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6/19/78

HOLD PER McINTYRE

He will call back if he wants to go in.

Jim McIntyre
withdrawing

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

JUN 9 1978

MEMORANDUM FOR THE PRESIDENT

FROM: James T. McIntyre, Jr.

SUBJECT: Incremental Welfare Reform Administration Strategy

As you know, on June 7 Stu Eizenstat, Secretaries Califano and Marshall, Governor Dukakis, and Representatives Ullman, Corman, Perkins, Hawkins, and Rangel met to discuss a welfare reform compromise. They agreed that HEW would draft a new bill by June 16 based on specifications aired by the New Coalition. The Hill participants said they would try to get the bill on the House calendar by July 15. The net incremental cost of this bill over existing programs in 1982 is to be about $10 billion. It would be implemented on October 1, 1980, which means substantial costs for the phase-up of the jobs program in both 1980 and 1981.

HEW tentatively estimates the cost of the New Coalition proposal at $13 billion in 1982, not including the impact on Medicaid which would be a further $1-2 billion. Thus, there is a long way to go in revising this proposal to meet the cost target.

The 1979 budget estimated the cost of the Program for Better Jobs and Income at $8.8 billion for 1982, in 1982 dollars. This estimate incorporated large and what have now become somewhat unlikely offsets, such as the crude oil equalization tax, which masked the true program incremental cost. CBO subsequently priced the Administration proposal at $17.36 billion in 1982, discounting most such offsets.

Comprehensive vs. Incremental Reform

In August 1977, you presented a comprehensive welfare reform proposal that was designed to clear up the "welfare mess" by promoting greater equity, providing the poor with jobs and encouraging them to work, simplifying the system by consolidating several programs, and reducing errors, fraud, and abuse. The New Coalition's

incremental proposal has only a slight advantage over current programs, and at high cost. Work incentives are weak and there are only about half as many jobs and training slots. Fiscal relief to the States may evaporate, especially when increased Medicaid expenditures are figured into State costs. No existing programs will be ended. And error rates (and their associated costs) are likely to soar as the State and local stakes in financing AFDC is reduced.

Implementation Date

Incremental reform can be implemented at an early date and does not require the long lead-time of more comprehensive reform. Enactment of the New Coalition proposal implies substantial costs for both 1980 and 1981. The 1981 costs would be nearly as much as 1982, since they would be for a full year of operation. Due to the need to phase in the jobs portion, and possibly the EITC, 1980 Federal costs would also be significant.

I do not believe we can readily afford major increases in 1980 and 1981, if we are to control inflation and make progress in reducing the deficit and balancing the budget in later years. If you do believe that the New Coalition incremental approach is acceptable, I strongly urge that you consider an implementation date delayed at least until FY 1982.

An Alternative Incremental Approach

I believe the New Coalition incremental plan will undermine the public's confidence in the Administration's and our credibility in improving the operation and management of welfare programs. I appreciate the difficulty in enacting comprehensive reform, especially given its costs. I believe we can develop a viable alternative strategy, at far less cost, that accomplishes most of the major objectives of the New Coalition plan.

We should be prepared to acknowledge that comprehensive reform will be difficult to obtain in the Congress and that problems of inflation and the costliness of reform are paramount at this time. Yet, we should be able to offer improvements that do not create a budgetary hemorrhage.

I believe HEW should explore a less costly alternative which my staff believes would cost less than $6 billion and would:

-- provide a national minimum benefit floor,

-- mandate assistance to two-parent families nationally, and

-- encourage welfare recipients to work through a richer Earned Income Tax Credit and more closely targeted Public Service Jobs Program.

I realize that, if you take this position, you will risk being accused of killing welfare reform. But I think it is important to withhold your endorsement until the proposal has been crystallized sufficiently to allow analysis of costs and of how much improvement it would actually afford over the present system.

THE WHITE HOUSE

WASHINGTON

June 19, 1978

MEMORANDUM FOR THE PRESIDENT

FROM: Stu Eizenstat
Charlie Schultze

SUBJECT: OMB Memorandum on Welfare Reform

Jim McIntyre has sent you a memorandum suggesting the Administration back away from the current framework of negotiations with Representatives Corman, Ullman, and the New Coalition to construct a compromise welfare reform bill. The memorandum argues that the target cost picked by the negotiators -- $10 billion -- is too expensive, and the bill itself will do little to improve the welfare system. The memorandum further suggests the Administration should develop an alternative proposal costing $6 billion which will accomplish a set of objectives similar to those in the compromise bill.

Secretary Califano has sent a memorandum in response arguing that negotiations should be allowed to proceed, and that the OMB $6 billion alternative is infeasible.

We agree with Secretary Califano on the substance and believe that it is crucial to continue to work closely with the Hill on the basis of the framework to which we have agreed.

-- Welfare reform remains a high domestic priority of this Administration. The current negotiations' success is problematic. But if the support levels, number of jobs, and other elements now under discussion can be attained for the $10 billion target cost, the resulting bill will significantly improve the current welfare system. Specific improvements would occur in the areas of minimum benefit levels, an increased emphasis on work, tighter administration, and fiscal relief to the states.

-- None of the participants, including the Administration, is committed in advance to support any bill emerging from the negotiations. But in recent weeks the Administration has supported current compromise attempts. The OMB proposal would sharply change the rules of the game, and require that we start all over again. Such an abrupt change in signals would undermine the Administration's credibility on the welfare reform issue and might doom the entire effort.

-- OMB is sharply critical of the cost of a compromise that costs only half as much as our original proposal. The dispute is not about whether we should add to our original proposal, but about the size of a possible reduction. The cost of the OMB proposal is limited to $6 billion only because it drastically cuts the number of jobs, the Earned Income Tax Credit, the fiscal relief, or other aspects of a compromise which will make the bill less effective and doom it politically.

The current negotiations date from the June 7 meeting at which Stu Eizenstat, Joe Califano, and Representatives Rangell, Corman, Ullman, Hawkins, and Perkins, agreed to try to develop a compromise welfare bill along the lines proposed by the New Coalition. All parties agreed that the implementation of any actual legislation could be postponed to FY 1981.

The bill now under discussion would make major progress toward the goals of our original Program for Better Jobs and Income (PBJI).

-- The compromise bill establishes a national minimum benefit floor for all families with children. This is a major step toward the PBJI goal of a national benefit floor for all individuals.

-- The compromise bill creates 700,000 public service jobs. This number is less than the 1.4 million jobs authorized in PBJI, but it is sufficient to absorb all those who are expected to work full time and who are eligible for benefits under the compromise bill.

-- The compromise bill mandates a number of improvements in administrative practices including simplified benefit calculations, more frequent client reporting, and sanctions on states for excessive payments made in error. PBJI would have introduced a similar set of improvements, but in addition, would have Federalized most welfare administrative personnel, something the compromise bill does not do.

We have examined the OMB proposal outlined in the McIntyre memorandum. We believe the memorandum sharply understates the problems and consequences of putting together a $6 billion package. During the last ten days, we have seen the agonizing choices involved in scaling down PBJI to the compromise bill: the exclusion of singles and childless couples from coverage, the lowering of eligibility limits, a reduction in the number of jobs, and so on. It is still not clear that a mutually acceptable package will fit within the $10 billion price tag. To reduce further the compromise package to $6 billion would result in a package that would be indefensible on policy grounds and would be unacceptable to our supporters on the Hill.

It is crucial that OMB be fully involved in analyzing the cost estimates of any emerging compromise to ensure that there is well founded agreement on cost estimates within the Administration and that the bill's costs fall within the $10 billion target.

We should know the result of the negotiating process within the next two weeks. <u>While you are not committed to supporting all the specific provisions which might be hammered out in the negotiations, it would be highly counterproductive to withdraw our support from compromise attempts at this time</u>.

THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE
WASHINGTON, D.C. 20201

June 14, 1978

MEMORANDUM FOR THE PRESIDENT

FROM JOE CALIFANO

SUBJECT: OMB Memorandum on Welfare Reform

Jim McIntyre has sent you a memorandum that criticizes both the substance and cost of an incremental welfare reform compromise being developed by the Administration in negotiations with Representatives Ullman and Corman and the New Coalition. The memo sketchily suggests an alternate, less expensive approach.

I am frankly puzzled by the OMB memorandum. It fails to take into account developments since your meeting on welfare reform with Corman, Ullman, Long, and Moynihan several months ago, the political realities we face, and the substance of the compromise that we are seeking to work out.

As you know, at your meeting with Congressional leaders on welfare reform, you urged us all to try to work out a compromise that could be enacted this year. Since then Ray Marshall and I, together with Stu Eizenstat and members of the Domestic Policy Staff, have been actively exploring the possibility of a compromise that would be acceptable to both Corman and Ullman. This has been an extremely difficult process.

Last Wednesday, as you also know, we finally achieved something of a breakthrough when Ray Marshall, Stu Eizenstat, and I met with Corman, Ullman, Rangel, Perkins, Hawkins, and Governor Dukakis (representing the New Coalition). At that meeting, we reached an agreement in principle to try to work out a compromise welfare reform proposal -- based on specifications prepared by the New Coalition (a neutral vehicle from which both Corman and Ullman are willing to work) and a set of principles for welfare reform reflecting the Administration's basic views. As I noted in the last Weekly Report, the compromise should cost no more than $10 billion in 1982 dollars (half the cost of your original, comprehensive proposal).

Since last Wednesday's meeting, our staffs have been working on translating the New Coalition's specifications and our principles into a bill. It is by no means clear that this process will be successful: the perspectives of Corman and Rangel on the one hand, and Ullman on the other, are so different that compromise is difficult, and we may not be able to come up with draft language that will satisfy all the parties (including the Administration).

Beyond that, we recognize the increasing odds against House action this year on even an incremental welfare reform bill that involves new federal expenditures (even three years out). In short, the outcome of this process is still very problematic, and it may well be halted by mutual agreement or by action of one of the parties in the next few weeks.

But to take the action that OMB proposes now -- to come forward with a new Administration proposal making only minor changes in the existing programs at a $6 billion price tag -- would, in my view, seriously embarrass the Administration and undermine its credibility in light of the undertakings made by Ray Marshall, Stu Eizenstat, and me last week and in light of the general understanding of your position.

Let me deal briefly with some of the specific points in the OMB memorandum:

Substance: The OMB assertion that the New Coalition proposal has only a "slight advantage" over current programs is simply incorrect. To be sure, the compromise does not consolidate all the existing welfare programs. But we have recognized all along that any compromise proposal would have to be "incremental" in that sense. It does, however, track the framework of your program and contain many of the major substantive elements of the Program for Better Jobs and Income:

- a national minimum benefit for families with children;
- federal subsidies for State supplements above that level to provide fiscal relief;
- a "flat grant" system that would eliminate complicated "special needs" provisions in the current AFDC program and greatly simplify the calculation of work expenses;
- common definitions of income and assets in AFDC and Food Stamps to promote efficient administration;

- monthly reporting of income and family composition;
- cashing out Food Stamps for SSI recipients (which could eventually lead to a total cash-out of Food Stamps); and
- a major public service jobs program for welfare recipients that would make coverage of two-parent families politically feasible.

The compromise plan is not perfect, but it would represent a substantial improvement over the current system, expand work opportunities, provide fiscal relief, and introduce administrative efficiencies that would reduce error and fraud.

Cost: The memorandum suggests that the Administration put forward a new proposal with a cost of less than $6 billion in 1982. Apart from the political impossibility of launching such an alternative at this stage (even Al Ullman is #3-4 billion higher), it is simply not possible to "buy" the kind of significant reform of the current system that you have sought in the past for that price tag.

One of the fundamental principles of your approach has been that coverage should be extended to two-parent families on a nationwide basis, but that the primary means of assistance should be through jobs and the Earned Income Tax Credit rather than welfare payments. This cannot be done for $6 billion in 1982 unless one were willing to limit arbitrarily the number of PSE jobs to a figure far below the number necessary to serve principal earners in families with children on cash assistance, or if one were willing to limit eligibility of two-parent families in ways that the Administration has always considered inequitable.

Timing: The OMB memorandum notes that incremental reform plans such as that of the New Coalition could be implemented sooner than the comprehensive program you proposed, and that this could create budget problems for fiscal years 1980 and 1981. We understand and share OMB's concern on this point, but at last Wednesday's meeting I secured an agreement from the Congressional leaders that implementation should be delayed until Fiscal 1981, the year your original program would have gone into effect.

Politics: The OMB suggestion, as I have already indicated, makes absolutely no political sense now. Apart from the damage to Administration credibility, there simply is no way that Corman and the liberals would accept a bill of the kind

alluded to in the OMB memorandum. If the Administration advanced such a proposal, we would be viewed as having backed off from most of our goals in the welfare reform area and, as OMB acknowledges, we would be viewed as having "killed" welfare reform this year.

In sum, I urge you not to act on OMB's suggestions. The negotiating process now underway is extremely delicate, and the chances are even, at best, that it will lead to a compromise bill that will pass the Ways and Means Committee -- let alone the full House -- this year. But that process should go forward. As I have indicated before, unless you want to back totally off welfare reform, the work underway now will lay the groundwork for introduction next year by the Administration of a significant incremental welfare reform proposal if we are unable to complete Congressional action in 1978. The Administration should not be in the position of calling a halt before there is a general consensus that a compromise cannot be worked out or that enactment of a bill is not feasible this year.

THE WHITE HOUSE

WASHINGTON

DATE: 12 JUN 78

FOR ACTION: STU EIZENSTAT — FRANK MOORE (LES FRANCIS)

JACK WATSON — CHARLIE SCHULTZE

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XC: CABLE ✓
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Ronna ✓

INFO ONLY: THE VICE PRESIDENT — ANNE WEXLER

SUBJECT: MCINTYRE MEMO RE INCREMENTAL WELFARE REFORM ADMINISTRATION STRATEGY

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+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +

+ BY: 1200 PM WEDNESDAY 14 JUN 78 +

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ACTION REQUESTED: YOUR COMMENTS

STAFF RESPONSE: ( ) I CONCUR. (✓) NO COMMENT. ( ) HOLD.

PLEASE NOTE OTHER COMMENTS BELOW:

CONGRESSIONAL LIAISON:

We should stay out of the fight until it falls apart on its own -- and it will. We don't need to take either side now! (BC)

ID 783068 THE WHITE HOUSE

WASHINGTON

DATE: 12 JUN 78

FOR ACTION: STU EIZENSTAT

JACK WATSON

FRANK MOORE (LES FRANCIS)

CHARLIE SCHULTZE

INFO ONLY: THE VICE PRESIDENT

ANNE WEXLER

SUBJECT: MCINTYRE MEMO RE INCREMENTAL WELFARE REFORM ADMINISTRATION STRATEGY

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+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +

+ BY: 1200 PM WEDNESDAY 14 JUN 78 +

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ACTION REQUESTED: YOUR COMMENTS

STAFF RESPONSE: ( ) I CONCUR. ( ) NO COMMENT. ( ) HOLD.

PLEASE NOTE OTHER COMMENTS BELOW: