projects from a meta-analysis or multiple regression perspective. Some underlying results with wide validity may be available.

Another approach is to consider them as pilot projects, and to use the period until their expiration as a planning period. A few states, working with the Department of Health and Human Services, could select a small number of policy options showing the greatest promise and design a multi-state demonstration which would consider interactions with economic conditions and interactions among policy options. The motivation for states would be federal appropriations to cover the costs of evaluation and administration of multiple policies. The federal motivation would be the development of a uniform national policy reflecting current research.

BIBLIOGRAPHY

- Aaron, H. J. (1973). Why is welfare so hard to reform? Washington, DC: The Brookings Institution.
- Anderson, W. (1957). The nation and the states, rivals or partners? Minneapolis: University of Minnesota Press.
- Anton, T. J. (1989). American Federalism and Public Policy. Philadelphia: Temple University Press.
- Babcock, C. P. (1989). Letter to Anna Thornton. March 16, 1989.
- Baillargeon, D. & Cook, K. L. (1995). New York's and Maryland's waiver experiences. Public Welfare, 53, 1, 10-16.
- Baily, R. L. (1996, March 25). Does Head Start make the grade? Detroit News, p. 1B.
- Baiz, D. (1994, December 11). Governors press Congress for power to manage programs at state level. New York Times, p. A6.
- Bane, M. J. (1994). Letter to Gerald H. Miller, received by FAX October 5, 1994.
- Bane, M. J. (1995). Reviewing the waiver review process. Public Welfare, 53, 1, 7-9.
- Bane, M. J. and Ellwood, D. T. (1983). The dynamics of dependence: The routes to self-sufficiency. Cambridge, MA: Urban Systems Research and Engineering.
- Barnhart, J. (1992). Letter to Gerald H. Miller, received August 25, 1992.
- Brodkin, E. Z. (1986). The false promise of administrative reform. Philadelphia: Temple University Press.
- Burtless, G. (1989). The effect of reform on employment, earnings, and income. In P. H. Cottingham & D. T. Ellwood (Eds.), Welfare policy for the 1990s (pp. 103-140). Cambridge, MA: Harvard University Press.

- Caldwell, D. & Duncan, N. (1994). AFDC Home Call Verification Project. Memorandum to Executive Council Members. Lansing, MI: Michigan Department of Social Services.
- Chandler, R., & Plano, J. (1982). The public administration dictionary. New York: Wiley.
- Christoff, C. (1996a, February 5). Engler says new welfare plan copes with Clinton's objections. Detroit Free Press, p. 8A.
- Christoff, C. (1996b, February 5). Governors agree unanimously on welfare plan; could break gridlock. Detroit Free Press, pp. 1A, 7A.
- Cleary, D. (1994). TSMF HHS waivers 92/94. Memorandum to EC (Executive Committee of the Michigan Department of Social Services). Lansing, MI: Michigan Department of Social Services.
- Clinton, W. J. (1993). Executive Order 12875 of October 26, 1993: Enhancing the intergovernmental partnership. Washington, DC: Office of the President.
- Clinton, W. J. (1996, January 9). To the House of Representatives (veto message for H.R. 4).
- Clinton's welfare plan establishes standards for teen-age parents. (1996, May 5). The Detroit News, p. 10A.
- Conlan, T. (1988). New federalism: Intergovernmental reform from Nixon to Reagan. Washington: Brookings Institution.
- Dean, H., Thompson, T. G., Carper, T., Engler, J., Carnahan, M., & Carlson, A. H. (1995). Letter to Representative Bill Archer, February 23.
- Department of Health and Human Services (Undated; Approx. 1988). Establishment, organization and authority of the Interagency Low Income Opportunity Advisory Board. Washington, D.C.: Author.
- Department of Health and Human Services (1993a). Welfare reform through state innovation: A status report on two cohorts of welfare waivers. Washington, D.C.: Author.
- Department of Health and Human Services (1993b, August 18). HHS News. Washington, D.C.: Author.

- Department of Health and Human Services, Office of the Secretary, Health Care Financing Admin. & Admin for Children and Families (1994). Medicaid program; demonstration proposals pursuant to Section 1115(a) of the Social Security Act; policies and procedures. Federal Register, 59, 186: Chap. 1, pp. 49249-49251. Washington, DC: National Archives and Records Administration.
- Dilger, R. J. (1989). National intergovernmental programs. Englewood Cliffs, NJ: Prentice-Hall.
- Dixon, J. (1995, October 11). Clinton says he'll end welfare state if reform fails. The Lansing State Journal, p. 3A.
- Douglas, P. H. (1939; reprinted 1971). Social Security in the United States: An analysis and appraisal of the federal Social Security Act (2nd ed.). New York: McGraw-Hill (1939) and Da Capo Press (1971).
- Drum, T. (1995). AFDC and State Assistance (SA) Projections. Memorandum to Nancy Duncan, May 24. Lansing, MI: Michigan Department of Social Services.
- Duncan, N. (1996). AFDC caseload trends. Memorandum to Gerald H. Miller and 11 others, February 5. Lansing, MI: Michigan Department of Social Services.
- Duncan, N. (1996). Special grants quarterly report for the quarter ending September 30, 1995. Memorandum to Executive Council Members, January 3. Lansing, MI: Michigan Department of Social Services.
- Dye, T. R. (1990). American federalism: Competition among governments. Lexington, MA: D. C. Heath and Company.
- Efron, B. & Tibshirani, R. (1993). An introduction to the bootstrap. New York: Chapman & Hall.
- Elazar, D. J. (1966). American federalism: A view from the states. New York: Thomas Y. Crowell.
- Engler, J. (1992). To strengthen Michigan families. (A special message to the people of Michigan). Lansing, MI: Michigan Department of Social Services.
- Engler, J. (1995a, January 13). Set the states free: Welfare will be reformed best at local level. The Detroit Free Press, p. 11A.

- Engler, J. (1995b, January 13). Michigan Governor John Engler: Testimony before the House Ways and Means Subcommittee on Human Resources. Lansing, MI: Office of the Governor.
- Engler, J. (Speaker). (1995c, January 31). Eye on America segment of the CBS Evening News.
- Engler avoids answer on vice president bid (1996, February 5). Lansing State Journal, p. 1A.
- Florio, J. & Carlson, A. H. (1993). Letter to all governors, December 21.
- Friedrich, C. J. (1964). New tendencies in federal theory and practice. Unpublished manuscript.
- Gallman, Y. (1995, January 14). Engler makes his welfare pitch but so do rivals. Detroit Free Press, p. 7A.
- Garasky, S. & Barnow, B. S. (1992). Demonstration evaluations and cost neutrality: Using caseload models to determine the federal cost neutrality of New Jersey's REACH demonstration. Journal of Policy Analysis and Management, 11,4, 624-636.
- Germanis, P. (1995). Letter to Robert G. Lovell, October 27.
- Gillespie, E. & Schellhas, B. (Eds.) (1994). Contract with America. New York: Times Books.
- Glendening, P. & Reeves, M. (1977). Pragmatic federalism: An intergovernmental view of American government. Pacific Palisades, CA: Palisades Publishers.
- Gore, A. (1993). Creating a government that works better & costs less. Washington, DC: U. S. Government Printing Office.
- Greenberg, M. (1994, July 19). The Beno decision and the waiver process. Insert to CLASP Update.
- Greenberg, M. (1995). Fixing welfare waiver policy. Public Welfare, 53, 1, 10-17.
- Greenberg, M. (1996, April 26). President Clinton and welfare reform. CSPAN-2.
- Gueron, J. and Pauly, E. (1991). From welfare to work. New York: Russell Sage.

- Handler, J. F. (1995). The poverty of welfare reform. New Haven, CT: Yale university Press.
- Harmon, S. (1995, August 1). Governors fail to agree on welfare and Medicaid policy. Gongwer News, pp. 1-2.
- If not Dole, then who? (1996, February 5). Time, p. 25.
- Jehl, D. (1994, June 15). President offers delayed proposal to redo welfare. New York Times, pp. A1 and A10.
- Johnson, A. S. III. (1995). States aren't waiting for federal welfare reform. Public Welfare, 53, 1, 18-20.
- Kharfen, Michael. (1995). HHS approves welfare waiver for Connecticut. Press release, December 18. Wahsington: Department of Health and Human Services.
- Koch, W. (1995, January 28). States boast of welfare reforms. Lansing State Journal, pp. 1A - 2A
- Lovell, R. G. (1995a). Questions from August 9th meeting. Memorandum to Gerald H. Miller, August 9.
- Lovell, R. G. (1995b). Letter to Peter Germanis, August 22.
- Lovell, R. G. (1995c). NAWRS conference in Jackson, Wyoming. Memorandum to Nancy Duncan, October 13.
- Lovell, R. G. (1995d). Letter to Peter Germanis, October 16.
- Mead, L. M. (1986). Beyond entitlement: The social obligations of citizenship. New York: The Free Press.
- Mead, L. M. (1992). The New Politics of Poverty. New York: BasicBooks.
- Meizlish, D. (1996). FY 95 Cost Neutrality. Memorandum to Bob Lovell, January 25.
- Michigan Department of Social Services (Undated). State Family Assistance Administrative Savings. Unpublished results.

- Michigan Department of Social Services (1989). Report on the Michigan WIN demonstration Program. Lansing, MI: Author.
- Michigan Department of Social Services (1994a). [Cost neutrality summary results]. Unpublished raw data.
- Michigan Department of Social Services (1994b). Information packet, May, 1994. Lansing, MI: Author.
- Michigan Department of Social Services (1994c). Analysis of Work and Responsibility Act of 1994. Lansing, MI: Author.
- Miller, G. H. (1992). Letter to Department of Health and Human Services, Attention of Howard Ralston, July 31.
- Miller, G. H. (1994). Letter to Mary Jo Bane, May 10.
- Miner, B. J. (1995, October 6). Dems blast Engler over U. S. grant. Lansing State Journal, pp. 1A - 2A.
- Mitchell, A. (1996, May 5). Clinton calls for schooling of mothers on welfare. New York Times, p. A17.
- Montgomery, L. (1995, January 20). In welfare debate, Engler is both a model and a maverick. Detroit Free Press, pp. 1A and 6A.
- Nathan, R. P. (1995, October 27). Hard road ahead: Block grants and the "devolution revolution". Discussion paper prepared for a seminar for journalists at The Brookings Institution.
- National Commission on the State and Local Public Service (1993a). Frustrated federalism: A for state and local health care reform. Albany, NY: The Nelson A. Rockefeller Institute of Government.
- National Commission on the State and Local Public Service (1993b). Hard truths / tough choices: An agenda for state and local reform. Albany, NY: The Nelson A. Rockefeller Institute of Government.
- The next-but-one president? (1996, January 27). The Economist, p. 29.

- Norris, D. F. & Thompson, L. (1995). Findings and lessons from the politics of welfare reform. In D. F. Norris and L. Thompson, The politics of welfare reform, pp. 215-238. Thousand Oaks, CA: Sage Publications.
- O'Brien, C. (1996, February 18). GOP strategy point to Engler. The Lansing State Journal, p. 6D.
- Office of Management and Budget. (1995). Potential poverty and distributional effects of welfare reform bills and balanced budget plans. Washington, D. C.: Author.
- Office of Planning and Research, U. S. Department of Labor. (1965). The negro family: The case for national action. Washington, D. C.: Author
- Osborne, D. & Gaebler, T. (1992). Reinventing government: How the entrepreneurial spirit is transforming the public sector. Reading, MA: Addison-Wesley.
- Pear, R. (1995, December 23). Welfare bill cleared by Congress and now awaits Clinton's veto. New York Times, p. A1.
- Pear, R. (1996a, January 10). G.O.P.'s plan for welfare draws a veto. New York Times, p. A10.
- Pear, R. (1996b, February 7). Governors' welfare plan seeks to close gap on bill. New York Times, p. A9.
- Pear, R. (1996c, April 27). Spending drops 10 percent as Clinton signs budget bill. New York Times, pp. A1, A8.
- Peterson, P. E. (1981). City limits. Chicago: University of Chicago Press.
- Peterson, P. E. (1995). The price of federalism. Washington: The Brookings Institute.
- Peterson, P. E., Rabe, B. G. & Wong, K. K. (1987). When federalism works. Washington: The Brookings Institute.
- Peterson, P. E. & Rom, M. C. (1990). Welfare magnets: A new case for a national standard. Washington: The Brookings Institute.
- Raum, T. (1995, September 17). President supports welfare bill. Lansing State Journal, p. A1.

- Reed, L. W. (1995, January 9). Welfare reform: Have we gone far enough? Viewpoint on Public Issues. (Available from The Mackinac Center for Public Policy, P. O. Box 568, Midland, MI 48640).
- Reischauer, R. D. (1989). The welfare reform legislation: Directions for the future. In P. H. Cottingham & D. T. Ellwood (Eds.), Welfare policy for the 1990s (pp. 10-40). Cambridge, MA: Harvard University Press.
- Rivlin, A. M. (1992). Reviving the American dream. Washington: The Brookings Institute.
- Samuelson, R. (1996, February 16). Medicaid ills demand swap of accountability. Detroit News, p. 9A.
- Sanford, T. (1967). Storm over the states. New York: McGraw-Hill.
- Shalala, D. (1994a). Letter to John Engler, received July 7, 1994.
- Shalala, D. (1994b). Report to the nation's Governors. Washington, DC: Department of Health and Human Services.
- Shannon, J. & Kee, J. E. (1989). The rise of competitive federalism. Public Budgeting and Finance, 2(4), 5-20.
- Springer, P. (1994). Untitled document FAXed to Bob Lovell March 23, 1994.
- Staff. (1988, October 5). The Family Support Act of 1988: Welfare reform. National Governor's Association InfoLetter.
- Staff. (1995a, September 11). Ohio, Florida win waivers to expand demos; federal fast-track gets first test. Welfare to Work, p. 1.
- Staff. (1995b, October 9). HHS approves welfare waivers for Washington, North Dakota, Illinois. Welfare to Work, p. 1.
- Staff. (1995c, October 9). Conferees cut \$1 billion from food stamps; boost WIC by \$260 million. Economic Opportunity Report, p. 363.
- Staff. (1995d, November 6). OMB to analyze effects of welfare reform bills on children. Welfare to Work, p. 1.

- Staff. (1996a, February 12). WashingtonGram: Three welfare demonstration waivers. Welfare to Work, unpaginated.
- Staff. (1996b, February 26). Around the nation: Annapolis, Md. Welfare to Work, unpaginated.
- Staff. (1996c, March 25). USDA requests increases in WIC, Food Stamp budgets for FY '97. Economic Opportunity Report, p. 103.
- Staff. (1996d, April). Almanac. Northeast-Midwest Economic Review, p. 14.
- Staff. (1996e). The Williamsburg resolves. Rockefeller Institute Bulletin, pp. 17-19.
- Staff. (1996f, May 6). FY '96 budget details. Economic Opportunity Report, p. 153.
- Steinfels, P. (1995, November 10). Christian and Jewish groups call for veto of welfare bill. New York Times, p. A11.
- Stenberg, C. W. (1996). Engines of change: Leading from the states. In J. L. Perry, Handbook of Public Administration (2nd ed.). San Francisco, CA: Jossey-Bass.
- Stevens, C. (1995, January 13). Welfare reform saves taxpayers \$100 million, Engler to testify. Detroit News, 5A.
- Stevens, R. B. (Ed.). (1970). Statutory history of the United States: Income security. New York: Chelsea House Publishers.
- Strawn, J., Dacey, S. & McCart, L. (1994). Final report: The National Governors' Association survey of welfare reforms. Washington, DC: National Governors' Association.
- Swoap, D. B. (1982). Federalism: New directions at the Department of Health and Human Services. In R. B. Hawkins, Jr. (Ed.), American federalism: A new partnership (pp. 121-130). New Brunswick, NJ: Transaction Books.
- Toner, R. (1995, September 20). Senate approves welfare plan that would end aid guarantee. New York Times, pp. A1 and A17.
- Trattner, W. I. (1994). From poor law to welfare state: A history of social welfare in America (5th ed.). London: Collier Macmillan.

- Vojeda, B. (1996, February 3). Most states are shaping their own welfare reform. Washington Post, pp. A1, A10.
- Walker, D. B. (1995). The rebirth of federalism: Slouching toward Washington. Chatham, NJ: Chatham House Publishers.
- Weiss, C. H., and Bucuvalas, M. J. (1980). Social science research and decision-making. New York: Columbia University Press.
- Werner, A., and Kornfeld, R. (1994). The evaluation of To Strengthen Michigan Families: Second annual report: First-year impacts. Cambridge, MA: Abt Associates, Inc.
- Werner, A., and Kornfeld, R. (1995). The evaluation of To Strengthen Michigan Families: Second annual report: Second-year impacts. Cambridge, MA: Abt Associates, Inc.
- West Publishing Co. (1991). United States code annotated: Title 42: The public health and welfare: §§ 604 to 1381. St. Paul, MN: Author.
- Whitman, D. (1995, January 16). Welfare: The myth of reform. U.S. News & World Report, pp. 30-39.
- Whitman, D. & Cooper, M. (1993, December 13). Fixing the welfare mess. U.S. News & World Report, pp. 30-34.
- Wildavsky, A. (1987). The new politics of the budgetary process. Glenview, Illinois: Scott, Foresman and Company.
- Wines, M. (1996, May 5). Republicans face plight that hurt Democrats in 1994. New York Times, pp. A1 and A15.
- Wiseman, M. (1993). Welfare reform in the states: The Bush legacy. Focus, 15 (1) 18-36.
- Wiseman, M. (1995). Fixing welfare waiver policy. Public Welfare, 53, 1, 10-16.
- Wright, D. S. (1987). A century of the intergovernmental administrative state: Wilson's federalism, New Deal intergovernmental relations, and contemporary intergovernmental management. In Chandler, R. C. (Ed.), A centennial history of the American administrative state, (pp. 219-260) . New York: The Free Press.

Yin, R. (1989). Case study research: Design and methods. Newbury Park, CA: Sage Publications.

;