A HISTORICAL PERSPECTIVE OF WELFARE IN IOWA

Prepared for

NASW

Iowa Chapter

January 1988

NASW

National Association of Social Workers, Inc.

IOWA CHAPTER

4211 Grand Avenue • Des Moines, Iowa 50312-2496 • 515/277-1117

January 25, 1988

To the Honorable Governor Branstad, Respected Members of the House and Senate, and Citizens of Iowa:

In his recent book, Shared Responsibility: Families and Social Policy, Robert Moroney suggests that the formulation of sound social policy requires a knowlege of the history, politics, philosophy, sociology, and economics of social services. Let me take this opportunity, on the behalf of the Iowa Chapter of the National Association of Social Workers (NASW), to commend you for your efforts to date in this difficult task.

This monograph is sponsored by the Social Policy Committee of the Iowa Chapter of NASW. Its intent is to provide, in part, some of the information you might not otherwise have without expending resources beyond reasonable expectations. The content is for educational purposes. Opinions expressed are those of the authors and do not necessarily reflect the opinions of members, or the Board, of the State Chapter of NASW.

Several of the chapters were adapted from materials originally prepared for classroom teaching or other academic presentation and as such include extensive reference lists. Other chapters were written specifically for this monograph. Authors have agreed to respond to specific questions if clarification of any of the information presented is necessary to your use of the material in the policy making process.

Each of the authors and the editors has contributed considerable time and energy to completion of the project. I would like to express my appreciation, and that of the Iowa Chapter Board of Directors, for their efforts and their interest in the policy making process.

Permission is hereby granted for the quotation of this publication without prior specific permission, for purposes of criticism, review or evaluation; subject only the "fair use" provisions.

Sincerely,

Earl P. Kelly

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INTRODUCTION

Eight years ago, many Americans were disenchanted with the multitude of health and welfare and social service programs that characterize the American "welfare state." Beginning in 1981, the Reagan administration initiated efforts to "reform" big government. Part of the initiative was to reduce federal spending for health, welfare, housing, and revenue sharing programs.

Many Americans were sympathetic to cuts in social welfare programs. It is possible they believed cutting welfare programs would allow the federal government to balance its budget. Instead, the federal debt increased. We currently spend more than twice the money to service interest on the federal debt, than the total cost of all programs for the poor. According to figures published by the Office of Management and Budget (1987), spending for various social welfare programs is as follows:

AFDC program	$ 9.8 billion
Food Stamps	$12.5 billion
Medicaid	$28.1 billion
Child nutrition	$ 6.1 billion
SSI	$12.3 billion
All Housing Programs	$13.4 billion
Title XX	$ 7.9 billion

This is a total of $90 billion for all social welfare programs. Interest on the federal debt currently exceeds $200 billion per year. Yet another comparison of spending choices is offered by David Leiderman, Chief Executive Officer of the Child Welfare League of America, who points out funding for human services programs has decreased $2.5 billion since 1980. Defense spending alone has increased to a total of more than $3 trillion in the same time period.

On December 11, 1987, a report entitled America's Poor: America's Agenda was released on behalf of the nation's state human services commissioners. The report notes:

> In an era of competing national goals and growing federal budget deficits, establishing national priorities is among the most important tasks of the next president . . . The deficit and continuing economic uncertainty render the setting of priorities

> both more difficult and more important. In no area is the setting of priorities more critical than in social policy.
>
> The most urgent social policy issue the next president faces is the fact that millions of American children are growing up today without the support essential for them to be productive citizens. We must improve the quality of life for poor children . . . With an expected labor shortage over the next two decades, we must develop and utilize the skills of all our citizens.

The economic recession and the loss of revenue-sharing has badly damaged the finances of state and local governments. In spite of these economic difficulties, Iowa's government has been responsive to the needs of the poor. Iowa is one of two states which removed unemployed fathers from AFDC and then reinstated the program. Iowa also passed a medically needy bill. And, in counties and cities across the state, local elected officials have attempted to pick up the costs for day care centers, meals on wheels, sheltered workshops and other programs cut by the federal government. Unfortunately, there are insufficient funds to meet the myriad of needs. The result is often a lack of consistency from county to county and region to region across the state.

Part of the credit for the AFDC-Unemployed Parent (AFDC-UP) program, medically needy, and child abuse legislation belongs to progressive legislators. Credit also belongs to union leaders, church leaders, and members of "human needs" advocacy groups. These leaders have taken public positions on the critical issues of our time: agriculture, world hunger, civil rights, women's rights and economic equality. Bishops and other leaders several denominations in Iowa are known throughout the country for their stands on nuclear war and economic equality.

Reducing the incidence of poverty is not a task that lends itself to one, simple solution. Interrelationships among issue areas and constituencies affected can make a difficult task seem impossible. The purpose of this project, by the Social Policy Committee of the Iowa Chapter of the National Association of Social Workers, is to provide a "human needs" perspective to policy makers in the Executive and Legislative branches as you discuss welfare reform strategies for Iowa.

Given the time and resources available, it was not possible to address every aspect of the welfare reform debate. Options being considered at both Federal and state levels seem to have the greatest potential effect on the Aid to Families with Dependent Children (AFDC) program. Therefore, the perspective of topics chosen for inclusion is related, primarily, to AFDC program participants. The official program title for Iowa is Aid to Dependent Children (ADC). However, the terms are frequently used interchangeably and may vary from chapter to chapter depending on the philosophical perspective of the author.

Every effort has been made to present information without taking a position on any given option that might be considered. Topic areas were researched and written by individual authors who volunteered their time and expertise. Each author was provided with a detailed explanation of the purpose of the project, with the request that their subject matter be presented in a factual, straight-forward manner. Any bias remaining should be interpreted as the perspective of the individual contributor.

Chapter one provides an overview of welfare and its poor relief origins in a subsistence economy. Historians and sociologists have often said it is critical to understand history in order not to relive it. Therefore, the intent of this chapter is to provide a historical context for the present welfare reform debate. By tracing the parallel developments of full employment policies and income security programs during the present century, the author has attempted to create a basis for understanding the complexities of the current welfare reform debate.

Chapter two reviews AFDC eligibility requirements, both in terms of statutes and court decisions. Legal citations in this chapter have been simplified for the lay reader but a complete bibliographic listing in included at the end of the chapter. The author does an admirable job of interpreting and explaning a program difficult to understand and frustrating to administer; for recipients as well as for the social service workers involved in assisting them.

Chapter three provides information on Iowa's present welfare commitment. Using case examples of four different families, the author attempts to point out the unique differences in typical AFDC participants. Mr. Bruner has included names and a considerable degree of detail in order to portray family situations as realistically as possible. However, situations are fictional and any resemblance to a particular Iowa family is purely accidental. Hopefully, the profiles of these four situations will help to explain the complex nature of successful welfare reform as it relates to AFDC families.

Chapter Four reviews the history of workfare, as well as philosophies and models which undergird the idea of combined work and welfare. It becomes quickly evident that workfare, like so many other aspects of our American Public Welfare System, stems from centuries old practices of Europe, particularly England. The authors address the viability of workfare as a welfare option given adequate social service support systems such as, education and training for meaningful employment; child care assistance and adequate medical care.

Chapter Five reviews medical care for the poor and why it is a critical element of welfare reform. The author outlines the Medicaid program in Iowa as well as other options presently available for providing medical services to low income individuals and families. The picture presented includes a wide array of programs and services but a system that is fragmented, and in the author's opinion, less than adequate. The chapter concludes with a discussion of some of the many options open to the State.

Chapter Six reviews child care and its role in welfare reform. According to these authors, the major problem in resolving the child care "problem," is that the issues are clear but the concept of child care remains poorly defined. In an effort to establish a conceptual definition for child care, the chapter discusses structural and demographic changes in the American family; a definition of quality child care; the many aspects of cost; and child care as a societal responsibility.

Chapter Seven considers taxation, and the relationship of taxation to the public welfare. The author explains "tax policy basics" through a discussion of three questions: For what purpose a tax? What is it that is to be taxed? and How shall that which is to be taxed be taxed? He approaches the concept of taxation and welfare with humor and understanding; and in so doing, brings clarity and manageability to an otherwise difficult subject.

The Appendix is a compilation of charts, tables and other illustrations that have appeared previously; in the budget proposal of the Human Needs Advocates and in articles written for the Des Moines Register by Senator Charles Bruner.

Pamela S. Brown
Wm. Theisen
Editors

Income Security and Welfare Reform
by Dr. Wm. Theisen

A brief review of welfare policy in the United States can provide a helpful context for understanding the present welfare reform debate. The story of welfare reform begins with the political, social and economic processes that have shaped our welfare system. It is easy for everyone -- liberals and conservatives -- to forget that until the New Deal, the principal form of social welfare policy was poor relief. This paper traces parallel developments of full employment policies and income security programs during the present century.

In the late 19th Century, American wage earners and social reformers began advocating public policies to improve the economic quality of peoples' lives. They believed that protecting working class families with full employment policies and income security programs would eradicate poverty. American prosperity commences primarily with New Deal policies and programs designed to protect wage earners and their families economically. Economists are still concerned with how full employment policies influence inflation, but the desirability of full employment has not been seriously challenged. Income security (or social welfare) programs on the other hand, have been vigorously attacked by conservative critics.

Conservatives typically focus on the three decades from 1950 to 1980 to critique American social welfare policy. Their general thesis might be summarized as follows:

> War on Poverty programs hurt taxpayers and low income people. In 1959, less than 25 percent of the population were living below the poverty line. This figure declined through the 1960's to about 11 percent of the population. The number of poor people began to increase during the 1970's because welfare programs permitted millions of people to behave in economically disastrous ways, i.e., they substituted welfare for earned income. Welfare costs increased the cost of government, the economy stagnated, and the poor lost purchasing power due to inflation (Gilder, 1981; Murray, 1984).

Conservative economists Friedman, Gilder, Laffer, Murray and Stein et al. use this baseline for a very practical reason; it is the only baseline that will sustain their arguments. Data for periods prior to the 1950's will not sustain conservative arguments because so many Americans had incomes below the poverty line. Even during the "prosperous" 1920's, most Americans lived below the poverty line--they did not have enough food, clothing or shelter to meet their basic needs (Allen, 1952).

Poor Relief

Before the religious reformation of the 16th century, the church was responsible for the care of the poor. By the time English Poor Law was written, there was no longer any question but that responsibility for the poor was to be invested in secular agencies (Komisar, 1977). Beginning in 1601, the poor became a concern of the state. The relief system was compulsory, with fiscal responsibility on the tax payer. The significant feature of this program, despite its monetary limitations, was that relief of the poor was not to be left to charity. This system was not without limitations. Poor relief, with its periodic "reforms," often could be cruel, vindictive and contradictory. Nevertheless, the principle has remained intact to the present time. The state has final responsibility for the needs of the poor (Himmelfarb, 1984).

It is useful to recall that only two centuries ago, almost everyone in the world lived in poverty. Prior to the present century, famine (a total crop failure for one year) was common. Most people in the world did not have enough food, clothing or shelter to meet their basic needs (Braudel, 1981). We are more familiar with political oppression. Warlords taxed subsistence economies mercilessly. Beginning in the 17th century, mercantile interests began the struggle to limit the political and economic power of monarchs. Power to impose taxes, authorize spending or make war was limited to Parliament or Congress. The political and economic ideology of the time emphasized limited government. Politicians and economists generally believed government could do nothing about recurring cycles of boom and bust. Everyone, especially the wealthy, expected the poor would have to suffer during hard times.

Poor relief was the principal social welfare program of limited government. Poor relief provided cash, vouchers, or staples to help dependent people meet everyday needs for food, clothing and shelter. Charitable agencies sought to improve the plight of the poor by improving their character and moral standards (Pumphrey and Pumphrey, 1961). Poor people were viewed not as victims of economic or political injustice, but rather as lacking moral fiber, self-discipline and a sense of social responsibility. Society was defined as a collection "of families and breadwinners" (Leiby, 1978). Breadwinners were expected to care for themselves and their families.

New Deal

The Great Depression affected the majority of American. Thousands of businesses failed. Millions of breadwinners (almost 25 percent of the labor force) were unemployed. By 1930, private and public poor relief agencies across the nation were unable to meet the demand for poor relief.

Poor relief regulations were tightened to control the number of eligible people. But as the Depression deepened, local tax revenues declined. Cities and counties across the country exhausted their poor relief funds and pressured Congress to provide emergency funds for relief. It was from the pain and suffering caused by the collapse of local poor relief systems that the federal government authorized for the first time, "emergency relief" block grants. Emergency relief programs were primarily designed to help people who were out of work. Hardly any attention was given to reducing true poverty.

Public attitudes toward poor relief did not change during the Depression. People believed poor relief should be locally funded and administered; it should be temporary, demeaning; and that the level of assistance should remain below the wage earned by the lowest paid working person. In a 1935 message to Congress, President Roosevelt said,

> Continued dependence on relief induces a spiritual and moral disintegration fundamentally destructive to the national fibre . . . the federal government must and shall quit this business of relief (Schlesinger, 1960).

The Aid to Families with Dependent Children (AFDC) program was passed by Congress as "the other half" of the original Social Security Act (Trattner, 1984). AFDC was designed to provide economic protection for children and caretakers who did not have enough income to meet basic needs; especially children whose fathers had died. A primary assumption behind the AFDC legislation was that mothers of needy children should not work, even if jobs were available.

New Deal policies and programs were designed to stimulate economic prosperity. (Prosperity is a relative term, but generally describes a high level of industrial development and full employment, accompanied by adequate food, clothing and shelter.) Economic policies reflected government efforts to expand the economy. These policies were largely successful, and millions of working class people moved from poverty to middle-income wage levels. In 1929, 60 percent of the American people were living in poverty. By the mid-1950's, less than 25 percent remained in poverty (Harrington, 1962; Allen, 1952). The principal beneficiaries of policies designed to stimulate prosperity were families of urban, white-male wage-earners.

Poverty policies and poverty programs were initiated by Presidents Kennedy and Johnson (Schlesinger, 1965). Poverty policy and programs were basically redistributive; designed to help the millions of people who had not seemed to benefit from "prosperity." By 1969, the number of people living below the poverty line had declined to about 11 percent of the population; this number increased to about 14 percent of the population by 1980 (Murray, 1984).

In the late 1960's "welfare reform" was a widely debated policy issue. A considerable part of the debate centered on work incentives for welfare recipients. Welfare scholars and economists viewed the welfare system as inequitable, inefficient, and a disincentive for people willing to work. The negative income tax idea proposed by Milton Friedman gained credence as a way to encourage AFDC parents to work. It was considered as a means to simplify the welfare structure, and to insure an income floor for all families. During this period, AFDC recipients earning income had their grants reduced on a dollar for dollar basis. Therefore, net family income remained constant, even with full-time employment.

In 1968, Congress made a significant change in policy affecting working parents who received AFDC. With this change, families were allowed to exclude a portion of earned income and work expenses from calculations determining eligibility for AFDC. In brief, the rules were designed as a "work incentive." Many AFDC mothers were now able to work full time and, depending on the wage level and family size, remain eligible for some public assistance.

A unique change in public policy was proposed by President Nixon in 1969. His Family Assistance Plan would have, for the first time, guaranteed an income floor for all families. Congress did enact a guaranteed income program but excluded children and their mothers (Burke & Burke, 1974). The resulting program was Supplemental Security Income (SSI) for the aged, blind and disabled, changing the designation for these programs from public assistance to social insurance. The program is need-based but is not dependent on prior earnings.

Retrenchment

In 1981, our nation's approach to meeting the needs of poor people experienced a dramatic change under provisions of the Omnibus Budget Reconciliation Act (OBRA). Conservative arguments that welfare programs cost too much money and increase poverty by inducing undesirable work habits, reinforced the belief of many Americans that social welfare programs should be cut. The 1981 changes in AFDC policy were part of a broad based strategy initiated by the President and approved by Congress to reduce spending for social welfare programs. Reforms during the Reagan Administration have resulted in termination of welfare to all but the most destitute.

The Effects of OBRA: A University of Iowa Study

Conservative critics often contend that public assistance programs create a subculture of semi-permanent welfare recipients. The assumption is that welfare dependency passes from one generation to the next. This cycle of intergenerational dependency has been cited as one reason for the OBRA policy changes (Carleson & Hopkins, 1981).

A University of Iowa School of Social Work study of AFDC families affected by the OBRA cuts does not support the above assumption, at least for Iowa. Ninety-one percent of respondents reported that their parents had never been welfare recipients (Theisen & Craft, 1985). The typical family was headed by a 32 year old mother with two children. Desertion or divorce was the primary reason (74%) for applying for the AFDC benefits. Birth of a child to a single parent (21%) was the next most frequent reason. Other reasons, including loss of job (3%), health problems (1%) and education (1%) accounted for only five percent of the situations contributing to application for AFDC.

Unfortunately, the OBRA policy change primarily affected families that conservatives are likely to describe as "the deserving poor." As Orshansky found in the 1960's, employment is not always a remedy for poverty. Up to the passage of the 1981 OBRA legislation, the women in this study had used AFDC as an income supplement for low wage jobs, and had been dependent on welfare for meeting basic needs. This seems to be a reflection of the intent of 1969 legislation which enabled families receiving AFDC to obtain employment and continue to receive public assistance.

One fear which contributed to the OBRA cut was that AFDC recipients would quit jobs to remain eligible for welfare. However, the Iowa study indicated that being on or off AFDC had little to do with employment. Willingness to work, often under difficult conditions, was evident. At the time of the survey (almost two years after the passage of OBRA) 84 percent of the families in this study remained independent of the AFDC program. If a job was available in the community they worked. This finding is congruent with other literature about the employment patterns of the working poor (Danziger & Gottschalk, 1985).

Most of the women in the study were in jobs with little opportunity for promotion or pay increases. They worked in the low income jobs typically associated with working women: clerks, nurses aides, matrons, waitresses, cooks and factory workers. The majority of mothers (61%) had completed high school and 23 percent had completed one or more years of post-high school/college training. Going back to college was not a realistic alternative for most of these women, because they had neither the financial resources nor the child-care support to exercise this option.

According to this study, Iowa families affected by changes under OBRA regarded the loss of health care coverage as a greater problem than the dollar loss from AFDC grants. The families not only lost medical care, but if they purchased health insurance (or health care), they had to cover these additional costs from their already decreased income. Fifty-seven percent of the families in the study participated in some type of work-related insurance program. Twenty seven percent of the families had no medical insurance.

The relatively young age of the oldest child of families in this study (median age 8) raises some questions about childcare arrangements and our society's changing philosophy on child nurturance. It seems obvious that attitudes about the value of mothers with small children holding jobs has changed since the 1935 AFDC legislation. For the present, public policy and AFDC regulations seem to have been resolved in favor of employment.

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AFDC ELIGIBILITY
by John Allen

The Aid to Families With Dependent Children (AFDC) program was established by Congress in the Social Security Act of 1935. It was one component of a broad legislative program to "counteract the depression." (1) As originally designed, the AFDC program was intended to assist those families who could not benefit from employment programs, i.e. families without "breadwinners." (1) It is a cash assistance program which is need based so that the income and resources of a family are taken into account in determining eligibility.

The AFDC program as a whole is a very technical one. Understanding program requirements can be both difficult and frustrating for recipients. This article will begin with a historical overview of the program, from its inception in 1935 through the changes in 1981 and 1984. This will be followed by an explanation of the eligibility requirements for the AFDC program, both on a national level and in Iowa. Since 1981, a number of major changes have occurred on the legislative level which have had an impact on AFDC recipients. In general, the changes that occurred in 1981 restricted eligibility for the program, particularly for the working poor, and subsequent developments have generally expanded eligibility for the program. These legislative developments will be discussed as a part of the history of the AFDC program in Iowa.

The AFDC program is "based on a scheme of cooperative federalism." (1) States are not required to participate in the program, although all states currently do participate. The federal government provides a substantial portion of the funds for the program on a matching basis. (2) The states administer the program in accordance with a "state plan" which is submitted to the U.S. Department of Health and Human Services (HHS) for approval. (3) In Iowa, the program is administered by the Department of Human Services (DHS), and is called the Aid to Dependent Children program.

Historical Overview

The AFDC program began in 1935, and experienced a period of gradual and incremental growth in the first thirty years of its existence. The year 1962 marked the first time that AFDC was offered to two-parent households, although only a limited number of states elected to choose the unemployed parent option. During the 1960's, participation in AFDC around the country increased dramatically, primarily because of increased access to the program as opposed to legislative changes. The average monthly AFDC payment made to families peaked at $469.87 in 1970, and gradually declined to $312.88 in 1983. (4)

Congressional action in 1981 severely restricted the scope of the AFDC program. The Omnibus Budget Reconciliation Act of 1981 (OBRA) (5) changed a number of provisions of the AFDC Act to the detriment of AFDC recipients. Among the most harmful AFDC changes were the following:

1. Limited the $30 and 1/3 work expense disregard to four months. Prior to OBRA, an AFDC family with a wage earner had been allowed a disregard of $30, and an additional disregard of 1/3 of the remainder of the family's earned income, before eligibility for benefits was computed. This work incentive lasted as long as the family member worked.

2. Reduced the AFDC resource limit to $1000. OBRA set a limit of $1000 on the liquid and non-liquid resources a family could own. Prior law had allowed the states to set resource limits, which were generally higher than $1000. A family that exceeds the resource limits is automatically ineligible for AFDC.

3. Prohibited AFDC eligibility for families with a gross income of greater than 150% of the state's standard of need. The effect of this provision was to cut those families with some income, primarily the working poor, off of AFDC and Medicaid benefits.

4. Established the lump sum income provision. Under this provision a family that received a lump sum payment in a month they were receiving AFDC was denied AFDC payments for the period of time computed by dividing the standard of need into the amount of the lump sum. This provision meant that many families were denied AFDC benefits despite the fact that the lump sum was not available to them, or had been spent on legitimate expenses such as the payment of past-due bills, loans, house payments, utility payments, or other similar expenses. Although the purported reason for the lump sum provision was to make AFDC recipients plan on how to use their lump sum, in most instances a family was cut off benefits before it knew what planning was required.

5. Assumed the receipt of the earned income tax credit, even if the credit was not applied for by the family.

6. Limited deductible work expenses to $75 per month, even in situations where actual work expenses exceeded that amount.

7. Established a number of work requirements, including the creation of the Community Work Experience Program (CWEP), a work supplementation program, and application of the work requirements to children over the age of 16 who were not attending school.

8. Established a mandatory system of monthly reporting and retrospective budgeting. Monthly reporting required many recipients to fill out complicated forms on a monthly basis concerning their income, resources and family composition. The failure to accurately complete a monthly report resulted in the suspension or termination of AFDC benefits. Retrospective budgeting used the income from a previous month in computing present benefits. The effect of retrospective budgeting is that a family with a high income in the budget month (which in Iowa is two months before the month of payment), can receive a minimal grant, or none at all, in the month in which it is most needed. For example, if a family has earnings in September which puts the family over the AFDC income limits, but has no earnings in October or November, the September income is counted for purposes of determining November eligibility.

The restrictions contained in OBRA were followed in 1984, by the passage of the Deficit Reduction Act (DEFRA) of 1984.(6) DEFRA contained features which ameliorated some of the effects of OBRA. At the same time, DEFRA imposed some new requirements that limited AFDC eligibility. Examples of provisions that modified OBRA provisions are the following:

1. The $30 work expense disregard was extended from four months to 12 months. The 1/3 disregard remained at four months.

2. The gross income eligibility cap was raised from 150% to 185% of the standard of need, allowing more working poor to be eligible for benefits.

3. The lump sum provision was modified so that states could recalculate the lump sum period where the state's standard of need changed, where the income was unavailable to the family for reasons beyond the family's control, and for medical expenses.

4. The earned income tax credit was to be counted as income only when it was actually received by the family.

5. Work expense deductions for part-time work were also set at $75 per month.

6. A provision was added allowing up to 15 months of continued medical coverage when families were terminated from AFDC because of the loss of the work expense disregards.

7. A provision allowed states to limit monthly reporting to cases where there was a recent work history or earned income.

A major change restricting AFDC eligibility created by DEFRA was the single filing unit rule. DEFRA created two single filing unit provisions. The first provision stated that the income of all persons residing in a household was to be considered available to the entire family in determining AFDC eligibility. Previous policy had allowed targeted benefits, such as Social Security or child support payments, to not be counted if the recipient of the payments was not included as part of the eligible group. The person who was excluded from the eligible group did not receive AFDC (or Medicaid) benefits, and his/her income was not counted toward the income of the group. The second change involved three generation families. In this situation, the DEFRA changes required the income of the parents of a minor parent living in the parents' home to be considered in determining the eligibility of the minor parent and her child. This restricted the coverage of AFDC in three-generation households.

Another legislative change made by DEFRA included a provision that persons with real property (other than exempt real property) had to attempt to sell that property, sign an agreement with DHS, and pay DHS any equity received from the sale for AFDC benefits provided while the property was for sale. If the property was not sold within nine months, the family would be terminated from AFDC, and the nine months of receipt of AFDC benefits would be considered an overpayment. On the positive side, DEFRA allowed $50 of child support received by the family to be disregarded in determining income for AFDC purposes. This allowed families receiving child support payments to have up to an extra $50 per month.

Interrelationship of State and Federal Law

Federal law outlines the requirements of a state plan, although a state is allowed a degree of discretion in devising that plan. Federal law provides, in part, that AFDC "shall be furnished with reasonable promptness to all eligible (emphasis added) individuals." (7) The Supreme Court, interpreting this provision, has held that "a state eligibility standard that excludes persons eligible for assistance under federal AFDC standards violates the Social Security Act and is therefore, invalid under the Supremacy Clause". (8) Thus, eligibility "must be measured by federal standards". (9) A state may not deny assistance to an individual who meets federal standards "unless Congress clearly has indicated that the standards are permissive." (10)

A state's primary area of discretion is its "undisputed power to set the level of benefits . . ." (11) The states must establish a "standard of need" which reflects the state's estimate of the monthly income necessary to meet a family's subsistence needs. In Iowa, this is referred to as the "Schedule of Living Costs." (12) The "standard of need" is one measuring stick in the determination of eligibility. Once a state has established a standard of need, there are no requirements for adjustment due to inflation or other factors. The standard of need was last determined in Iowa in 1979. A state may set its benefit level, or "payment standard," at whatever percentage of the standard of need it deems appropriate. Therefore, benefit levels vary widely from state to state. In Iowa, the "payment standard" is referred to as the "Schedule of Basic Needs." (12)

Iowa's current payment standard is 76.6% of the standard of need for all family sizes. For example, for a family of four, the standard of need is $578 and the payment standard is $443.

The Social Security Act allows states a limited number of options with respect to coverage, such as the optional Unemployed Parent program. If a state elects to participate in an optional program, it must abide by federal law. (13)

Persons Eligible

As the title of the program would suggest, dependent children and the parents or relatives with whom they are living may be eligible for assistance. The determination of whether a child is a "dependent child" requires the consideration of various factors. (14) (Editor's Note: Some terms in the following section need detailed definition as they apply to this program. Terms followed by an "*" are defined at the end of the chapter.)

— The child must be "needy," as determined by the state, taking into consideration available income and resources.

— The child must be deprived of parental support or care by reason of the death, continued absence from the home (other than absence occasioned by active military duty), or physical or mental incapacity* of the parent.

— The child must be living with a parent or other designated relative.

— The child must be under the age of eighteen or, at the option of the state, under nineteen, a full-time student in a secondary school (or in the equivalent level of vocational or technical training), and expected to complete school before his or her nineteenth birthday. Iowa currently extends assistance to this latter group of children.

The state may, at its option, include children who are deprived of parental care or support by reason of a parent's unemployment* (AFDC - Unemployed Parent program). This program was "designed to provide benefits for needy children without furnishing an incentive to an unemployed father to desert his family in order to make it eligible for assistance." (15) Iowa currently participates in the AFDC - UP program.

The Iowa Department of Human Services has had a history of problems with determining when self-employed individuals are "unemployed*." A state regulation which provided that a self-employed individual is considered to be employed for the number of hours the individual is available to perform services was found to be invalid. (16) The court held that federal law requires the state definition to include any parent who actually works less than 100 hours in a month. (16) The Department later promulgated a regulation which provided that a self-employed individual's hours of employment are determined by dividing the person's gross monthly income by the federal minimum wage. Clearly this method did not render an accurate picture of the number of hours self-employed individuals were actually working, and the Department abandoned the regulation in the face of adverse lower court decisions. The Department now employs two methods of determining hours of self-employment, and the applicant may choose the method of determination. The Department will look to the actual hours worked where the hours can be "verified by reliable written evidence from a disinterested third party".(17) Hours of employment may also be computed by dividing net monthly income by the minimum wage.(17)

Iowa discontinued the AFDC-UP program for a period during 1981-82. When the program was re-authorized by the legislature in July 1982, the non-qualifying parent was excluded from the eligible group. This policy was challenged. (18) While the case was pending, the legislature amended the provision to include both parents. The court, however, did declare the exclusion of the non-qualifying parent to be inconsistent with the Social Security Act. (19) Therefore, both parents must be included in the AFDC-UP grant determination.

Determination of Need: Income and Resources

Availability of Income and Resources

After it has been determined that a family meets one of the deprivation criteria, the family's need must be determined. In determining need, the state must consider income and resources "available for current use . . ." (20) The income or resources must be "actually available." (20) As stated in Jamroz v. Blum, (21) "[C]ourts . . . have routinely invalidated presumptions which assume the availability of resources or income that do not in fact exist." For example, in Lewis v. Martin, (22) the Supreme Court struck down a California law which required the income of a "man in the role of a spouse" to be counted in determining need, whether or not it was in fact available or actually used to meet the needs of the children. Recent amendments to the Social Security Act, such as the lump sum rule and the deeming of step-parent income, both discussed below, have eroded the "actually available" requirement. In these instances, Congress has mandated that certain types of income be considered in determining need, regardless of the actual availability of the income to the family. However, unless Congress has mandated consideration of the income, the income must be actually available. Thus, presumptions of availability remain subject to challenge.

Persons Considered

The state must take into consideration the income and resources "of any child or relative claiming aid to families with dependent children, or of any other individual (living in the same home as such child and relative) whose needs the State determines should be considered in determining the need of the child or relative claiming such aid; . . ." (23) Until the passage of DEFRA, an applicant could voluntarily exclude various individuals from the eligible group, so that their income would not be taken into consideration when determining the need of other family members. For example, a parent with two children who are half-siblings, one of whom receives $250 in child support, may want to exclude the child receiving support. Although the AFDC grant would be less, the incremental difference would be less than the amount of child support received, and under prior law the child support payments would not be considered as income to the family. Similar results would occur in families where a child received social security benefits. DEFRA, however, mandated that states include in the filing unit the parents and all minor siblings living with a dependent child who applies for or receives AFDC. An SSI recipient, however, may still be excluded from the eligible group. DEFRA similarly mandated that the income of the parents of a minor parent in a three generation household is automatically considered available to the family even if not actually made available. Court challenges to these two provisions have proved unavailing. (24)

The income of a stepparent in the home will be considered. Under federal regulations, the treatment of stepparent income depends on whether state law imposes on a stepparent a duty of support identical to that of a natural parent (a "law of general applicability"). If so, a stepparent's income is treated like that of a natural parent. In states without a law of "general applicability," a certain portion of the stepparent's income will be presumed to be available to the eligible group. HHS has determined that Iowa does not have a law of general applicability. (25) Thus, in Iowa, a portion of the stepparent's income is presumed to be available.

Income

Income is divided into two categories, unearned income and earned income. "Unearned income" is "any income in cash or in kind that is not gained by labor or service." (26) "Net unearned income" is determined by deducting the reasonable costs of producing the income. (26) "Earned income" is produced as a result of the performance of services, and includes wages, salary, tips, commissions, and profit from self-employment. (27) Certain income is exempted, disregarded, or deducted for work expenses when determining eligibility and the grant amount.

There are three income tests applied in determining initial eligibility:

First, the total non-exempt income of the family before the application of disregards or work expense deductions, cannot exceed 185% of the standard of need for the family. For example a family of four (standard of need = $578) will be ineligible if gross monthly income exceeds $1,069.30 ($578 x 1.85).

Second, the total non-exempt income, after the deduction of work expenses must be less than the standard of need.

Third, the total income, after application of all work expense deductions and disregards, must be less than the payment standard for the family. The amount of the AFDC grant is the difference between the payment standard and countable income. The determination of ongoing eligibility excludes the second step.

Exempt as Income

Certain payments received by families will not be treated as income. (28) For example, SSI payments and AFDC corrective payments are exempt as income. In the time period between January 2, 1985, and June 30, 1986, DHS also treated inheritances and recoveries based on personal injury actions as exempt income. The Department, following actions by the federal Department of Health and Human Services, changed these rules in July of 1986, so that inheritances and personal injury recoveries were treated as income. The primary effect of the change is that many inheritances and recoveries for personal injury are subject to the lump sum rule. This means that the receipt of this "income" can subject the recipient to a large number of months without AFDC benefits.

Income In Kind

Income in kind is exempt from consideration. (29) Thus, if a third party makes a payment on behalf of the AFDC household, that payment would not be considered as income. For example, if a friend pays a utility bill by making payment directly to the utility company, that payment will not be counted as income. However, if the friend loans the money to the AFDC recipient and the recipient makes the payment, the amount of the loan is counted as income.

Treatment of Earned Income

The starting point in the determination of "countable" earned income is the gross income, prior to mandatory payroll deductions such as FICA or income tax. Several courts had ruled, prior to DEFRA, that only net income could be considered since that portion of an individual's wages subject to mandatory deductions was not actually available to meet the family's current needs. DEFRA makes it clear that gross income is to be considered.

A recipient with earned income is entitled to a "standard work expense deduction" of $75 monthly from gross earnings. (30) The deduction is "standard" in that it applies regardless of actual work expenses, whether greater or lesser. Further, both full-time and part-time workers currently receive the same deduction. An individual is also entitled to the deduction of actual and necessary expenses for child care or care of an incapacitated adult. (31) This deduction is limited to $160 for full-time workers and $159 for part-time workers. (See Chapter 6 for additional details related to the status of child-care in Iowa.)

After the deduction of work expenses, individuals with earned income are entitled to the disregard of $30 plus one-third of the remaining earned income for a limited period of time. (32) This disregard is limited to four consecutive months. The "30 and one-third" disregard is designed as a work incentive device. An individual who has received the disregard may not again receive it until the individual has not been a recipient for 12 consecutive months. After the four month period, a $30 disregard (but not one-third of the remaining income) continues for the next 8 months.

As an illustration of the treatment of earned income, assume that a parent with two children grosses $600 a month, has child care expenses of $100 a month, and has not yet received the "30 and one-third" disregard. $175 will be deducted as work expenses ($75 standard deduction plus $100 child care) leaving $425. The $30 is deducted, leaving $395. Finally, one-third of that figure, or $131, is subtracted, leaving $264 countable earned income. The family would then receive an AFDC grant of $117, determined by subtracting the countable income ($264) from the payment standard ($381). It can be seen, however, that this family will lose eligibility once the one-third disregard is exhausted ($395 is greater than the $381 payment standard).

Prior to DEFRA, a family which was terminated from the program because of the loss of the $30 or the one-third disregard also lost medicaid eligibility. DEFRA offered some relief to these families. Under DEFRA, if families become ineligible for AFDC because of the loss of the one-third disregard after four months, or the loss of the $30 disregard after 12 months, the states must continue to provide medicaid coverage for nine months after the last month of receipt of AFDC benefits. DEFRA allows states the option of continuing medicaid coverage for an additional six months if a family would be eligible for AFDC in such months were it still receiving the $30 and one-third disregard. Iowa has not extended the medicaid coverage beyond the first nine month period.

The earnings of an eligible child who is a full-time student, or who is a part-time student and not a full-time employee, are disregarded. (33) However, when initial eligibility is determined, and when applying the 185% eligibility test, the income is not disregarded.

Budgeting Process

When an individual initially applies for AFDC benefits, income is considered "prospectively," i.e., income that is received or anticipated to be received in the initial month is considered. (34) After the first two months of eligibility, however, income is considered "retrospectively." In the third and subsequent months of eligibility, the income considered is that income which was received in the "budget month." The "budget month" is the "second month preceding the payment month." (35) Therefore, if an individual applies in January, the amount of assistance in January and February is determined prospectively. In March, however, the income received in January, exclusive of the AFDC grant, will determine eligibility and the grant amount.

The Omnibus Budget Reconciliation Act of 1981 introduced a controversial provision commonly referred to as the "lump sum rule," (36) If a recipient receives non-recurring lump sum income, such as a retroactive payment of unemployment benefits, the individual will be ineligible for a predetermined period of months. The number of months of ineligibility is determined by dividing the amount received by the standard of need for the family. Under the lump sum rule, if a family of three (standard of need = $497) received lump sum income of $4,970, the family would be ineligible for a period of ten months. The family would be expected to budget the money for the entire period of ineligibility, and the period would be shortened only under extremely limited circumstances. (37) Oftentimes the receipt of a lump sum has a negative net effect. The family will lose medicaid eligibility and may have excess resources for other programs, such as food stamps, while the family preserves the funds to last through the period of ineligibility. DHS has promulgated rules which eliminate some of the harsh results generated by the lump sum rule. For example, the period would be shortened if the lump sum were stolen or lost, or if the individual controlling the lump sum leaves the household.

The lump sum rule applies only to individuals receiving or applying for assistance in the month the lump sum is received. A recipient who can anticipate the receipt of a lump sum may, therefore, voluntarily terminate assistance in the month prior to receipt, and thereby avoid the proration of the income. The individual may then re-apply in a subsequent month, after the lump sum has been spent down below the resource limitations. The termination, however, must occur prior to the month of receipt. For example, if a recipient knows that s/he will receive a lump sum in December, s/he must inform the Department of his or her intent to be terminated from the program prior to December 1. If a check is issued for December (which would probably occur if notice is received less than 10 days before the beginning of the month) the individual must return the check or the lump sum rule will be applied. Recipients are informed of this rule at initial determination of eligibility; and periodically thereafter.

Resources

The value of non-exempt resources may not exceed $1,000. (38) The resource is only considered if it is available to the family. (39) Various resources such as homestead, household goods, and personal effects, are exempt. (40) An equity value in one motor vehicle not exceeding $1,500 is exempt. The resource value of an item is its "net market value."

Real property is often not readily converted to cash, and it is accorded special treatment. Real property will be considered exempt for the first nine months of eligibility if it is publicly advertised for sale at a reasonable price, and the recipient does not refuse a reasonable offer and agrees in writing to repay the Department at the time of sale the amount of assistance paid or the net proceeds, whichever is less. (41) If the property is not disposed of during the exemption period, assistance will be terminated, and those assistance payments already made will be considered an overpayment subject to recovery.

The inclusion of resources for self-employed persons, particularly farmers, often precludes these persons from eligibility for AFDC benefits. Although federal law allows a broad range of "basic maintenance items" to be excluded as resources for persons who are self-employed, Iowa excludes only inventories and supplies. (42) In contrast, many other states exclude items such as machinery, tools, and equipment that are necessary to the self-employment enterprise.

Conclusion

In general, AFDC policy both in Iowa and throughout the nation was characterized by broadening eligibility and payment standards in the decades of the 1960's and 1970's. The expansion of eligibility was the result of a combination of court decisions and legislative enactments. From the standpoint of benefit levels and eligibility criteria, the Iowa program reached its peak in terms of benefits to recipients in the late 1970's.

With the enactment of the Omnibus Budget Reconciliation Act of 1981, this trend of increasing benefits and expanded eligibility came to an abrupt halt. In October, 1981, over 4,000 AFDC families in Iowa lost assistance as the result of the Iowa General Assembly's decision to eliminate the optional AFDC-Unemployed Parents program.

More recently, the Iowa General Assembly and Congress have taken steps legislatively to reverse some of the actions taken in the early 1980's. At the same time the courts have been far more reluctant to render decisions expanding eligibility, increasing benefits or to challenge an individual state's policies to narrow eligibility. The courts have more commonly upheld the enactments of Congress and state legislatures, except in extreme instances when such enactments conflict with other clearly delineated expressions of Congressional intent. The net effect of these developments is that changes in AFDC policy fall squarely within the purview of Congress and to a lesser degree, state legislatures.

EDITOR'S NOTE: Information presented in the preceding pages has attempted to explain some of the complexities of a program conceived, originally, to assist low-income families in acquiring basic needs in the absence of a wage earner. The complicated, and frequently changing, rules and the required record keeping can be a source of constant frustration for families and caseworkers trying to help them. The meager grants--adjusted only twice in the last 10 years in Iowa--have reduced the purchasing power of recipient families to a level that often does little more than provide for a subsistence level existence. At the same time, insufficient support for child care and loss of medical benefits can serve as a disincentive for employment in the types of jobs available to many recipients. Some would argue that the program has become one that traps families in an almost inescapable poverty.

The following chapter will attempt to provide a further understanding of AFDC, and some proposed changes, by sharing the experiences of some typical recipient families. Additional facts describing AFDC and other low-income families in Iowa can be found in the Appendix.

DEFINITIONS

Continued Absence-- An absence must be such as "to interrupt or to terminate the parent's functioning as a provider of maintenance, physical care, or guidance for the child." (43) Further, the known or the indefinite duration of the absence must preclude "relying on the parent to plan for the present support or care of the child" (Ibid). The term "parent" includes only those persons with a legal duty of support. (44) Thus, "substitute parent" regulations, providing that a child is disqualified if a parent is cohabiting with an individual, have been struck down. (45) In Iowa, the presence in the home of a step-parent does not disqualify a child, (46) although a portion of the step-parent's income will be considered in determining need.

Incapacity-- Iowa considers an individual "incapacitated: when a "clearly identifiable physical or mental defect has a demonstrable effect upon earning capacity or the performance of the homemaking duties required to maintain a home for the child." (47) The Incapacity must be expected to last for at least 30 days from application. This standard is clearly less stringent than the social security standard of "disability," and the AFDC - Incapacitated Parent (AFDC-I) program may provide assistance to individuals who are in the process of seeking social security benefits. An alleged incapacity must be supported by appropriate medical evidence.

Unemployment-- To be eligible, the "principal earner" (also referred to as the "qualifying parent") in the family must meet the definition of "unemployed." The "principal earner" is the parent who has earned the greatest amount of income in the 24 months preceding the month of application. (48) A parent is "unemployed" if he or she is employed less than 100 hours a month, or if in excess of that standard for a particular month, the excess is temporary. (49) The parent must have been "unemployed: for at least 30 days prior to the receipt of assistance, and must not have refused a bona fide offer of employment without good cause during that period. The parent must also have a recent connection with the labor force. (50) A parent who is out or work due to a labor dispute is not considered "unemployed." (51)

REFERENCES

1. King v. Smith, 392 U. S. 309, 327, (1968).

2. See 42 U.S.C., sec 603.

3. 42 U.S.C. sec. 601 et seq.

4. House Ways and Means Committee Print 99-8 at 190-191.

5. Pub. L. No. 97-35.

6. Pub. L. No. 98-369.

7. 42 U.S.C. sec. 602 (a)(10).

8. Townsend v. Swank, 404 U.S. 282, 286 (1971).

9. Carlson v. Remillard, 406 U.S. 598, 600 (1972).

10. Miller v. Youakim, 440 U.S. 125, 134 (1970).

11. King v. Smith, 392 U.S. 309, 334 (1968).

12. See, I.A.C. sec. 498-41.8.

13. Oberschachtsiek v. Iowa Department of Social Services, 298 N.W. 2d 302 (Iowa 1980).

14. See, 42 U.S.C. sec. 606 (a).

15. Oberschachtsiek, 298 N.W. 2d at 304.

16. Oberschachtsiek v. Iowa Department of Social Services, 298 N.W. 2d 302 (Iowa 1980).

17. I.A.C. sec. 441-42.1 (1)(c).

18. Stifel v. Branstad, No. 82-547-c (S.D. Iowa, September 26, 1983).

19. Tasker v. Ginsberg, 705 F.2d 1382 (4th Cir. 1983).

20. 45 C.F.R. sec 233.20 (a)(3)(iii)(d).

21. Jamroz v. Blum, 509 F.Supp. 953, 959-60 (N.D.N.Y. 1981).

22. Lewis v. Martin, 397 U.S. 552 (1970).

23. 42 U.S.C. sec. 602 (a)(7).

24. See Bowen v. Gilliard, 55 U.S.L.W. 5079 (U.S. June 25, 1987); Gorrie v. Bowen, 809 F. 2d 508 (8th Cir. 1987).

25. 45 Fed. Reg. 565 (February 8, 1982), see Kelley v. Iowa Department of Social Services, 197 N.W. 2d 192 (Iowa 1972).

26. I.A.C. sec. 441-41.7 (1).

27. I.A.C. sec. 441-41.7 (2).

28. I.A.C. sec. 442-41.7 (6) & (8).

29. I.A.C. sec. 441-41.7 (6)(0).

30. I.A.C. sec. 441-412.7 (2)(a).

31. I.A.C. sec. 441-41.7 (2)(b).

32. I.A.C. sec. 441-41.7 (2)(c).

33. I.A.C. sec. 441-41.7 (2)(e).

34. I.A.C. sec. 441-41.7 (9)(a).

35. I.A.C. sec. 441-40.1(9).

36. U.S.C. sec.602 (a)(17).

37. See I.A.C. sec.441.41.7.

38. I.A.C. sec. 441-41.6 (1)(e).

39. See I.A.C. sec. 441-41.6(6).

40. I.A.C. sec. 441-41.6(1); sec. 441-41.7 (6).

41. I.A.C. sec. 441-41.6 (6)(d).

42. I.A.C. sec. 441-41.6 (10).

43. I.A.C. sec. 498-41.1 (5)(a).

44. King v. Smith, 392 U.S. 309 (1982).

45. King v. Smith (note 45 above); 45 C.F.R. sec. 233.90 (a)(1).

46. I.A.C. 441-41.1 (5)(d).

47. I.A.C. sec. 441-41.1 (5)(c).

48. I.A.C. sec. 441-41.1 (2).

49. I.A.C. sec. 42.1 (1); 45 C.F.R. sec 233.100 (a).

50. See 45 C.F.R. sec. 233.100 (a)(3)(iii); I.A.C. sec. 441-42.4 (2).

51. I.A.C. sec 441-42.4 (1)(b).

Welfare Reform: An Economic Development Initiative
by Senator Charles Bruner

The Iowa Business Council's book, The Iowa Economy: Dimensions of Change, contains a wealth of information on Iowa's economic base, its factors of production, and its level of public financing of economic development efforts. The Department of Economic Development's 1987-1988 Statistical Profile of Iowa contains additional information relating to Iowa's economy and its infrastructure. Yet both these publications omit what may well be the most important long-term economic development concern for both Iowa and the nation.

Neither publication takes any notice of Iowa's poverty population, nor shifts in the make-up of that population. Neither notes one of the most significant social changes in Iowa and American society--the dramatic increase in the number of single-parent families.

Iowa's workforce in the year 2000 and beyond will be composed of people who are children today. Because of technological change, this workforce must have greater skills than the workforces of the past. As Iowa and the nation age, this workforce must be especially productive to meet the need to provide security for an increasingly large retired and elderly population. Statistics tell us some sobering things about this future workforce-- our children of today.

First, we know that the number of children is declining as a percentage of total population. In 1969, children (persons under eighteen years of age) constituted one-third of Iowa's population. In 1985, that fraction had fallen to one-quarter. In absolute figures, the number of children in Iowa has decreased from nearly 960,000 in 1969 to just over 740,000 in 1985. This means that the size of our younger workforce in the year 2000 will be much smaller than it is today, at the same time our population of retirees will be much greater.

Second, we know that the number of children living in single-parent families headed by a woman has increased dramatically over this same period. In 1969 in Iowa, less than one in twelve families with children under eighteen were single-parent families headed by a woman. In 1985, more than one in eight families were in this category.

Third, we know that single-parent families headed by a woman are much more likely to live in poverty than two-parent families. The poverty rate among such families is seven times the rate of two-parent families, and nearly half of all single-parent families in Iowa in 1985 lived below the poverty level.

Fourth, we know that the child poverty rate in Iowa has increased dramatically. In 1969, one in ten children in Iowa lived in a family with an income below the poverty level. In 1985, one in six children in Iowa lived in a family with an income below the poverty level. As the previous statistics suggest, this is in large measure due to the increase in single-parent families and the persistence of poverty among those families.

Fifth, we know that half of these children in poverty are in families receiving state support under the Aid to Dependent Children (ADC) program, Iowa's major welfare program. Half of all single-parent families with a child under eighteen receive ADC. We know, therefore, that a place to target services to address the issue of child poverty is in our ADC population.

For some of these children and families, poverty and welfare dependency will be a temporary condition. Divorce or desertion frequently places a woman with children in a temporary state of poverty from which she will escape. For others, poverty will be persistent. Poverty is more likely to be a long-term condition for single-parent families than it is for two-parent families. Long-term poverty has much more debilitating effects upon a family than temporary poverty.

When children suffer poverty throughout their childhood, that suffering is likely to have a profound effect on their subsequent adult productivity. Children of poverty often do not reach their full potential. Children of poverty often become costs, rather than contributors, to society as a whole. These are facts policy-makers should know. They serve to identify target populations for economic development efforts and for welfare reform initiatives.

Reversing trends like those mentioned above, thus reducing the incidence of child poverty, is not a task that lends itself to one, simple solution. Finding ways to help these families improve their lives and improve their futures is a significant challenge for state government. Yet there are initiatives that states and communities can take to provide greater opportunities for these families and these children. In taking these initiatives, it must be remembered that different families face very different obstacles and require very different services. The following pages include examples of three typical families on Iowa's ADC program. Each family's situation identifies issues needing to be addressed in making decisions about welfare reform.

Mary Austin

The case of Mary Austin is, in many ways, typical of cases served by Iowa's ADC program. Over half of all ADC families in Iowa stay on ADC for less than two years. Most are single-parent families headed by a woman. The majority of these women have a high school education and the ability to enter the workforce.

> Mary Austin was on Iowa's Aid to Dependent Children (ADC) program for twenty-two months. She was twenty when she married, and she quit her clerical position two years after marriage to have a child. Her husband left her when their daughter was three, and they have since divorced. Her ex-husband is ordered to pay $150 in child support a month, but has not been regular with his payments. With no resources and a three-year old child, Mary applied for and received ADC. While on ADC, she took some business school courses to complement her high school education. After completing these courses and with her child now in school, she found a job paying $9,600 a year, with limited health benefits. When child care and medical costs are considered, it does not leave her family much better off than being on ADC, but Mary does feel she provides a better life for her daughter. She is thankful to be off ADC, a program she hated.

Divorce or separation is the most common reason for needing ADC. Therefore, the problems that Mary faces on welfare are ones a welfare reform strategy must address. First, while on ADC, Mary must try to provide for herself and her daughter on $322 per month in ADC benefits. Her Medicaid card entitles her family to free medical services, and there are food stamp benefits and other specialized programs for which she must independently apply. If her ex-spouse does make a child support payment, she is allowed to keep $50 of that payment in each month a payment is made (the rest of the payment is retained by the state). While food stamps and winter heating assistance stretch her grant somewhat, the $322 provides for little more than minimal housing arrangements and limited money for clothing and transportation. Any emergency expenses require real sacrifices in basic needs.

In Iowa, ADC grant payments have been raised only twice in the last decade. Combined with the effects of inflation, this means the purchasing power of the ADC grant has been eroded by one-third in that time period. Actual state spending on ADC has declined in inflation-adjusted dollars by ten percent over the last five years, and ADC constitutes a smaller share of total state spending than it did a decade ago. The longer Mary stays on ADC, the fewer resources she is likely to have to help in lifting herself out of poverty.

Second, in seeking employment, Mary finds that accepting a job while on welfare is likely to make her only marginally better off financially than before. In the first four months she has employment, Mary is allowed to retain $30 of her employment income plus 1/3 of all remaining income. The remaining two-thirds of her income reduces her grant award. After four months, she can retain only the first $30, and all the remaining is used to reduce the size of her grant. When her income is enough to reduce her ADC grant payment to zero, she also loses her Medicaid card and her family's free health coverage. In addition, as an ADC family's employment income increases, food stamp benefits decline. Part of the family's earnings go directly to social security and other state and federal taxes. The head of a family of three who finds employment paying $500 per month ($6000 per year) increases the disposable income of that family by only $300 per month (which must at least in part be used to cover child care costs and work-related expenses). If the family earns an extra $100 per month to bring this income to $600 per month ($7200 per year), it keeps only $17 of this extra $100. This is equivalent to an 83 percent tax on earnings. If the family earns another $200 per month to bring its employment income to $800 per month ($9600 per year), it loses ADC benefits entirely and its Medicaid card. If the family then must purchase medical care, its disposable income drops below where it had been with less earned income.

Third, finding employment also means Mary must find child care arrangements for her daughter. Without some form of child care subsidy, her child care costs may more than offset any increased income from finding work. If she waits to work until her child is in school, she still faces the problem of after-school child care.

The state of Iowa currently provides very limited support for child care for low-income families. What is available predominantly is used for families on ADC in training programs and seeking employment, and not for families who have found jobs. Iowa ranks well below most states in its subsidy programs for child care services for low-income families. In 1986, for example, Iowa on a per capita basis made only fifty-five cents available for child care subsidies, compared with an average of $ 2.42 per capita in neighboring states.

Fourth, Mary finds her child support payments inadequate to meet anywhere close to half her daughter's expenses. Although she might be able to receive more child support if she went back into court (as her ex-husband's pay has increased considerably since the time of the original order), she cannot afford the legal costs of doing so.

National figures show that a minority of persons owing child support pay their full amount each month, and that only seventy percent of all child support obligations are paid. National figures also show that a periodic review and modification of child support orders could more than double overall child support collections. In Mary's case, however, the legal costs for her to secure a $50 or $100 per month increase in child support orders would probably be too great for her to assume. A key element of federal welfare reform legislation currently under debate is a requirement for states to establish periodic reviews and modifications of child support orders.

Finally, Mary needs to find employment that pays enough to provide her family with financial security. For Mary, this probably means a job paying $15,000 per year that includes comprehensive health benefits. These jobs are not plentiful in our society, where it has become a necessity for many intact families to have two incomes to enjoy middle-class living. Employment training and education frequently are cited as keys to successful welfare reform, but alone they cannot create the types of jobs needed for family self-sufficiency.

The fact that child care costs and health care coverage are most frequently cited by welfare recipients as obstacles to finding employment and achieving self-sufficiency suggests that ADC recipients do not expect to find employment that pays enough to cover these essential needs. While job training and educational support such as Mary received helped her obtain a better than minimum wage job, the job she secured still does not provide security or much of an escape from poverty for her family, since she now spends $3000 per year on health insurance and child care. Minimum wage jobs ($6968 annually based on a forty-hour week) without health care coverage clearly do not provide a path out of poverty. While Mary's length of stay on ADC may be relatively short, her escape from poverty is tenuous at best.

A welfare reform strategy that considers Mary's needs must address all five of these problem areas if families like hers are to achieve financial security. The following welfare reform issues relate to these problems:

1. ADC grant levels that provide for basic needs;

2. Transitional health care and financial incentives for families who find work;

3. Quality child-care services that are both available and affordable;

4. Child support orders that are based upon the costs of raising children, and that can be modified in light of changed circumstances;

5. Training, education, and job search programs that lead to employment paying family-sustaining wages; and

6. Development of jobs that will provide for basic family needs.

The obstacles faced by single-parent families like Mary's are formidable. It is a tribute to these families that more than half do achieve independence from the ADC program within two years. A key to welfare reform is to recognize that efforts should not end when families such as Mary's leave the ADC program. Rather, the goal of

Iowa's welfare reform efforts should be a broader one of economic self-sufficiency. In the long-run, greater earning power for these families means greater productivity and economic development for the state.

Jill Johnson

The following story of Jill Johnson is representative of a minority of ADC recipients in Iowa--those with long-term dependency upon the welfare system. Yet while fewer than one-fourth of all ADC families stay on welfare for more than eight years, they represent sixty percent of total program costs.

> Jill Johnson did not complete high school, and became pregnant shortly after she dropped out of school. Her first child is now seven, and a second child is two. She has never been employed, and has been an ADC recipient since the birth of her first child. Her first child is having some difficulty in first grade, and her second has frequent ear infections, which Jill blames on the drafty trailer that is the only housing she can afford. She doesn't see much way off welfare. She admits that she yells at her kids a lot and the trailer is not always clean, but there is no one to help take care of her toddler when she tries to clean up or go shopping, and her seven year-old seems to get into trouble whenever he is left alone.

Over a decade, a welfare family like Jill's costs the state five times as much as a family with the average, two-year stay on ADC. Jill's family also is the type of welfare family least likely to be assisted by the existing state job training program (JTPA), individual education and training program (IETP), or job search program (WIN) that are the state's "welfare to work" programs for ADC families. Still, welfare analysts have become convinced that services must be targeted to Jill's type of family if long-term welfare dependency and welfare costs are to be reduced.

Studies have shown that "welfare to work" programs that select or "skim" only those most eligible for employment have little impact on welfare costs or welfare dependency itself, although they may improve the earning position of people who would have left the welfare system anyway. To establish successful programs for families like Jill's requires an understanding of the type of family likely to be dependent upon welfare for a long time and the reasons for that dependency.

From national studies, we do know that long-term welfare recipients are more likely than short-term welfare recipients to be high school dropouts and to have no work history. They are less likely to have ever been married. They are more likely to have had more than one child before the age of twenty-one. Finally, we know that once a family has been on ADC for two years, that family is more likely to stay on welfare than a family with the same characteristics which is just starting on public assistance.

Upon entry to ADC, Jill's profile strongly suggested long-term welfare dependency. A high school drop-out with no work history suggested that Jill would be unlikely to find employment and would be likely to have another child. Yet because Jill's child was an infant, she was not targeted for job training or education services or for any other services. In general, ADC programs have required job search or employment-related training only when the youngest child in the family is at least six. Further, Jill's case was more difficult to channel into existing programs than the majority of new cases an income maintenance worker processed, because Jill did not have even the minimum qualifications for many job training activities.

To date, there have been few programs that have worked specifically with long-term welfare recipients to help those families achieve greater self-sufficiency, but Iowa has one and it has received national attention. Started by the Midwest Iowa Community Action (MICA) agency, family development teams have been working intensively with such families to help them set their own goals, become more involved with their communities, and begin to climb the ladder out of poverty.

"Almost every family that has been on ADC for more than two years is a troubled family," Gary Stokes of MICA states. Social isolation, lack of self-esteem, and living on the financial edge takes its toll, Stokes explains. Such families usually require extensive counseling and support services before they are ready to take advantage of traditional "welfare to work" programs. In MICA's program, a family development team first works to establish rapport with the family, and then to help the family set and achieve goals. Frequently, work with the family means serving in an advocacy capacity for the family with state welfare agencies or mediating disputes with landlords or other creditors. Intensity and personal attention specific to each family's needs is the primary distinguishing feature of the program. Family development teams typically work with no more than ten families at a time. In comparison, income maintenance workers for the Department of Human Services (staff who determine eligibility for ADC recipients) consistently have caseloads of more than one-hundred.

The key to success of the family development teams is described as social work that treats the client as an individual, with unique needs and capabilities. It is driven by the client's own efforts, rather than by eligibility criteria for a specific array of services. Stokes argues that it also takes the active involvement of the larger community, which must be receptive to engaging and supporting families previously outside the mainstream of support. Churches and schools can help provide a social system for the family, where no strong support system previously existed.

Maryland has established "family support centers" to provide a similar set of services and support for low-income families with young children. Their efforts often include breaking bureaucratic red tape in order to deal with a family's specific problems. Their program also has a strong component of establishing goals for each family that uses the center. Illinois has its "Ounce of Prevention" program targeted to families at risk and particularly to families with teenage parents. Both states' programs involve public-private partnerships, with substantial financial commitment from the private sector.

Despite the success of these programs, they have not been widely replicated. They fall outside the traditional structure of the welfare system as part provider of support and part policeman. Their services and the outcomes from their services are not subject to simple measurement. Caseworkers frequently find they must fight the traditional welfare system in seeking to secure financial stability for these families. It is far easier to evaluate a job training center by the number of clients successfully completing a course of instruction than it is to evaluate a caseworker's success in instilling a sense of hope in a welfare family. Public officials usually demand a type of accountability that is difficult for such programs to provide. Still, if long-term welfare dependency is to be averted, programs such as MICA's should be given greater support. Certainly, old notions of who can and can't be helped must be re-evaluated. One of the findings from programs like MICA's is not that it succeeds in a few cases but that high levels of success are achieved. "People will change and work hard," Gary Stokes says, "but they do have to see the light at the end of the tunnel."

Early intervention with families like Jill's can also serve to prevent additional family problems in the future. If Jill's case had received active and intensive casework, Jill might have been encouraged to re-enter and complete high school. She might have enrolled in a parenting skills program or a young parents support group. Studies have shown that teen parenting programs can be successful not only in reducing child abuse and neglect, but also in reducing the likelihood that the teen mother will have a second child within the next three years. If Jill had not had a second child while still unmarried, and had completed high school, her prospects for employment would be much brighter.

The prognosis for families like Jill's is not good. Rather than being productive members of society, they are likely to demand substantial state services. These include not only welfare and medical expenditures, but often include special education services and juvenile and family services as well.

A successful welfare reform strategy for families like Jill's must begin early, and involve active casework and counseling assistance from the time of application for welfare benefits. Even if welfare independence is not the end result for all such families, improved family functioning will benefit the children and improve their chances for productivity as adults. Coupled with active casework must be the availability of support services for particularly high-risk groups--teenage parents, high school dropouts, and families with chemical dependency. Such programs always are most effective when the community and the schools actively support the services, and take pride in the successes their programs have and work to correct any failures that occur.

Preschool Children in Low Income Families

Many children like Jerry Brown are in families on welfare. Many will be a part of Iowa's foster care system at some point in the future. Children like these are likely to become discouraged with school because they begin without many of the basic skills already mastered by their peers.

> Jerry Brown is four. From one to five in the afternoon, his face is pushed up against a television. That is the time he is left with a neighbor while his mother works part-time at a grocery store. There are no books in his apartment, and he often does not have a real dinner, as his mother is too tired to cook when she comes home. His I.Q. has been measured at 85. His mother quit high school at fifteen, and now lives on her part-time salary, ADC, and food stamps. She would like Jerry to be more active and hopes he will go to and finish high school, but she doesn't know anything she might do to help him.

This year, both the General Assembly and the Governor of Iowa placed education at the top of their agenda, committing nearly $100 million in new state funds to provide salary improvements and incentives to primary and secondary school teachers. Governor Branstad's inaugural address cited "economic development" as the key reason for making this commitment to education. Yet for children like Jerry, who are likely to start far behind in school and to become discouraged early on, waiting for kindergarten may be too late. Sadly, our society is producing more, rather than fewer, children like Jerry. Thus, a successful welfare reform strategy must focus, not only on the employment potential of the head of the family, it must also focus on the developmental potentials of the children in those families.

The federal Head Start Program is targeted to low-income children and their families. Despite limited federal funding, Head Start has a record of success in helping children like Jerry. Yet Head Start reaches only a small fraction of children who could be considered "at risk" of later learning problems and school dropout. In Iowa, most Head Start Programs are limited to a few hours per day, and therefore do not fit into the needs of working heads of households requiring full-day child care. In Iowa, Head Start serves less than 20 percent of all financially-eligible children.

The success of intensive early childhood education programs for at-risk children such as Jerry has been shown in a number of studies. The Perry Pre-School Project in Ypsilanti, Michigan provides perhaps the best long-term documentation.

The Perry Pre-School Project was operated in the early sixties for three- and four-year old low-income children with marginal I.Q.'s (65 - 90). Children were assigned randomly either to participate in the program or to serve as a control group. The program actively involved parents and included frequent home visits as well as pre-school classes. The progress of children in both groups was then followed through age nineteen. The comparisons of the children who were part of the pre-school project with those who were not are impressive. Children participating in the pre-school program had:

--higher high school completion rates (67 % vs. 49 %);
--less use of special education services (16 % vs. 28 %);
--fewer arrests for criminal acts (31 % vs. 51 %);
--lower teenage birth rates (64 per 100 women vs. 117 per 100 women);
--less reliance upon public assistance (18 % vs. 32 %);
--more employment activity (59 % vs. 32 %); and
--greater overall work satisfaction (42 % vs. 26 %).

In terms of total social costs for the two groups up to age nineteen, researchers found that every dollar spent for the pre-school project averted seven dollars in expenditures on the non pre-school group for special education, welfare, and juvenile court.

Key elements of the Ypsilanti project, Head Start, and other projects with similar cost-effectiveness statistics are their comprehensiveness. They work with the parents as well as the children; and they insure that --in addition to early education services--health care, nutrition, and social service needs of the families are met. In Jerry's case, that means home visits that encourage Jerry's mother to read to him at night, to apply for the WIC program for food supplements, and to use her Medicaid card to test Jerry for partial deafness in one ear. It also means encouraging Jerry's mother to visit the pre-school and to become involved with other parents.

Because of its importance in breaking generational cycles of poverty, pre-school education programs for at-risk, low-income children have been singled out by the National Governor's Association as a key investment area for state governments. Some states, like Maine, have appropriated state funds directly to Head Start programs, in order to allow those programs to serve a greater percentage of the population eligible for service under federal income guidelines. Other states, like Illinois, have appropriated funds for use through their school districts but specifically targeted for three- to five-year-olds "at risk of academic failure." A number of states have funded programs designed for teenage parents, to help equip those parents with parenting skills that will avert the child abuse or neglect that may occur when parents are unprepared for parenting. Last session, the Iowa General Assembly appropriated grant money for programs to address teenage pregnancy and parenting. Early state actions to help families develop skills can avert a subsequent need for state actions to protect children from abuse and danger. Both parenting education programs and pre-school preparation programs have been effective in this respect.

It is sad but not uncommon to come across a clinical diagnosis for a five-year old who has come from a family where there has been no nurturing. Such a diagnosis says that, throughout that child's life, it is unlikely the child will ever come to trust anyone. The prognosis for that child usually is for continuing and progressively more serious emotional problems as the child matures. Such children frequently end up in foster care; and in juvenile court. They later may become parents who do not nurture their own children.

Nationally, eighty percent of foster care cases come from the twenty percent of families that are headed by a single parent. A large percentage of these families live in chronic poverty. Poverty adds more stress to families that often begin with limited support systems and few coping skills. Many of these families come into contact with society mainly through their participation on public assistance programs such as ADC and food stamps. A successful welfare reform strategy must establish positive programs for these families that not only provide opportunities for self-sufficiency for the parents, but also provide increased human development opportunities for the children.

When Fritz Hollings was governor of South Carolina, he defended his support for increasing ADC benefit levels by saying, "I'd rather feed a child than house a prisoner." The same can be said for the programs cited here. Investments in pre-school education programs like Head Start and the Perry Pre-School Project pay dividends. Iowa government can incorporate into the state's ADC program parenting skills programs for teenage parents, as well as incentives to have those teenage parents re-enter and complete high school. The state provides financial support to many of these families through ADC, but it does not provide human development support.

It has always been a waste of resources to limit the development potential of our youth. Yet the changing composition of our society means that it is the waste of an even more precious resource today. Investing in children like Jerry and involving Jerry's family in that investment may well be the only way to assure that full economic development can occur in Iowa in the twenty-first century.

Infants and Toddlers in Low Income Families

Children increasingly are the victims of poverty in our society. There are many fewer children today living above poverty than there were two decades ago, but many more living in poverty. Experiences of infancy and early childhood are critical to a child's development. These facts add a sobering perspective to the following reflections shared by an administrator of an agency providing services to troubled adolescents and their families.

> One of my friends, George Belitsos, who runs Youth and Shelter Services in Story County, recently answered a newspaper advertisement for volunteers. Now, two days a week he goes to a day care center in Ames and holds one- to six-month old babies, to give the babies a sense of security while their parents are at work. George said it would be nice if it could be written into every constitution in the world that the country's political leader must hold a baby at least two hours every week. "They're totally helpless," George said, "yet they are our future. I think making our political leaders hold babies would humanize our political system."

Every year, there are a handful of issues that are brought to public light as critical problems demanding government action. Some of these issues recur, coming into focus every five or ten years. Perhaps this is because public attention won't stay focused very long. Even when a solution to the problem is not found, it is difficult to maintain a sense of urgency and crisis for more than a year. The problem "disappears" as news, only to be rediscovered a decade later. Welfare reform is such an issue.

This year, the federal government has made welfare reform one of its priorities, with legislation working its way through both U.S. House and Senate. The National Governor's Association has identified welfare reform as a critical issue for state-level interventions. Both Governor Dukakis and Governor Babbitt are campaigning for President touting their efforts at achieving welfare reform in their states.

In Iowa, the Governor has stated that welfare reform will be a key issue in the 1988 General Assembly. Six Iowa Democratic senators have issued a "white paper" on welfare reform, with welfare reform cited by legislative leadership as one of the major initiatives for 1988. Both the Governor and the General Assembly have established task forces to work out details of a legislative welfare reform package.

The term "welfare reform," of course, means different things to different people. Some define "welfare reform" only in terms of reducing the number of people on public assistance and the cost of that public assistance. Others see "welfare reform" as providing a ladder out of poverty for families currently living below the poverty level. This article has argued that "welfare reform" also should be viewed as an investment in our future workforce-- as a key piece in Iowa's economic development strategy.

Child poverty has proved to be devastating to adult productivity. In addressing the issue of welfare reform from this perspective, this article has suggested three different targets for state actions to reduce welfare dependency, encourage self-sufficiency, and provide for fuller development of our children.

First, it is necessary to address the obstacles we know exist for persons on Iowa's principal welfare program (ADC) who seek employment and self-sufficiency. The majority of ADC recipients are women with small children, who find themselves on public assistance due to divorce, separation, or the death of their spouse. The current welfare system provides a minimum "safety net" for these families which includes food stamps, free medical care, and a cash grant barely sufficient to provide for modest housing arrangements.

If a mother who is a single-parent is to find employment that allows her family to escape poverty, she must be able to obtain affordable child care services. If her expectation for employment is a job that does not provide full health coverage, she must have the means to purchase health care. A job that pays a minimum wage ($6968 per year) may disqualify her family from eligibility for ADC, but it will not make her family materially better off than it would be without employment and living on ADC. It will not give her family financial security. The challenges in a welfare reform strategy for this family either are to assure that the mother can obtain a $15,000 a year job with comprehensive health benefits or to be willing to subsidize a $9,000 a year job with state assistance to meet child care and health care needs. If the latter is the solution, it must apply to the tens of thousands of other families not currently on welfare but in similar financial circumstances.

Second, it is necessary to develop a different strategy for families at risk of long-term welfare dependency. Even though a small minority of families receiving ADC are families with stays of a decade or more on the ADC program, they assume the majority of ADC costs. Such families--again usually single-parent families headed by women--are characterized by limited education, no work history, low self esteem, and little personal hope for achieving welfare independence. Such families often require substantial counseling and support prior to being in a position to benefit from job training or educational programs that might make them more employable. While the costs of such counseling and support are high, they can avert even greater long-term welfare costs. It is in addressing these families' needs that the state can have the biggest pay-offs in terms of reduced welfare expenditures.

Third, it is necessary to focus on the development of the children in welfare families. Welfare reform should not limit itself to the preparation of the head of household for employment. Children who grow up on welfare are at high risk of using the welfare system when they become parents and adults. Ignoring their needs as children compounds future welfare problems. Programs like Head Start have been successful in preparing low-income children for our educational system. Comprehensive pre-school programs stressing parental involvement have documented records of improving not only the educational attainment of economically at-risk children; records also indicate such programs more than pay for themselves in the long run.

Rather than "welfare expenditures," this article has argued that we should consider investments in the welfare population as economic development activity. Ironically, most of Iowa's economic development funds are expended to attract well-to-do businesses and industries. Very little is spent to develop Iowa's own under utilized resources. Economic development funds rarely make their way to distressed communities or disadvantaged groups, although these are the Iowans most in need of economic development. Particularly in tight economic times, there must be a rethinking of how economic development funds are used and how they might be redirected to complement welfare reform activities. Iowa has the opportunity to address what is, in a true sense, a "crisis." Failing to provide better futures for the one in six children in Iowa who live in poverty is, in one sense, squandering the future of Iowa.

Being a recent new father, I really appreciate what George Belitsos said about holding babies. Ultimately, welfare reform is about those helpless babies, and the people they can become. There would be nothing more tragic than to know we have missed an opportunity to make their world--and ours-- a fuller, more productive, and more secure one.

Workfare and Welfare
by Cyndra Norman and Wm. Theisen

Recently there has been renewed interest in requiring able-bodied AFDC recipients to "work-off" benefits at unpaid, public works tasks. Working off welfare benefits is not a new idea; the policy goes back to sixteenth century France and England (Goodwin, 1983). Work and welfare were closely linked in the poor relief system. Able-bodied persons unwilling to work were ineligible for poor relief, but could be sent to jail. Able bodied persons willing to work (but for whom work was not available) were eligible for temporary relief. Handicapped and helpless persons unable to work were in a third category.

Workfare has a number of definitions. "Hard" workfare programs require employable recipients to accept public service jobs and work sufficient hours to "pay off" cash grants or food stamps (Bernstein, 1986). "Soft" or combination programs offer job searches, on-the-job training, and vocational training. Combination programs often pay child care and transportation expenses. Some programs pay child care and continue Medicaid after people have a private sector job.

Two-thirds of AFDC recipients are children, so workfare participants generally are adult AFDC recipients (Garcia, 1986). Able-bodied, low-income men without families are not eligible for AFDC. Unemployed men on the AFDC-Unemployed Parent (AFDC-UP) are encouraged to participate; however, in 1982, they constituted only six percent of AFDC families (Rovner, 1986). Workfare also exists for general relief and food stamp programs (Englander & Englander, 1985). Thirty-seven states have some type of workfare program, although only ten have statewide programs (Kondratas, 1986).

The majority of Iowa counties have Community Work Experience (CWEP) for AFDC-UP recipients only. CWEP jobs include janitorial, secretarial, road crew, park maintenance and grounds work. In April, 1987, of 17 Decatur County families on AFDC-UP seven people were eligible to participate in CWEP and five were placed in CWEP jobs. Decatur County participants work off benefits at $3.35 per hour for 32 hours per week, allowing participants to search for paid work one day per week. CWEP jobs include janitorial, secretarial, road crew, park maintenance and grounds work.

This paper examines three issues related to the concept of work for welfare payments: 1) historical and structural forces which bring the issue forward at this time; 2) consequences of workfare for recipients, the welfare system, and society; and 3) whether workfare is a solution to the "welfare problem."

Work and Welfare: A Historical Perspective

Care for dependent children and families had its origins in poor relief during the mercantile era. In the mercantile system, production, not consumption was the object of industry and commerce (Smith, 1937). Poor people were considered a drain on scarce resources. Plans for workhouses, schools of industry and labor camps were devised by mercantilists in an attempt to convert the poor to an asset (Himmelfarb, 1983). These would have the dual function of reducing poor rates while enhancing the productive power of the nation. This view of the poor was widely shared by economists of the time. Roger Coke (1696) suggested "that in every village a Workhouse be erected . . . to instruct the youth of both sexes . . . whereby the nation may reap the benefit of their employments" (McNulty, 1980). Josiah Child proposed a body of officials to be known as "fathers of the Poor." They would buy land, build workhouses,, and set the poor to work on the principle that it was man's "Duty to God and Nature to provide for and employ the poor, whose condition is sad and wretched, diseased, impotent and useless" (Wilson, 1969; Himmelfarb, 1983).

In nineteenth century America, the aged, disabled, mentally ill, and orphans were crowded together in almshouses. This was a subsistence economy and children, whether orphaned or simply poor, often left the family by adolescence. Some children were "hired out" to farmers who provided food and shelter in return for labor. Children also were indentured to learn a skill or trade. Discipline and education in morals were, according to Josephine Shaw Lowell, head of the New York City COS, "inseparably associated with any system of public relief" (Bremner, 1972).

The late 19th century was a time of economic and industrial turmoil. The Panic of 1893 demonstrated how mass unemployment in an industrial society is clearly related to mass poverty. Wage earners and social reformers began advocating policies to guarantee a job for every person willing to work. Charity agents who opposed poor relief, believed if enough jobs were available there would be a glaring spotlight on "sloths" who lacked moral fiber and a sense of social responsibility. Successive presidential candidates campaigned on the theme of prosperity. The 1920's boom, with an expanding economy and high employment, seemed the answer to poverty. Then, at the end of that "prosperous" decade, came the recurring cycle of mass unemployment.

The New Deal.

The Great Depression eventually altered the public perception of government's role in economic affairs. Poor relief, based on local taxes, was impotent to help everyone in need. Millions of breadwinners, almost 25 percent of the labor force, were unemployed.

The ideology that breadwinners should care for themselves and their families, meant that "breadwinners," had a "right" to a job; and, if the private sector could not provide a job for everyone wanting to work, then the public sector should.

By 1932, jobs and income security were a major issue. When Roosevelt spoke of "one-third of a nation ill-housed, ill-clad, ill-nourished . . ." he was speaking primarily of the needs of the unemployed and their families (Schlesinger, 1965). Freedom from Want--one of the four freedoms--was to be ensured through full employment. In a speech at the National Conference of Social Workers, Harry Hopkins said of the Federal Emergency Relief Act:

> It is the intent of this Act that relief should be given to the heads of families who are out of work and whose dependency arises from the fact they are out of work (p. 1).

Government help for the needy was divided into two parts: work for employables and welfare for unemployables. Social Security is closely linked by employment. When Congress legislated the Social Security Act, breadwinners and families would no longer be left to meet their own needs as they aged or became unemployed because of changes in the economy. We now refer to Social Security primarily as a retirement program, but the original concept was to provide income security for retired workers and their families (OASI); to provide income security for wage earners and families during unemployment (UCB); and to provide income security (Public Assistance) for people not eligible for OASI or UCB. ADC was not a work program; needy mothers were not considered employable (Malone, 1986).

The Employment Act of 1946 reflected government's commitment to a full employment policy. During the next twenty five years, the federal government pursued a policy to encourage a high level of industrial development and full employment, accompanied by plenteous amounts of food, clothing and shelter (Wehrle, 1971). Economic policy was the basic social policy with regard to unemployment, and by implication, the solution to poverty.

An important aspect of this economic policy involved industrial development. Large sums of money were spent on military manufacturing under the guise of national defense. Military manufacturing stimulated the profitability and industrial growth of corporations. Industrial growth created millions of new jobs for breadwinners. Millions of new workers entered the labor force and most working class people moved from poverty to middle income wage levels. The principal beneficiaries of this policy were families of urban, white-male wage-earners. Prosperity stimulated economic demand for a wide supply of consumer goods, and America became, without question, one of the wealthiest nations that ever existed.

Another America: The War on Poverty Years

In 1961, Congress permitted states to make payments to children of able-bodied unemployed parents (AFDC-UP), linking work programs to AFDC for the first time. This was a significant change because, previously, federal regulations had prohibited states from requiring workfare participation. Controversy was minimal because of the expectation that only fathers would participate.

The federal government helped offset costs of Community Work and Training programs which required fathers to "work off" welfare benefits. Fathers were not allowed to refuse employment if offered. During six years of the program, only 13 states elected to use the authority (Malone, 1986). Some states which began workfare programs in 1961 continue those programs to this time (Dickinson, 1986).

The War on Poverty brought significant changes to AFDC. The 1965 Work Experience program was similar to the Community Work and Training program except with more federal money. In 1966, the Manpower Development and Training Act was required to serve welfare recipients. In 1968, Congress developed the Work Incentive Program (WIN) and the "thirty and one-third" rule in response to growing numbers of families using AFDC. As a work incentive, the thirty and one-third rule allowed recipients to keep the first thirty dollars and one-third of additional earnings without having AFDC reduced. This also resulted in families maintaining Medicaid after they obtained employment, especially important for those in jobs without medical benefits.

WIN signaled that for the first time, Congress had decided work was to be encouraged for welfare mothers as well as fathers (Malone, 1986). WIN was controversial because some felt it was inappropriate to ask AFDC mothers to work. WIN appropriations were low, and WIN was never implemented as intended by its supporters (Malone, 1986).

The WIN program did produce some positive results. Unemployed AFDC parents were helped to finish high school, college, business training and technical training. This success however, brought repercussions from the business community. Employers pointed out that some welfare recipients were receiving more benefits than the working poor those businesses employed at minimum wage. Rather than making WIN available to the working poor, WIN appropriations were further reduced, to the point that meaningful training programs for the unemployed were virtually eliminated.

President Nixon proposed welfare reform in 1969. His Family Assistance Plan (which failed to win Congressional approval) would have guaranteed a minimum income to families, and included training and child care components. In 1971, efforts to strengthen WIN required mothers to be referred to WIN except those with children under age six. Program emphasis shifted from training to job placement (Rovner, 1986). The Comprehensive Employment and Training Act (CETA) program was begun in 1973, but few enrollees were AFDC recipients. In 1978, CETA funds were targeted for low income people and AFDC enrollees increased (Malone, 1986).

When the Reagan administration implemented the Omnibus Budget Reconciliation Act (OBRA), the working poor were the hardest hit. A critical feature of OBRA policy changes affected single-parent families, headed by women working in low income jobs. Many welfare observers expected the OBRA changes to affect labor force participation. However, recipients continued to work, documenting that the main effect of welfare is to raise the incomes of the poor.

Workfare, as it was outlined under OBRA, was the Community Work Experience Program (CWEP). Under CWEP, work incentive benefits were reduced; and recipients can be required to participate in state or local work projects. Another important 1981 change allowed states to set up their own WIN demonstration projects. At present, there is debate regarding whether to maintain WIN or put WIN funds under the Job Training Partnership Act (JTPA). Opponents of this change cite the failure of JTPA to help the most needy to find employment (Sklar, 1986).

Work and Welfare: Philosophical Perspectives

Longstanding structures in our society make workfare appealing to many Americans. In several recent polls, over 80 percent of those surveyed agreed that people who can work should take public service jobs if private employment cannot be obtained (Englander & Englander, 1985; Kondratas, 1986). Glowacki (1985) suggests that religious views (Catholic and Calvinistic) of work and welfare, as well as political philosophies influence attitudes toward work and welfare. Three current political ideologies regarding work and welfare are:

- --workfare as a disincentive to welfare (the traditional conservative view);
- --workfare as socialization (the neo-conservative view); and
- --workfare as service (the liberal view).

The common assumptions in all three views are: that it is better to work than to be on welfare, and that able-bodied adults should work.

Catholic and Calvinistic Views of Work and Welfare

Catholic social teaching rests on the premise that individual development is a key element of a just society. Individuals have a right to food, clothing, shelter and employment. They also have a duty to work and create social institutions which provide for the rights of all individuals.

Catholic social teaching emphasizes a person's positive right to work and have basic needs met by society, while Calvinism stresses the individual's duties of work, stewardship, and charity. The Calvinist view is that work is done for the glory of God; and idleness is a form of human alienation from God. Industry, thrift and good use of the things of this earth are the mark of economic and moral virtue. Poverty, but most particularly dependency, is regarded as a failure of character (Ref, 2000). Social Darwinism, an aberrant form of this view, holds that those who work are not responsible for those do not work. The fit will survive and make the economy stronger, while the unfit will only weaken society if they are given charity.

The Conservative View of Workfare

This view stems from Calvinism and Social Darwinism, positing that able-bodied people on welfare do not work because they lack self-discipline, and it is easier to collect welfare than get a job. Therefore welfare recipients should work at public service jobs so that welfare is not a way to avoid work.

In this view, "hard" workfare requirements with little support service are the best way to handle the obligation to society. There are enough jobs in the private economy for anyone who wants to work (Lenders, 1986). Recipients will only work for higher wages than they would get on welfare (Bernstein, 1986). Welfare is wasteful, wrought with fraud and abuse (Kirp, 1986). Some suspect that one source of fraud is that many AFDC recipients simultaneously work in the underground economy (estimated to be 15-25 percent of the GNP) and collect welfare (Bernstein, 1986; Braudel).

Another assumption of the conservative view is that women on AFDC have children so they can collect welfare and avoid work. Since nearly half of all women with young children are in the labor market, conservative literature justifies AFDC mothers working off welfare benefits (Lenders, 1986). Hopefully, workfare will deter other women from having children, as they see friends juggling child care with workfare obligations (Kaus, 1986). If mothers fail to take responsibility for workfare obligations, they lose benefits; a consequence of not providing necessities for children is loss of custody (Kaus, 1986). An argument against vocational training aside from cost, is that people are not motivated to do well unless they pay for the training themselves (Kaus, 1986).

Neo-Conservative View of Workfare

A "culture of poverty" is central to this position. Individuals are viewed as not valuing work; dependence on welfare is a way of life. This "culture of poverty" is felt to exist primarily in urban ghettos and be predominantly black; black middle-class families who originally lived there moved to the suburbs. Ghettos are isolated from society and have a social ethic of high crime, unemployment, illegitimacy, and welfare participation. It has become easier to get along without a job, to get away with crime, to get drugs, to ignore education, and to walk away from a job. The best hope for people in ghettos lies in establishing some link to the outside world (Leman, 1986).

In Losing Ground, Charles Murray argued that welfare has made it rational for the poor to behave in ways that are ultimately self-destructive. To change dependency, recipients should work not simply to repay benefits, but to "learn the dominant culture's work ethic." "Programs should try to assure recipients the same balance of rights and obligations that non-dependent people face in

Government as surrogate for society should conscript those able to contribute to the common good (Kirp, 1986). Mead believes an authority structure is needed to make up for lack of socialization to the idea of being obligated to society. This socialization was not given to members of the underclass when they were children. An authoritarian workfare program would do that. Welfare would not be done away with, just made less permissive. Poor people would feel connected to the rest of society if they learned this obligation and slowly the welfare culture would change (Lenders, 1986).

Another "culture of poverty" critic (Kaus, 1986) believes all welfare should end. A person needing food and shelter would work at a guaranteed job provided by government at sub-minimum wage. No means test would be given; anyone wanting work could do so. Poor people would gain work habits and references. Since the wage would not support a family, a negative income tax for wage earners only (guaranteed job workers would be considered wage earners) would be instituted. Child care would be provided as well as transportation expenses. Mothers of children under two would be exempt. Supervisors or workfare would be authoritarian in their expectation of work, not to save money, but rather to enforce the work ethic. Alternatives for those refusing work would be austere homeless shelters and soup kitchens.

The liberal view of workfare

The view is that welfare dependency results not from individual failure, but societal failure to provide adequate education, employment opportunities, and child care. Racial discrimination, lack of jobs, and poor schools contribute to a group of people who cannot find or hold jobs. Poverty is institutionalized, and is not solved by telling individuals to go out and get work. Those who hold this view believe most welfare participants want to work and cite the fact that only 7 to 15 percent of all welfare participants are on the rolls for eight years or more (Kaus, 1986; Sklar, 1986).

Bishop O'Meara (1986) in House testimony said,

> The major problem lies not in the recipients themselves or in their lack of skills but in the fact that our economy is not producing enough jobs to employ all the people who want to work.

"Hard" workfare programs punish people for circumstances beyond their control. Instead of punitive workfare programs, many feel it would be more beneficial to individualize programs; including work search skills, vocational training, on-the-job training, and supported work as indicated by specific need (O'Meara, 1986). People respond better if given choices, and mandatory work requirements will not be as successful as voluntary programs (Blong, 1986). Another concern of those holding this view is the potential for displacing public workers and replacing them with workfare participants (Sklar, 1986). Participants should have child care costs and transportation costs covered by government. Job development in the private economy is also needed. Jobs should pay a "living wage" so people can support families without supplemental programs (Levitan, 1986). Economic policy should move toward full employment.

Consequences of Workfare

Workfare has consequences for recipients, taxpayers, labor organizations of public employees, the political system, and the welfare system. This section examines some of those consequences.

Recipients

Proponents contend that workfare participants receive work experience, references, and psychological benefits. One study found that participants themselves thought work requirements were fair (Lenders, 1986), although subjects were not asked if they were receiving work skills and references. Some believe that the positive response to workfare had to do with motivation and interest in work, rather than ability of workfare to stimulate a work ethic (Sklar, 1986). A study of workfare on Massachusetts found 65 percent of the assignments required no skill, providing participants no skilled experience (Goodwin, 1983). Recipients have little impact or input on the structure of "hard" workfare programs. Welfare rights groups have declined and legal services have been curtailed, further limiting impact of recipients on the system (Kirp, 1986).

Taxpayers

The taxpayer benefits from workfare both by paying lower taxes as recipients move into private sector jobs, and by receiving the benefits of public work by participants. Numerous workfare studies have been done regarding the cost effectiveness of workfare programs but differences in what has been measured makes comparisons difficult. Some studies control for the fact certain recipients would have found work in the private sector without workfare, while other studies do not control for this factor. Not surprisingly, some studies show decreases in welfare rolls and a net savings, while others do not. Dickinson (1985) reviewed evaluations of workfare programs and concluded programs successful in moving people from welfare to private sector jobs were combination programs of on-the-job training and intensive, group job search programs (Dickinson, 1986).

Administration of workfare programs can be complex (Glowacki, 1985), and workfare typically involves high administrative costs which reduce savings. In Georgia, the low cost-savings ratio was five to one, while in Connecticut, the ratio was three to one. In Florida, for every dollar spent on workfare, $.16 was returned in savings, for a net loss of $.84. Manpower Development Research Corporation (MDRC) is doing a five year study in five states with "soft" workfare programs (Lenders, 1986). These studies will utilize uniform research methods and control groups. In an interim report, MDRC reports a real employment gain in the private sector of six percent in a San Diego program (Kirp, 1986). Overall, undramatic but modest gains in employment have been found. A recent study of 16 CWEP programs showed scant evidence of effectiveness in increasing employment, earnings or reducing welfare rolls (Dickinson, 1986). Participation rates never reached 20 percent at any given time, in any state in the study. In conclusion, "the case for workfare cannot really be made on cost-saving grounds, at least not in the short run" (Kondratas, 1986, p. 241).

A second benefit to taxpayers is the labor of workfare participants. Workfare participants do work that public employees do at higher pay. The fallacy of this benefit is that if workfare participants take jobs from public employees, then former public employees must be supported, with little net savings to the public. Sklar (1986) cites a case in New York, where sanitation workers were laid off and found themselves back on the same garbage trucks as workfare participants. Second, workfare participants do projects that cannot be done because of lack of tax dollars. If workfare participants are not paid prevailing wages for this work then exploitation is possible. One obvious question that emerges is, why not develop public works projects and hire people for wages?

Labor organizations

Unions have been concerned about losing jobs to workfare "workers." While most workfare programs have stated public employees cannot be laid off to make slots for workfare participants (Kaus, 1986), union lawyers say it is difficult to prove the reason a lay-off has taken place (Sklar, 1986). A recent court decision in Milwaukee County found a workfare program illegally replacing civil service jobs, even though a statutory provision prohibited replacement of civil service personnel (Sklar, 1986).

Elected officials

As reported earlier, the public overwhelmingly believes in the concept of "earning" welfare benefits. In addition, public opinion indicates a strong feeling something must be done about the "welfare problem." Enacting workfare legislation, even on a limited basis, gives the impression something is being done (Kaus, 1986). There appears to be bipartisan support for combination workfare programs; including "soft" workfare support services (child care, transportation and job training) and the "hard" workfare component of mandatory public service (Kirp, 1986; Rovner, 1986).

The welfare system
Workfare requires the welfare system to supervise workfare jobs. Welfare workers are somewhat resistant to "hard" workfare programs, and current attitudes might not be congruent with authoritarian supervision (Dickinson, 1986; Kondratas, 1986). Special training may be necessary to institute the type of supervision suggested. Workfare programs are costly. Studies indicate not all states save money by instituting workfare programs. Workfare will not be attractive if it results in substantial losses. Ray Garcia, president of the National Association of County Human Services Administrators, recommended the federal government be a full partner in any workfare program, and allow for flexibility because of differences in different parts of the country (1986). Garcia also indicated a preference for combination programs as opposed to "hard" workfare.

Workfare as a Solution to Welfare

To date, workfare has not reduced welfare costs or the dependence of the "under-class." The limited success claimed by workfare supporters appears to have been primarily with combination programs which offer participants support services and training components.

Our economy functions as a capitalist economy, where a relative few enterpreneurs make decisions which affect the market place. Of particular importance to participants in workfare programs is availability of jobs which pay a living wage and medical benefits. Power to create jobs lies at the enterpreneurial level and will not be affected by the need or desire of welfare participants to support themselves. "There is, after all, a limit to the number of individuals that an economy built on the idea of a permanent labor surplus can absorb" (Kirp, 1986, p. 44).

Two factors complicate this situation. First, work is changing to require technical skills which require training. To compete in the job market, welfare recipients need skills which "hard" workfare schemes do not provide. Second, as jobs open up, welfare recipients are not necessarily geographically located where jobs are located. Welfare recipients do not have resources to go where jobs are, and cannot move from one part of the country to the next as economic activity shifts (Kondratas, 1986).

Another flaw is that workfare advocates perceive welfare dependency as a problem of personal failing. They do not account for the role society and the economy play in creating difficult situations for people to support their families. There are higher levels at which interventions might be more successful. Proponents argue that solutions of the 1960's were higher level interventions that did not work. This author would argue that there are higher level solutions which have not been given a fair trial, such as a guaranteed annual income and economic policies encouraging full employment. Further, combination work programs show the most promise of actually helping at the individual level. Combination programs offer a variety of solutions for people with a variety of unique circumstances.

Opponents of workfare cite what they feel is a significant flaw in the concept. They feel society and the economy contribute to situations making it difficult for people to support their families. In contrast, workfare supporters perceive welfare dependency to be a result of personal failure. Opponents argue for societal interventions such as guaranteed annual income; economic policies encouraging full employment; and combination work programs offering a variety of solutions for people with varied, unique circumstances. Workfare supporters argue that large scale societal interventions were attempted unsuccessfully in the 1960's.

Logical as it seems to many Americans, workfare may not get welfare recipients into the workforce; or reduce welfare costs. Instead it may be merely another event in the history of the problem of poverty in the United States.

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WELFARE REFORM AND MEDICAL CARE
by Paul Stanfield

Iowa provides good, comprehensive Medicaid coverage for families receiving Aid to Families with Dependent Children (AFDC) and individuals receiving Supplemental Security Income (SSI). Medicaid in Iowa covers such optional items as dental and eye care. So long as someone eligible for Medicaid is living in or near a community where providers are willing to accept Medicaid levels of payment, they will not lack for basic medical services.

For thousands of other Iowans who do not have incomes sufficient to pay for medical care, but have too much income to qualify for medical assistance, being "off welfare" can be -- depending upon where they live and their particular medical needs -- hazardous or uncertain or both.

Providing medical care for the working poor is an essential element in any "welfare" program aimed at assisting families to become self-sufficient. Some of the children in this category receive care now through the optional Child Medical Assistance Program of Medicaid. Others are covered by the Medically Needy option of Medicaid. But this number is small and includes only the neediest of the needy. And while children in a family might be covered by one or the other of these options, their parents are often without medical insurance or third-party coverage. Running these health risks can be a deterrent to a mother who has an opportunity to move off welfare and into the low-wage entry-level workforce. But that is only one of the considerations which should spur activity to provide adequate health care to all Iowans.

Thousands of Iowans struggle to provide for families at these below-poverty-level jobs. And their children suffer all too often from lack of primary health care and medical attention for potentially severe problems because the family simply cannot afford it and Iowa has no program to help them. Following is a review of those programs which currently provide help in Iowa.

Medicaid

Until recently, the only Iowans covered by Medicaid were members of families receiving AFDC, individuals receiving SSI payments, the elderly in nursing homes (under the Medicaid option for that purpose) and children covered by the Child Medical Assistance Program because their family income was below the AFDC grant level even though their families received no AFDC.

For a family to qualify for AFDC however, one parent must be absent or the breadwinner must be unemployed. Since Iowa has increased its AFDC grant level only twice in the last decade, the grant level, and hence the income level qualifying families for this assistance and for medicaid, is approximately one-third less than that necessary to keep up with the actual cost of living--i.e., recipients have lost one-third of their buying power in the last decade.

Iowa incorporated the Medically Needy option of Medicaid for children and pregnant women in 1984. Coverage for SSI related individuals was added in 1985. Medically Needy coverage applies to families in circumstances (such as the absence of a parent) which qualify them for AFDC, but who are not eligible for AFDC because the family income exceeds the AFDC grant level, providing the income does not exceed the AFDC standard by more than one-third. For example, a family of three with income of $450 per month is well beyond the AFDC level, but well within the Medically Needy eligibility guide of $508 per month. Unless modified by a state, the resource limit for Medically Needy recipients is the same as for AFDC.

Iowa maintains its Medically Needy program on the basis of two-month eligibility periods. (Iowa has chosen a two-month eligibility period from a range of options suggested by Federal guidelines.) In calculating the six-month family income, all medical expenses, including outstanding bills, are deducted to determine income for eligibility. This is called the "spend down." A family with heavy medical bills may qualify for medical coverage for part of them even though family income is well beyond the $508 per month qualification level. For such families, Medically Needy provides something similar to catastrophic medical coverage. But since family income is actually below poverty level, the family is still expected to pay medical costs which are beyond its means.

Most of the cost of this comprehensive medical care is paid by the federal government. The federal share of state AFDC payments, as well as Medicaid, is determined according to a formula which reflects a state's economic difficulties. Thus, the federal share of Iowa programs (approximately 55 percent through 1984) has increased to 62.75 percent for 1987-88, and will show another slight increase for 1988-89.

Indigent Patient Program

The indigent Patient Program at University of Iowa Hospitals and Clinics, commonly called the "state papers program," was established in 1915. Under this program, the appropriation to the University for operation of the hospital is to be used to provide medical care for Iowans in need of care but unable to pay for it. The appropriation for 1987-88 is $25.5 million. The total cost of the program is financed by the state. University of Iowa Medical School and hospital staff are not paid additional reimbursement for services to these patients.

Most of the care provided under this program is based on a quota system, with the total number of patients to be served is determined by the University. A specific number of slots is then allocated to each county on the basis of county population. Many counties exhaust their quotas while others fall considerably short. However, the UIHC insures accessibility to their services even after quotas have been exhausted, if the patient requests care directly, rather than through county officials.

While the Iowa Code specifies that eligibility of prospective patients for this care is to be determined by the juvenile court of each county, in actual practice the determination of eligibility is in the hands of county relief directors. There is no state standard of eligibility guiding administrators, and when a number were surveyed as part of the Human Services Leadership Roundtable study of the Medically Needy Program in 1984, it was found that many operated the program without written policies on eligibility.

Not only do eligibility standards vary from county to county but they also vary from month to month in the same county. The number of quota slots available to each county is a patient number; cost is not considered. County directors certify patients for the program with due consideration to potential cost and the number of months left in the year.

Some counties limit the Indigent Patient Program to medical cases in excess of some specified cost figure. No county director wants to be in the position of using a quota slot for a case costing only a few hundred dollars at the first of the year only to obligate the county for several thousand dollars later because the county's quota has been exhausted. Thus, while it is possible to describe the Iowa population covered by Medicaid and the Medically Needy option in terms of incomes and financial resources, the county to county variations make this impossible for the Indigent Patient Program. And, while it is common to think of the program — which provides hospitalization and physician services but not prescriptions or primary health care — as helping those Iowans above the AFDC income level, many counties with written policies in place use AFDC and Medicaid income guidelines for this program too.

Obstetrical care is <u>no longer</u> included in this quota system. Much of the obstetrical care previously provided in Iowa City under this program is now available to eligible Iowans locally through the Indigent Obstetrical Program discussed below. The appropriation for this program is $1.1 million.

It should be emphasized that federally assisted Medicaid programs are limited to children and their parents, the elderly and the disabled. This means that single adults, childless couples under 65 and persons without disabilities are limited to the Indigent Patient Program and county general relief for medical care. Under these options, charity care of hospitals or physicians, and assistance through local charitable programs is limited in certain locations.

Indigent Obstetrical Care

Travel across the state to Iowa City presents particular problems for pregnant women. It is also creates additional expense since travel for these patients has not been included in the state appropriation for the program. The Legislature recognized this in 1986 by designating part of the Indigent Patient Program appropriation for provision of obstetrical services in the patient's home county. The original action established a one year program and included both physician and hospital services. The payment level for these services was limited, however, and many county relief directors found the paperwork difficult. In spite of lower than expected participation levels, the program was written into the Code in 1987. Medicaid payment levels were provided, and maternal and child health centers were brought into the processing system. Recent evaluation indicates dramatic increases in participation.

The new obstetrical care program differs from the 1915 law for other types of care in other respects as well. Although a quota for local obstetrical care is given each county, factors other than population are taken into account in setting those quotas. And, provision is made for re-assignment of unused quotas from counties which have not used the program to those counties which want and need provision for additional cases during the final quarter of the fiscal year.

Johnson County (Iowa City) and eight surrounding counties have been excluded from participation in this program in response to the University of Iowa's concern about maintaining a patient load adequate to meet requirements for education of College of Medicine students and residents in obstetrics. Patients in these counties continue to receive obstetrical care at University Hospitals. In addition, University Hospital care may be chosen in preference to local care by eligible women in counties outside this catchment area. And, a county which has exhausted its quota for local care may exercise their option to certify eligible applicants for obstetrical care at Iowa City. Obstetrical care remains a <u>non-quota</u> part of the Indigent Patient Program.

Provisions of the new Indigent Obstetrical Program provide uniform state standards for obstetrical care at both local hospitals and University Hospitals in Iowa City. The statute sets the maximum income for eligibility at 150 percent of the poverty income level.

This is a marked contrast to the 99 different policies which prevail for the Indigent Patient Program.

County General Relief

Medical care provided as part of a county's general relief program is financed exclusively by the county, primarily from local property taxes. Standards for eligibility, and covered medical services, varies from county to county. Court challenges to unwritten policies, however, have encouraged adoption of written policies on general relief, including medical care. Most counties whose written policies were reviewed for the Human Services Leadership Roundtable in 1984, established income guidelines approximately the same as the AFDC and SSI level. Services provided vary from county to county. For example, in the case of county general relief, there is not only variation in eligibility standard--as with county administration of the State Indigent Patient Program--but there is variation in services as well. At present, County Hospitals are obligated to provide free care under section 347.16 of the Iowa Code. There are currently 43 County Hospitals throughout Iowa but this provision is not widely publicized and, advocates claim, not often used.

Other Charity Care

There is even greater variation in the character and volume of charity care available across the state. Much of the obligation to provide charity care which accompanied hospital financing under the Hill-Burton Act has been fulfilled, but the American Hospital Association survey of Iowa hospitals placed the value of charity care in 1985 at $37.1 million. This figure includes $10 million in care at Polk County Broadlawns Hospital for which public financing is specifically provided. With this exclusion, total charity care amounts to less than two percent of the hospital's net revenue. No figures are available on the amount of charity care provided by private physicians.

Maternal and Child Health Care

Maternal Health and Child Health centers, funded primarily with Title V Block Grant funds have made prenatal services and related medical care available in a majority of Iowa counties. In 1987, the Iowa Legislature provided additional appropriations to establish additional centers, making prenatal care available in all counties, beginning in 1988 Families with income under 150 percent of the poverty guideline receive free care at the centers (which make sub-contractual arrangements in the more rural counties). A sliding scale fee is charged for others.

Mobile and Regional Child Health Specialty Clinics

With funds made available through the Federal Emergency Jobs Bill, the 1983 Iowa legislature allocated $522,144 to Mobile and Regional Child Health Specialty Clinics. The allocation was designated to pay for medical services for children in families with incomes below 150 percent of the poverty guideline. Response to the program demonstrated the inadequacy of the previous health care system.

The first plan for using this money limited care to children with chronic disabling disease and did not include hospitalization and, subsequently, was found to be too restrictive. A second plan, instituted in late 1983, included a concerted public information effort; covering most medical needs except preventative care, obstetrics and dental care. Available funds were exhausted in seven weeks, yet calls for help continued to come in well after that at the rate of 20 to 30 per day. Thirty-two percent of families helped by this program completed a survey regarding their medical needs. More than half of these families had no third-party coverage of health costs. Forty percent of this number had insurance coverage previously, but lost it when the parents lost their job.

More than two-thirds of the reporting families had sought help elsewhere before learning of this special program. While some had received some help, the refusal rate was high from all sources. The refusal rate to these families from the Department of Human Services was 82 percent; from the county relief office, 71 percent; from community service groups, 85 percent; from hospitals, 63 percent; and from the social security office, 88 percent. Families had experienced slightly better luck seeking personal private help. Only 65 percent had been refused bank loans and 45 percent had been turned down by family or friends.

Most of the children helped by this program suffered from common medical problems--ear, nose and throat problems or one of the major infectious diseases. These are the types of problems which would probably have been promptly cared for in more affluent families or families covered by Medicaid.

Options Including Federal Participation

There are additional options open to the state, involving federal financial assistance, through Medicaid. The federal match rate for Medicaid is now at 62.75 percent and will go to 62.78 percent in October, 1988. This rate of federal participation means almost two federal dollars for every state dollar expended. The following options are available to Iowa.

--Medically Needy coverage of adult caretakers in AFDC-related families (the only optional group not yet covered in Iowa);

--full implementation of Medicaid coverage up to 100 percent of poverty guideline for children up to two years of age (to be extended to five years of age through a gradual phase-in), the elderly and the disabled. (These options were made available by the Sixth Omnibus Budget Reconciliation Act (SOBRA) of 1986. An option covering infants and pregnant women has since been raised to 185 percent of poverty;

--exclusion of tools of the trade in determining family resources for eligibility for AFDC; and

--extending the nine-month coverage of Medicaid after a family goes off AFDC.

There have been serious efforts to make these options available to low income Iowans for the past two years. Excepting the option that would exclude tools of the trade from eligibility determination, all were passed in the 1987 legislative session. All three were lost in the item veto process in the spring of 1987. The Commissioner's budget proposal for 1989 included all four options. Three were subsequently dropped by the Council on Human Services; leaving only an extension of Medicaid coverage after a family loses eligibility for AFDC. This option is currently included in the Governor's budget for 1989.

Coverage of Caretaker Adults
Children are currently covered by Medically Needy options but the only coverage for parents is obstetrical care. While some parents may be willing to risk their own health problems and leave AFDC for a low-paying job with coverage for their children, for others the risk is too great. Medicaid coverage for the entire family is needed if medical care for the working poor--an essential element in welfare reform aimed at assisting families to move from AFDC to self-support--is to be meaningful.

Current Medically Needy coverage is limited to those families with incomes one-third above the AFDC support level ($508 for a family of three), a level that remains fully one-third below the poverty level. This leaves a lot of families, and a lot of children of working parents, with an income too low to cover necessary health care costs. The ability of these families to obtain medical care is dependent upon the policies of local doctors, the hospital or their county relief director.

Coverage of Young Children, Pregnant Women and the Elderly
For young children, the SOBRA option now allows Medicaid coverage of children up to age two (with a phase-in which raises the age covered year by year to age five), pregnancies, and the elderly and disabled. A state is also allowed the option of raising the resource limit for eligibility to any level it chooses (including eliminating it) providing the same limit is applied in all Medically Needy cases. One option that has been proposed would increase the limit to $5,000 for single persons, and $7,500 for others, at an estimated cost of

approximately $2 million for the first six months. At current rates, this would mean approximately 3.5 million addition federal dollars for the state.

Tools of the Trade Option

The "tools of the trade" exemption for self-employed persons--a practice already followed in such federal programs as SSI and food stamps--would be of particular value to rural families who suffered losses leaving them without money for necessities and ineligible for help because of the value of implements necessary to continue farming. Laid-off factory workers who are trying to develop their own business, such as auto repair, run into the same roadblock. This change would cost Iowa about $4.8 million in the first year.

Extension of Coverage for Former AFDC Recipients

Extending the coverage of former AFDC recipients another six months would cost very little -- all estimates have been well below $100,000. But, for the families affected, such help could be the difference between staying off AFDC or being forced to again become dependent because of need for medical care.

State Options

Any medical coverage beyond options listed above would have to come from state funded programs. One program, unanimously approved by a House committee in 1986, would complete decentralization of the Indigent Patient Program which previously provided care only at University Hospitals and Clinic (UIHC) in Iowa City. Obstetrical care, which once was limited to Iowa City has been decentralized under legislation discussed earlier in this chapter. But, the Indigent Patient Program remains one under which the following limits apply:

1. Care may be denied because a county has exhausted its quota for the year (University sources point out that even though quotas exist, no patient is denied necessary care if the individual contacts UIHC directly).

2. Care may be denied because of the practice of limiting its use to the most expensive cases.

3. Care may be denied in one county that is available in others because of local variations in policy.

4. The care that is provided meets only part of the need, i.e., a patient may return home without any means of obtaining the prescriptions or other medical supplies essential to recovery.

5. The care provided may involve potentially dangerous travel, which could be avoided if the same care could be given in the home community.

6. The care provided may be more costly than necessary because of the expense of the required travel.

The bill reported out by the House committee in 1986 would have made the appropriation for indigent care which now serves as an operating appropriation for University Hospitals available to pay for local care for any patient for whom local care was the most appropriate, in addition to establishing the kind of state eligibility standards now in place for the decentralized obstetrics program.

The current appropriation to UIHC for indigent care is for transportation and hospital costs only. Services provided by physicians and other professional staff are considered to be part of their responsibility as faculty and staff of the medical school and, as such, are provided without additional charge to the state. Provisions of the bill reported out by the House Committee in 1986, would have made part of this allocation available, instead, to pay for local care for any patient for whom that was deemed most appropriate. Cases requiring the type care that could be more appropriately delivered at UIHC would continue to be sent to Iowa City. This is the arrangement currently being used to operate the indigent obstetrical care program for counties outside the catchment area mentioned earlier.

The Board of Regents and UIHC have expressed several concerns related to the proposed decentralization of the indigent care program. The overall concern is two-fold:

1. that decentralization implies both equivalent care for patients and a cost savings for the state; and

2. that any significant reduction of the present appropriation to UIHC could create grave financial problems for the medical education program at the University of Iowa.

These sources feel the commitment to care afforded the state, as an element of a teaching institution, would not necessarily be the case in local hospitals. In other words, while patient care might not be compromised, costs to the state could increase.

These sources also point out that fixed costs of operating a hospital facility as a part of a teaching institution are significantly greater than the national average for hospitals in general. A somewhat different but related perspective, resulting from a study completed by a special committee in 1986, maintains that support of UIHC is, in part, a justifiable societal cost because they are a part of a state institution receiving public support. Under this assumption, support to UIHC would need to remain near the current level; even if the indigent care program were decentralized. Thus, as was suggested earlier, decentralization does not guarantee a cost savings for the state.

The Indigent Patient Program could be modified to meet many health needs of Iowans below poverty levels. Those that would potentially be covered include persons of all ages who are currently in a kind of "No Medicine Land;" with incomes above AFDC and Medically Needy levels but below what would be required to cover adequate health care. Legislative interest in broader decentralization continues. However, it is obvious that a number of issues must be resolved before decentralization is likely to occur.

Programs in Other States

Legislatures in at least 10 states were looking at plans for expanding care beyond the Medicaid/Medically Needy eligibility level in 1987. Following is a summary of some approaches outlined in State Health Notes for April 1987.

Wisconsin: A pilot project to provide vouchers for persons with incomes below 175 percent of the poverty guideline who do not have employer-subsidized group insurance. The cost would be set as a percentage of the participant's income.

Washington: A plan to cover persons with family incomes below 200 percent of poverty level with premiums based on income.

Minnesota: A "cooperative health insurance program" to provide coverage for families and individuals below 200 percent of poverty guidelines with contributions from both employers (up to five percent of the employee's wage) and the employees (up to 10 percent of total household income).

Summary

Medical care for low-income individuals and families is an essential element in moving families now dependent upon AFDC toward self-sufficiency, but this is part of a larger problem -- the inadequate health care available to low-income families and individuals of any circumstance.

For more than 30 years, the United States has been the only major industrialized nation without assured health care (socialized medicine). The current status of health care programs in the United States is the result of several distinct but related developments, including the prevalence of employer-provided (or subsidized) health care as a benefit; and the enactment of Medicare to provide coverage for the elderly.

The significance of the above-mentioned protections has diminished over time. Current realities include the fact that many small employers say they cannot afford such benefits. Many large employers who provide such benefits, deny them to large numbers of employees by increasing the numbers of part-time employees who are not included in their benefit plans. Medicare coverage has been reduced to the point that it scarcely resembles the program so warmly welcomed when it was instituted.

The National Health Care Campaign is a national effort which is attempting to revive support for adequate national effort while encouraging state initiatives and the improvement of existing national programs. Advocates for assured medical protection for all citizens contend that it is essential, not only for successful welfare reform, but for the well-being of the nation as a whole.

CHILD CARE IN AMERICAN SOCIETY

by Pamela S. Brown and Ann Thompson

The past decade has seen a massive increase in numbers of women in the paid work force. Several factors are cited as contributing to this phenomenon; however most can be summarized under two headings: economic necessity and the women's movement. If women who are also mothers are working outside the home, who is caring for the children?

As the child care issue becomes public concern several additional questions evolve. What constitutes quality child care? What does quality child care cost and who should pay for it? What are the benefits of societal investment in child care? That children require care is not a new phenomenon. Most of the other questions, however, are a result of growing numbers of women who, out of economic necessity, personal choice or both, are both parent and employee.

The significance of the child care debate, not unlike other social issues, requires some knowledge of its history. In this instance, the focus is the family and its interaction with and relationship to the larger society. First, it is critical to understand structural and demographic changes in the family and the parallel developments of American society --socially, politically and economically. Second, the concept of child care must be clearly defined. Third, the interrelationship of family, work and child care must be viewed from the perspective of economics and the larger society.

Child Care and the American Family: A Historical Perspective

The concept of family--and what society expects from a family--has changed substantially since the American Revolution. A rural society whose economy was based on agriculture has evolved into a predominantly urban society with an economy built on business and industrial activity. As this change took place the large, multi-generation family of rural America was slowly replaced by the smaller nuclear family, often separated from relatives by considerable distance. American society today increasingly recognizes many other family forms, including single-parent and step families.

Structural and Demographic Changes in the Family

In a labor-intensive, agricultural society, the productive capacity of children was highly valued. In today's society it may seem to some that children have become a financial and social liability. Family planning has become more socially acceptable, and more feasible with less risk, due in part to technological advances in methods of birth control. Abortion is now a legal option. Choosing to remain childless has also become a more socially acceptable option. The cumulative result of these social, technological and legal changes is an average of less than two children per family.

In the nuclear family of the early Industrial Era the father usually worked outside the home while managing the household child care were the responsibilities of the mother. In today's society, many more households have only one parent; and even in two parent households, both parents frequently work outside the home. The family of the future, whatever its form or size, could conceivable rely on day care centers, day care homes and preschools for more of the responsibilities of child care. As increasing emphasis is placed on this broader concept of child care, the economic costs of child rearing will be significantly inflated.

Defining child care

In rural America most families consisted of three generations--all sharing in the day-to-day activities necessary to provide food, clothing and shelter. Child-care was primarily the responsibility of women with some assistance from older female children. How children learned basic skills--social, emotional and intellectual--was not a matter that was given much specific attention. As small children, they learned by participating in family routines and traditions; older children learned by being assigned significant responsibilities in the chores necessary to life in a rural, agricultural society.

The one-room country school gradually assumed responsibility for intellectual development and academic shills. Social and emotional development, however, remained the responsibility of the family, primarily the mother. For most families social activity was limited to traditions that grew up around shared planting, harvesting, and "barn-raising"; spelling bees and box socials at school; and weekly services, revivals and pot-luck dinners associated with the country church. Appropriate behavior, for children of all ages, was clearly defined and very similar for most families in any given community.

With industrialization and urbanization, households consisted increasingly of a mother and father and their children. Other relatives of the same generation might live in the same community but the older generation of extended family remained, typically, in rural communities; often some distance away. Child-care became more clearly defined as the full-time pursuit of mothers while fathers left the home for paid employment in business and industry. What children were taught and how was still loosely defined however, and continued to be primarily a function of the activities of daily living. The primary difference was that now there was more time for stories, games and other activities between mother and child, independent of providing for family needs. There was also more opportunity to interact with other families, although group activities continued to be centered around and influenced by church and school for many families.

Routine care and education of young children continued to be a mother's responsibility even after nursery schools began to appear in this country in the 1920's. Many early nursery schools were laboratory sites at colleges and universities; often more for training teachers and studying how children learn than actually teaching children. Nursery school education outside these laboratory situations was in the cities and attended primarily by children of the socially elite.

Nursery school education expanded during the Great Depression of the 1930's under a government supported program called the Works Progress Administration (WPA). The programs were established primarily to provide jobs for teachers who had lost their jobs during the depression. Participation in these programs was voluntary and primary care and education of young children remained the responsibility of families/mothers.

The greatest expansion of preschool education occurred in the 1960's as a part of the War on Poverty. Head Start was designed to help prepare children from low-income families for school; it continues to be one of the programs that exemplify excellence in early childhood education. Head Start programs offer comprehensive education in early childhood as well as support services and involvement for eligible low-income families. However, every preschool-age child is not eligible for Head Start; many who are eligible are not able to benefit from services available due to limited funds. Head Start programs in Iowa are currently able to serve only about 20 percent of the eligible children. An additional problem is that most Head Start programs only meet for a few hours at a time, and not every day. Therefore, while the program provides excellent preschool education and some support services, it does not provide the comprehensive child care that is necessary for working parents. In spite of the excellence of Head Start and other quality programs in early childhood education, they have continued to be considered by many as secondary to family responsibility in the basic care and education of children from birth to six years of age.

Given this history of the structure and function of the American family, it is reasonable to conclude that, in the past, there may have been little cause for public debate about what child care was or who was responsible for providing it. However, as the concept of child care is defined to be significantly more than physical care, and as that care is increasingly provided by persons other than parents, the broader issue of social responsibility becomes salient.

Families, Work and Child-care

In 1960, only 19 percent of mothers with children under six years of age were in the work force. By 1975, that number had grown to 39 percent and by 1987, 57 percent of all mothers with children under six were employed outside the home. Findings of a 1983 poll indicate that more than 70 percent of working mothers are working to support their families. In white families, female contributions to family income grew from 10.6 percent in 1967, to 18 percent in 1985. The significance of female contribution to income for black families was even greater, increasing from 19.4 percent to 30 percent in the same time period.

In spite of documented increases in female earnings, if inflation is factored in, average family income has actually declined. Thus increased work participation and earnings of women has actually helped to off-set the decline in earnings of married men. According to figures reported in a recent issue of CDF Reports, average income of all two-parent families with children dropped 3.1 percent between 1973 and 1984. Without women's earnings, the drop would have been more than three times as much. With the growing numbers of households in which both parents work, child care needs have increased dramatically. There is a growing need for quality affordable child care, especially for families where both parents work, and for households supported by a single parent.

Organized day care has been in existence for a number of years and has the potential for providing excellent comprehensive child care -- support for social, emotional and intellectual development of young children, including family involvement. Like nursery school education, however, day care centers have been used primarily by more affluent and socially elite families. Although the most common term for this child care arrangement is day care, most child care advocates are quick to explain it is much more than physical care while parents work.

Affordable, quality child care has been cited frequently as an indirect solution to the welfare problem. In a recent article in the Des Moines Register, Professor David Bloom of Harvard and Martin O'Connell of the Census Bureau stated that 48 percent of mothers with a child less than a year old work; affordable child care would increase the proportion to 68 percent. In Iowa an estimated 49 percent of mothers with children under age six, and 66 percent of mothers with children ages six to 17 work outside the home.

"Children in Poverty," was the subject of hearings held in Des Moines and Cedar Rapids in the fall of 1987. Included in attendance at those hearings were low income parents, state agency directors, private providers, legislators, and other interested citizens from across the state. Child care was repeatedly cited as a cause of poverty for children and families. Many feel that low income parents should have more child care options as part of welfare reform. These advocates feel that, lacking child care, women will find it all but impossible to get off public assistance. To be effective in reducing poverty--i.e. moving low-income families off welfare and toward self-sufficiency--child care needs to be both affordable and accessible. Parents need to be able to choose child care close to home or work.

Many feel that the availability of quality, affordable, accessible child care is essential for healthy growth and development of children and families; and for a stable, productive work force. The discussion of what constitutes quality child care covers this in greater detail. A survey of the costs and benefits of quality child care provides a basis for understanding the relationship between child care and welfare reform.

What is Quality Child-care?

Specialists from many disciplines--medicine, child development, psychology, social work, and education--agree that the care children receive in early childhood is a key factor in shaping development. The national news media has focused attention repeatedly on a child's need for quality care. Stories report sometimes unbelievable details placing children at risk because of makeshift or non-existent child care arrangements while parents work to provide basic needs. Many others detail the poor quality of care in day care centers and day care homes. Iowans are probably most familiar with the charges of abuse in a day care home in Des Moines. In July, 1982 the Warnocks of Des Moines were charged with multiple counts of child maltreatment involving children they were caring for in their home. They had not obtained the necessary registration for operating a group home for day care.

Opponents of day care often cite harmful effects of large group care, compared to the advantages of individual attention a child can receive at home. Some of the same people support neighborhood play groups and nursery school experiences. Child-care advocates, on the other hand are quick to point out that many children whose primary care and early childhood education are provided at home are often ill-prepared for school and subsequently for life as productive adults. Their position gains credibility with evidence provided by the successes of Head Start and the Perry Preschool Project in Michigan; programs designed to address those deficiencies.

Nursery school education typically provides small groups of children with supervised activities for two to three hours at a time. Most programs meet two to three times weekly, during morning or afternoon hours. It is interesting to note that one of the first nursery schools was located in a slum area of London in the early 1900's. The school, established by two British sisters, was designed to give children from poor families some of the benefits children of more affluent families received in home nurseries. There is a certain amount of irony in a recent report issued by the Children's Defense Fund stating children from low-income families are less than half as likely to attend these kinds of comprehensive preschool programs as are children from more affluent families.

One of the earliest lessons for students of child development is that there is no difference in nursery school education and quality day care except the number of hours a child spends there. This lesson is outlined for the public in the often-repeated list of factors contributing to quality child care programs:

--small group size;
--good staff to child ratios;
--continuity of care;
--involvement of parents;
--caregivers trained in child development; and
--a healthy, safe and stimulating environment.

Child-care advocates say such programs are not only possible but essential for a society in which increasing numbers of women are working outside the home. What it will cost, and how it is to be paid for? become the questions most critical in policy debate.

The Many Aspects of Cost

National studies reported by child care supporters have documented the average cost of day care for one child to be approximately $3,000 per year. This represents nearly one-third of the yearly income of a single adult in a full-time, minimum-wage job. While these figures are a significant piece of the child care debate as it relates to welfare reform, alone they fall short of the total picture.

Price and Availability of Purchased Care

First, cost estimates are based on available care in major cities and suburban areas. Centers often are not located near low-income neighborhoods, thus adding transportation costs--assuming transportation is available. In small towns and rural communities there is often very limited choice, if there is organized child care at all.

Secondly, the definition of availability is much broader than physical proximity. Most centers are in operation for 10 to 12 hours per day--thus the title "day care centers." They typically begin receiving children about 7:00 a.m. and expect all children to be picked up between 5:30 and 6:00 p.m. Parents are often assessed a monetary fine for every minute of care beyond the stated closing hour. While such measures may be necessary for efficient center management, they can add an impossible burden both financially and emotionally for low-income families. Families needing care outside the traditional day care hours because of second or third shift schedules or evening classes must rely on other means of care entirely. Families needing specialized care services such as infant care, weekend or evening care, before and after school care, or care for handicapped children may simply be out of luck. These types of arrangements are limited in most areas and non-existent in many. If they are available, they are most often extremely costly.

What Can Families Afford?
Based on national estimates, parents earning more than $15,000 can afford to pay up to 10 percent of their total income for child care. Those earning between $10,000 and $15,000 can only afford five percent of their total income, and those earning below $10,000 per year cannot afford to pay anything for child care. Given variation in costs from state to state, it is not unusual for a low-income family, and some moderate income families as well, to face the prospect of paying 20 to 30 percent of their income for child care--depending on the number of children and their ages.

It is generally acknowledged that families with incomes under $10,000 per year probably need to have the cost of child care fully subsidized, because at this level family income is insufficient to cover costs of shelter, food, medical care and taxes. For example, a working parent with two children whose income is $13,275 is living at 150 percent of the federal poverty guidelines. According to 1980 U.S. Census data, over 522,000 Iowans--or 18.5 percent of all Iowans--have incomes below 150 percent of the poverty level. Although child care expenses for two children in Iowa is estimated at $4,704 per year, the family is not eligible for child care subsidy through Social Services Block Grant Funds. Advocates argue that, given these facts, unsubsidized child care is a challenge for all moderate to low-income families; an impossibility for a single parent trying to climb out of poverty.

What Contributes to the Cost of Child-care?
Child-care providers are among the lowest paid of all service professionals. The average annual salary for child care workers, nationally, is $10,000 to $12,000. According to a recent study of child care in Iowa, the average child care worker receives $4.50 per hour, or an annual salary of $9,360; individuals providing care for the livestock at Iowa State University are paid more. Many child care providers, in Iowa as well as across the nation, work without benefits or with very limited benefit packages.

Most child care advocates feel providers should have professional training related to early childhood. The preferred ideal is a bachelor's degree in child development or early childhood education. The cost of obtaining those qualifications is approximately the same as most other four-year degrees and yet entry-level salaries in other professions may be as much as three times greater. It can be difficult to attract providers with the desired professional training given that kind of competition.

While adequate provider salaries are a significant issue in the cost of quality child care, they are by no means the only issue. The initial costs associated with securing a suitable site and equipping a child care center are a deterrant to many would-be providers. On-going expenses incurred for maintenance of the physical plant, purchase of expendable supplies, maintaining age-appropriate toys and equipment and providing appropriate out-of-center experiences can also add significant amounts to center operation.

Child-care start-up grants are available in Iowa through the Department of Economic Development. Grant monies may be used for resource and referral, employer sponsored day care, infant care, sick child day care, and before and after school child care. The amount of money available for child care start-up grants is very limited -- approximately $150,000, with a maximum of $10,000 per grant. Department of Economic Development child care funds are not available for on-going expenses.

Adequate regulation of child care programs, providers and facilities is another significant cost factor. However, it is possible that the issue here may be as much political as economic. There is presently no national child care policy. Congress passed a bill to establish a child day care and child development program in 1971. The bill was never enacted, due to presidential veto and charges that such a program foreshadowed socialism. Existing regulation of child care is determined and administered at the state and local level and, as a result, varies considerably from one area of the country to another.

Regulation of child care in Iowa includes mandatory licensing of Child Care Centers, mandatory registration of Group Homes, and voluntary registration of Day Care Homes. To receive a license to operate a Child Care Center--one providing care for seven or more children, but not registered as a Group Home--a facility must be evaluated to ensure compliance with all requirements specified in the Child Care Facilities Act. Additional standards related to programming and staffing patterns are initiated by the Day Care Advisory Committee; approved by the Department of Human Services (DHS); and promulgated according to the Administrative Procedures Act. Group Homes are those providing care for as many as seven, but not more than 11 children in a home setting, without a license for a Child Care Center. Registration is mandatory and involves a self-evaluation of the provider's home according to specifications set by the state. Background checks are routinely completed on any individual requesting registration to operate a Group Home. Persons wishing to care for six or fewer children in their home are not required to be registered in Iowa. Those wishing to have a registered Day Care Home must complete a self-evaluation as specified by the state and are subject to a background check for any history of abuse. Iowa is one of nine remaining states not requiring regulation of day care homes.

At a state-wide public hearing conducted by the Iowa Commission on Children, Youth and Families in the fall of 1985, the need for mandatory regulation of day care homes was repeatedly cited. This statement of need is supported by figures from the Iowa Department of Human Services indicating there is evidence of more child abuse incidents in un-regulated child care facilities than in regulated facilities. Studies completed by DHS also reveal that denial of critical care is the most frequently reported form of child maltreatment. The definition of critical care followed by child abuse investigators in Iowa includes the following:

--adequate food,
--adequate shelter,
--adequate clothing,
--medical care,
--mental health care,
--conditions that meet emotional needs necessary for normal emotional development,
--proper supervision by a reasonable and prudent person, and
--lack of cruel or unwarranted restriction.

In the Keynote Address at the 1987 annual conference on Prevention of Child Abuse and Neglect, Dr. Frederick C. Green reported the following statistics.

*There are one- to two-million children abused or neglected each year in the United States;

*Ten percent of those are physically abused;

*Ten percent are sexually abused; and

*The remaining 80 percent are neglected.

Statistics such as those cited by Dr. Green offer credible support for more well-defined and enforceable regulation of child care. One of the most often cited arguments against regulation of day care homes is that it can be extremely complicated and costly to administer. On the other hand, advocates argue that registration provides at least minimal safety standards for day care homes and background checks for child care providers. Advocates also point out that most children under two years of age whose parents work are cared for in day care homes. They also point out that this is one of the most defenseless groups of children in care.

Child Care As Social Responsibility

A broad-based national coalition--the Alliance for Better Child Care (ABC)--is evidence of growing public support for child care. The diversity represented by more than 70 organizations who have joined the ABC effort exhibits an unusual collaboration between national and grass-roots groups including child advocacy, civic, trade union, women's, educational and religious. According to a recent issue of CDF Reports, this diversity of support is indication that child care is coming of age as a social and political issue.

Recent polls indicate the public is supportive of more public investment in child care with one poll finding 73 percent of respondents willing to increase taxes for child care. At present there are no solutions with regard to the broad issue of welfare reform. On the other hand, bills currently being considered by both houses of Congress indicate there may be bipartisan consensus on the importance of child care in enabling poor families to become self-sufficient.

The Act for Better Child Care, or ABC, (HR 3660 and S1885) was introduced in November, 1987, with 130 Congressional Co-sponsors. In addition to the bipartisan support within Congress, significant efforts have been expended nation-wide through the Alliance for Better Child Care mentioned above. If passed, the bill would provide $2.5 million per year over a three-year period, with an initial state funding match of 20 percent. Current recommendations for how those funds would be spent are as follow:

--75 percent for subsidizing, on a sliding scale to be determined by each state, child care for families earning up to 115 percent of that state's median income;

--two percent for expansion of existing part-day programs such as Head Start; and

--15 percent for developing resource and referral systems, providing grants and low-interest loans for program start-up and expansion, establishing recruiting and training programs for providers, funding family child care providers so they can meet government standards, and ensuring more adequate salaries for providers.

Other provisions of the bill include establishing an advisory committee who would develop federal standards for a variety of aspects of child care.

According to a staff report of the House Select Committee on Children, Youth and Families, $1 invested in a quality preschool experience returns $4.75 in savings. This finding is substantiated in many reports from the Perry Preschool Project, an often cited longitudinal study by the High-Scope Foundation, Ypsilanti, Michigan. Advantages to society documented in this study include:

—decreased need for remedial education;
—lower incidence of delinquency;
—fewer health problems;
—lower incidence of participation in welfare programs as adults; and
—increased incidence of productive employment as adults.

Most people believe all children have a right to care that helps them grow and develop into healthy adults. Children from some families can afford preschool education but a large group of Iowa children are without access to such programs. Advocates argue that these children should not be placed in inadequate care situations because parents cannot afford care that would meet their needs. Iowa presently spends less on child care for low-income working parents than most surrounding states (see Appendix for comparisons).

During the 1987 fiscal year and average of 730 children per month received care through the Social Services Block Grant program that provides child care assistance for low income, working families in Iowa. An additional 691 children per month, average, received protective day care services under this program. While there is no hard data available indicating how many children in Iowa actually need care, advocates maintain that a comparison of figures available related to children in poverty, numbers of single-parent households, and Iowa families currently living below poverty substantiates a need for increased availability of child care assistance. Instead, between 1981 and 1986, the number of available child care slots available to Iowa families through this program decreased by 27.7 percent.

A recent report from the Government Accounting Office (GAO) in Washington found that 60 percent of AFDC work program respondents said the lack of child care prevented their participation in work programs. In Iowa, many ADC recipients have said they would go to work, but cannot because child care is too costly. Advocates believe child care is not an optional service in meaningful welfare reform. They feel it is essential to a family's ability to participate in training or work. Advocates also believe child care options must be of high quality, affordable, and accessible to families.

In light of the evidence presented here, it is obvious that if both men and women are to share in the economic support of families, child care must also become a shared responsibility. The challenge for society and the state is: Who should share in that responsibility and how?

TAXATION AND PUBLIC WELFARE
by Paul Hedquist

> I can't make a damn thing out of this tax problem. I listen to one side and they seem right, and then--God!--I talk to the other side and they seem to be right.
>
> (Warren G. Harding, as cited in Bradford, 1986, p. xiii)

The purpose of this paper is to address the issue of state income tax reform. Family relations and the welfare of family members are influenced by policy decisions of all manner; in the case of tax policy, the influence is felt both in how public monies are collected and how they are disbursed. This paper, however, will be limited to tax reform issues germane to questions of the taxation process itself (rates, tax base, tax floors, ceilings, and the like), including the philosophical, ethical, political and social beliefs, attitudes and actions which necessitate — and, at times, call into question — the very existence of a system of taxation. The goal of the investigation into these matters is a suggested tax reform program, the implementation of which would serve to strengthen families through a system of taxation that would be fair, simple and efficient, while also enabling the funding of necessary programs of assistance that transfer income from one group to another. With over 1,500,000 income tax filing units in the state (Bruner, unpublished report), tax policy formation directly affects virtually each and every Iowa family. Accordingly, the impact on families of this move toward reform deserves to be openly debated, in order that resultant policy might reflect the needs, values and goals of a broad consensus of Iowa's individuals and families.

Definition of the Problem

In 1986, the United States Congress passed, and President Reagan signed into law, a federal tax reform act, a major goal of which was removal of low-income individuals and families from the federal tax rolls (Kahan, 1987). Accomplishing this goal is possible under the law by a redefinition of taxable income, through a combination of tax-base broadening, lower tax rates, and increases in personal exemptions and standard deductions (Kahan). However, since income tax laws of the various states are established independent of federal tax rules and regulations (including fixing of rates, deductions and levels of exemptions), the Tax Reform Act of 1986 has had the short-term effect--opposite the goal of that act--of increasing the state tax burden that falls upon the average low-income household, while creating potential income windfalls for the states (Kahan). For this reason, legislatures in states reliant on income taxation have been looking at ways to make state tax codes conform with the new federal law.

In Iowa, the legislative effort for tax reform is still very much in process, despite the two bills passed in special legislative sessions in 1987. It is a process attracting considerable attention from those advocating on behalf of the interests of individuals and families from across the economic continuum, for the present tax reform debate--far from being concluded--still has potential for resulting in a major overhaul of state tax policy. The history of the problem is traced in the following paragraphs.

As a result of the Tax Reform Act of 1986, Iowa's income tax system no longer conformed with the new federal definitions of taxable income, since the base-broadening measures passed on the federal level did not automatically become legally determinative for defining "income" on the state level. (Base broadening refers to closing "loopholes," that is, disallowance of previously accepted exemptions and deductions as a means of increasing total taxable income.) Legislative failure on the state level to address this lack of conformity would have resulted in broadly differing federal and state definitions of adjusted gross income or AGI; namely, that which remains after the subtraction of exclusions and adjustments, but before reduction for personal exemptions and allowable deductions. The resultant confusion for Iowa families preparing 1987 state tax returns would have cost an estimated $10 to $20 million in filing fees alone (Des Moines Register, September 11, 1987; Charles Bruner, Register, September 17, 1987). Thus the new state law, passed by the legislature on October 27, 1987, and signed on the next day by Governor Branstad, adopts federal definitions of AGI for state taxpayers as well (Register, October 28, 1987).

Anticipating that state legislators would be forced to conform state definitions of taxable income with those of the federal government, lobbyists, concerned citizens and special interest groups began over a year ago to make projections of the impact of the new federal--and now state--definitions of income on the then existent state income tax system. The initial result of these computations would hardly seem to have warranted the label "problem" for an apparent windfall to state coffers of upwards of $50 million in 1987 tax returns alone. This windfall would have resulted from increased state income tax liabilities--particularly for upper-income Iowans--if present state tax rates applied to the increased taxable incomes that will result from the federal and state base-broadening measures. However, Iowa had the highest-in-the-nation top nominal tax rate (an "on-paper" rate of 13 percent on taxable incomes exceeding $76,725). Appropriations approved during the 1987 legislative session were subsequently reduced by $35 million through a line-item veto by the Governor. Monies taken in this process were for income transfer programs and services most directly benefitting the poor (Register, October 27, 1987). The state faced what some predict will be a budget deficit in the next fiscal year of $150 million. Taking these facts into consideration, it is understandable that a projected windfall of $50 million through increased tax revenues drew considerable interest.

Four major proposals surfaced, from a variety of sources, for the appropriation of the unbudgeted revenues: 1) return monies directly to taxpayers in the form of reducing tax rates; 2) restore earlier budget-balancing cuts in social service and welfare programs; 3) use the funds to follow the lead of the federal government, removing from state tax rolls, individuals and families below the poverty line; and 4) retain the windfall as a means of alleviating the looming budget deficit. Even as the legislators were being called back into their second special session in October, 1987, yet another proposal surfaced; namely, the possibility, based on estimates of private accountants and tax analysts, that upper-income Iowans would successfully identify new federal and state "loopholes" prior to 1987 tax deadlines, resulting in generation of significantly less revenue from taxes, eliminating as much as $40 million of the presumed $50 million windfall before it ever materializes (Bruner, unpublished report).

The legislature, in a seven-hour special session on October 27, 1987, passed what is clearly a "compromise" bill (Register, October 28, 1987), one backed by Governor Branstad, as well as by party leadership in both legislative houses. Major features of the bill are:

-- adoption of federal definitions of taxable income for state purposes;

-- an across-the-board reduction in nominal tax rates, with the top rate being reduced from 13 to 9.98 percent;

-- raising the tax "floor" from $5,000 to $7,500 (the floor being that level of income below which there is no tax liability);

-- retention of the deduction of federal taxes from Iowans' taxable income;

-- an increase in standard deductions; and

-- continued exclusion of portions of capital gains income from taxable income.

This bill is a compromise rather than a solution to the problem because its provisions affect only the 1987 tax year. The on-going challenge for state lawmakers and the governor is to fashion a reform plan that would be workable and politically feasible. For such a tax reform plan, one must go back to the very basic issues of tax policy itself, clearly defining terms, goals and objectives, and making clear underlying assumptions and values.

Tax Policy Basics

At the risk of oversimplification, the problems encountered in tax reform policy formation can be distilled down to three questions. Taken in order these are as follow:

1) For what purpose a tax?
2) What is it that is to be taxed?
3) How shall that which is to be taxed be taxed?

Each question is fraught with definitional difficulties, from ethical/aesthetic, economic, political, social, even emotional points of view. Yet, it is in answering these questions that the principle direction of taxation policy is fixed.

For What Purpose A Tax?

The state of Iowa first legislated a state income tax in 1934 (Penniman, 1959). The tax itself, therefore, is not a given, but rests on certain values, assumptions and assessed needs. As the state's population increased, demands for services increased as well, particularly such areas as transportation, public education and increased welfare responsibilities. Prior to 1934, these demands were more or less satisfied on the local and state levels through other forms of taxation (chiefly property taxation), and through the state's easy ability to borrow money (mainly through bonds). During the Great Depression, however, pressure for state-provided services increased at the same time that revenue sources decreased, resulting in enactment of the state income tax law of 1934 (Penniman, 1959). Income taxation has been a matter for family policy concern in Iowa ever since.

The "why" of a state income tax has historically been answered by means of pointing to a generally—though not universally—held belief that all individuals and families of this state have the right to a minimally accepted quality of life; that, for Iowans to enjoy this right, certain services are called for, the provision of which is simply too great for any individual, family, corporation or even community to provide. To make possible, then, such services deemed necessary for and beneficial to all—the public education of children; necessary and efficient transportation of goods and commodities;the assistance of those underprivileged or afflicted by the exigencies of life—the state has assumed the role of provider. This role has meant establishment and oversight of decentralized services through a centralized means of administration. Taken together, administration and services now result in a \$2.4 billion per year state budget; \$869 million of the needed revenue, or 36 percent, is presently raised by means of individual income taxation (Register, October 25, 1987). The remainder of state revenues is raised through corporate, sales, use and "sin" taxes.

Though a vast majority of Iowans agree that this "why" of state taxation is valid, there is broad, even at times acerbic, disagreement as to how far the state's obligation extends into the realm of the provision of public services. In the present tax reform debate, this disagreement is most noticeable with regard to the Department of Human Services' budget allocation.

In 1987, the DHS budget was trimmed by the Governor's use of line-item vetoes in order to balance the state's ledgers. Advocates for the poor were outraged. They continued to voice outrage into the Fall, as it became more and more apparent that the possible tax windfall, rather than be used to restore funds for social services, would be returned to taxpayers. Since this move would bring considerably more benefit to upper-income Iowans, it was seen as a robbing of the poor in order to pay the rich; and, for some (among them, Citizens for Tax Justice; the Iowa Inter-Church Agency for Peace and Justice) this move calls into question Iowa's commitment to a basic quality of life for all (Bruner, Register, September 17, 1987; Paul Stanfield, Register, October 10, 1987). Others disagree.

Groups such as Iowans for Tax Relief and the Iowa Association of Business and Industry maintain that the state is already doing more than enough in the way of public assistance, that income transfer programs do not automatically result in improved quality of life, and that such programs are philosophically flawed (David Stanley, personal conversation). The argument is most forcibly carried by Norman B. Ture, economic advisor to President Reagan. In its ideal, he states that income transfer programs (more precisely termed redistributive fiscal policy) are meant to alleviate, somewhat, the gross inequities in consumption abilities through moves toward income equalization. In practice, however, redistributive fiscal policy fails to reduce income inequality, while succeeding in making everyone poorer. He asserts that transfer programs have the effect of penalizing participation in production activity on the part of those economically able to invest capital in production. Thus, rather than stimulate investment and economic growth (which would benefit all through lowered unemployment and decreased costs to consumers) redistributive fiscal policy fosters an economic downward spiral of limited capital investment, increased unemployment, and hence, an increased demand for additional transfer of income from one economic group to another (as cited in Leibowitz, 1978). This is consistent with the so-called Laffer curve which graphically demonstrates the hypothesis that, at a sufficiently high marginal tax rate, further increases in the rate actually result in a decrease in government revenue by discouraging economic activity (Burtless & Haveman, 1987).

In Iowa, this negative effect of income transfer programs is cited as a major factor in the state's faltering economy. Economic development within the state is hampered by the perception that Iowa's wealthy--those responsible for decisions concerning business location and jobs--are taxed at high and unfair rates (Branstad, Register, September 3, 1987). In the September 30 edition, Register publisher Charles C. Edwards, Jr., stated "We feel that Iowa's tax package and structure . . . plays an important role in job creation and economic development." Business leaders argue that it is this perception--regardless of its accuracy--that has businesses and industries relocating in neighboring states, (Register, October 13, 1987). Citing Des Moines residents worth a total of more than $500 million who have left Iowa in the past five years, others argue that the current structure is also responsible for Iowa-based businesses and industries relocating outside the state (Register, October 12, 1987).

Thus, proponents of limited income transfer programs assert that such programs cost Iowa's economy several times over; in direct program costs and in loss of high-income residents. More specifically, some of these losses include the taxes, charitable contributions and community involvement of business owners and employees; corporate earnings and property taxes; and a potentially significant number of jobs (Mandelbaum, Register, October 12, 1987). Yet, this attack on the state's income transfer programs is viewed as scapegoating by other economists who point out that redistributional fiscal policy programs in Iowa only account for a fraction of the state's annual budget. The total DHS budget is 39 percent of total state expenditures, based on fiscal 1985 figures. Of this amount, only 26 percent goes directly to income transfer programs (Moody, 1987). Furthermore, while high taxes are often cited as the reason for decisions about business locations, studies show that this, more often than not, is merely a handy excuse (Decker & Fosler, Register, October 14, 1987). Finally, others point to "demoralization costs" and to other intangible measures of quality of life (crime rates; levels of intra-community cooperation) that are affected by substantial differences in consumption and wealth in the absence of income transfer programs (Graetz, as cited in Leibowitz,).

So the "why" of Iowa's tax policy remains essentially unanswered, even following the October law. It seems doubtful that true tax reform can be accomplished without first determining what it is for which the taxes are needed (Register editorial, September 18, 1987). If we value quality of life for all, to what level of quality, and at what cost borne by whom? If we intend to continue the state's history of the highest quality public educational system, at what cost, and borne by whom? If we wish to enjoy ease of mobility on highways developed and maintained by the state, at what cost, and borne by whom? Relatedly, if we value economic freedom and the right of individuals and families to prosper, at what cost and to whom? Is family wealth an entitlement or is it a product of the society within which that wealth is gained?

What is it that is to be taxed?

Any further consideration of tax policy must be based on a clear definition of what it is that is to be taxed (Bradford, 1986). In Iowa, revenues are currently generated through several means of taxation, including taxes on income, sales (excluding food and services), property, gasoline, alcoholic beverages and tobacco products, as well as on corporations, businesses, etc. Because each of these options may contribute to the total tax burden on any given family within the state, it is important that each form of taxation be brought under the scrutiny of policy framers.

In the case of income taxation, further definition is necessary; for one cannot proceed to the issue of taxation of income without first prescribing the limits of that to which the tax is to be applied. That definition of "income" is a problem in the Iowa tax reform debate is most clearly seen with regard to the question of the deductibility of federal income taxes from that which is considered "income" for state purposes. Iowa is one of eight states that allows such a deduction, reducing taxable income, particularly for the wealthy (Register, October 11, 1987). As a result, however, Iowa's nominal tax rates have had to be raised, reaching their peak at 13 percent (the nation's highest top level) in order to generate revenues needed to balance the state's ledgers. Federal deductibility results in a real top tax rate of approximately eight percent, thirteenth highest in the nation (Gold, Register, October 11, 1987).

In the broadest sense, "income" includes "all accretions to wealth during a given period" (Bradford, 1986, p. 7). In fact, the legal basis for the federal income tax, the Sixteenth Amendment to the United States Constitution, states that taxes shall be based on "income from whatever source(emphasis added) (Stern, 1973, p. 398). A helpful summary of Henry Simon's 1938 argument in favor of returning to such a comprehensive tax base is available in The Politics and Development of the Federal Income Tax by John F. Witte (1985). In practice, however, both on the federal and state levels, this all-inclusive tax base has been narrowed for the purpose of determining individual tax liability.

Thus, while income subject to taxation now usually includes most forms of cash income (wages and salaries; dividends; interest and rents received; a portion of capital gains), it typically does not include non-cash income (most fringe benefits; employee health and life insurance, for example). Taxable income frequently is reduced further by various "exclusions" (certain forms of saving, such as contributions to pension plans) and by other outlays ("adjustments") deemed to constitute neither consumption nor saving; as, for example, moving expenses, costs of earning an income, and court-ordered alimony payments (Bradford, 1986; Kahan, 1987; Aaron & Galper, 1985).

The net result is that, while we speak of an "income" tax, our present system of taxation is actually based on a blending of two tax concepts: an accrual-income concept (taxing all accretions to wealth) and a consumption concept that credits taxpayers for various forms of saving (Bradford, 1986; Simons, 1938; Aaron & Galper, 1985). Precisely, then, because our present system of taxation has moved beyond the direct taxation of "income, from whatever source derived" (16th Amendment, U.S. Constitution), those responsible for policy formation have become targets of innumerable coalitions and special interest groups the inclusion of particular credits, deductions and/or exclusions among accepted reductions to the tax base. The result has been a general perception that state and federal tax burdens are no longer shared fairly; that there is neither vertical equity (taxation based on families' ability to pay) nor horizontal equity (equal taxation of families with equal ability to pay).

The Tax Reform Act of 1986 has been hailed as providing a major corrective to this perception. By bringing present state law into conformity with the new federal definitions of income, state legislators have accomplished the same goal in Iowa. Yet, a major definitional hurdle remains, namely, the provision allowing deduction of federal taxes from one's income for state tax purposes. In the main, federal deductibility is a regressive tax feature, since it benefits wealthiest taxpayers most, poorest taxpayers least. For example, while a family of four in Iowa's top nominal tax bracket (now 9.98 percent) will have an actual state tax liability closer to six percent due to federal deductibility (a minimum tax savings of over $2,200), a similar family earning $10,000 will realize no state tax savings whatsoever due to deductibility, since it no longer has any federal income tax obligation. Individuals who support federal deductibility often argue it is a "tax on a tax."

On the other hand, those responsible for promoting economic growth indicate that federal deductibility actually hurts rather than helps in selling the state to potential new businesses and industries. In this time of stiff economic competition between states, Iowa's image is badly tarnished, for example, by articles in leading trade journals, such as the September, 1987 Forbes magazine highlighting Iowa's top tax rate as the highest in the nation (Register, October 12, 1987).

Eliminating federal deductibility, to be politically feasible, could be linked with a reduction of the nominal tax rates, resulting in no net tax increase for families whose state tax bill would otherwise rise. The benefits to the state--in the matter of fairness, through elimination of this major regressive feature; in terms of the positive impact on the state's economic development--could go far in offsetting the weight of tradition and the fears of those few top income Iowans concerned about a possible increased tax burden. According to Senator Charles Bruner, fewer than two percent of the 1,500,000 tax filing units fall into the highest tax bracket (Bruner, unpublished report). Elimination of federal deductibility in the next legislative session, linked with the more strict definition of income achieved in special session this past October, would go far in accomplishing actual reform in Iowa's income tax system in terms of what is to be taxed.

What of the state's tax system as a whole? The heaviest tax burden on low-income families comes not in the form of federal or state income tax, but in property taxes, with state and local sales taxes being the second greatest source of burden (Kahan, 1987). Over one-third of Iowa's families that are below the federal poverty line own--or are in the process of purchasing--their own homes, with property taxes averaging at least six percent of their annual disposable income. For the other two-thirds--renters--the story is essentially the same, since approximately 25 percent of rent goes to offset the landlord's property tax bill (Kahan, 1987). Thus, while a family of four with income of $10,000 per year has been paying nearly three percent of that income in state taxes, another six percent has gone to property tax, with sales tax raising the family's total state and local tax burden into double-digit percentiles. Citizens for Tax Justice points out that the poorest 20 percent of families pay a higher percentage of their income in total taxes than do the next 60 percent, and the highest five percent, of filing units; not including the so-called "sin" and excise taxes (Kahan, 1987).

While the revenues generated by additional forms of taxation seem necessary for provision of direct services on the state, county and local levels (including police and fire protection, libraries, parks and hospitals, roads and streets, sanitation, and local forms of public assistance), the fundamental questions again surface: What services? At what cost? Borne by whom? To address these, it is necessary to address a final question.

How shall that which is to be taxed be taxed?

Historically, Iowans have seemed to embrace the principle of progressivity when it has come to questions of taxation; that is, those with the greatest ability to pay for tax-funded services are taxed at a higher rate than those less able to pay. This is evident, for example, in an income tax system that had 13 income brackets prior to October, 1987, and which still has nine brackets: As one moves up the income ranges (brackets), the percentage of one's income tax liability increases as well.

A valuation of the principle of progressivity may also be presumed from the history of the state's administration of a sales tax. Not enacted until 1934, today's four percent rate on purchases (excluding food consumed at home, and services) is lower than that of neighbors in Wisconsin, Minnesota, South Dakota and Missouri (Register, October 11, 1987).

In fact, however, progressivity in matters of taxation came into being not so much out of moral/ethical concern for equity and fairness, but rather as a means of markedly increasing revenues (Witte, 1985). It is an assumption of this paper that, as more and more of Iowa's and families have ascended the economic ladder, concern for progressivity has ebbed proportionately. This seems to be reflected in a shift from income to property taxes in the search for new sources of revenue, and state's "household" (the basic meaning of the term "economy") (Morris, 1969). A sizeable majority of Iowans seem to hold as a central value the principle that the state's vast human, natural and economic resources enable Iowans to subsist and to prosper through a blending of those resources. Individual and family economic means, therefore, are not an entitlement; for, though they are in part derived from individual creativity, energy, initiative and risk, these interface with public and other private resources as well. Therefore, while individuals are entitled to the reward of investment of their own resources in proportion to that investment, because said investment includes resources beyond those of any one individual, the state and local communities of which one is a part also are entitled to be enriched as individual members experience success and prosperity.

Further, the majority of Iowans seem to hold the principle that quality of life for each individual and family is in part, dependent upon the overall quality of life for all individuals and families within the state and community. It is to the benefit of each Iowan, therefore, that a minimal quality of life be guaranteed to all Iowans, in terms of consumption power, education, the use of public facilities for aesthetics, leisure, and the pursuit of economic gains. The high costs associated with economic deprivation--lowered community morale; increased rates of crime; lowered school performance; racial and ethnic tensions; and the like--are communal, not individual, problems. Thus, a system of taxation must be seen both as need and as benefit.

Such a system must be structured to encourage maximum individual initiative and creativity from all members of the economic spectrum; neither suppressing investment of capital on the part of those able to do so, nor suppressing investment of self by those lacking in capital. State tax reform, therefore, needs to be pro-work in nature and pro-family in effect, providing economic incentives for employers and investors, as well as economic benefit for laborers and heads of households. Since state and local governments simply cannot provide for all the needs of all people, our overall tax system must be attractive to business and industry for creation of new jobs, while also providing motivation for under-employed and unemployed to move into openings that will be created. In such a growing economic milieu, tax revenues will increase while demand for services decrease. Above all, the overall healthier environment created by a fair and equitable tax system will benefit Iowa's families in ways both tangible and intangible.

Specifically, then, the primary goal for tax reform should be elimination of regressive tax features from state and local forms of taxation, so that poor families pay no higher percentage of their income than do families of greater means. For income tax reform, this can be accomplished cost-effectively and efficiently by first, raising the levels of standard deductions; and secondly, enacting low-income credits. (It should be noted that, for the sake of increasing in recent calls for concurrent reductions in income taxation and increases in the state sales tax. Furthermore, an independent auditor's analysis of the October, 1987, restructuring of the income tax brackets and rates indicates that the new law itself is highly regressive: The 45 percent of Iowans--approximately 690,000 units--whose income falls in the lowest bracket stand to realize a 7.9 percent reduction in 1987 tax liability; a savings of $10 per individual or family. At the same time, Iowa's wealthiest individuals and families--.05 percent, or approximately 750 filing units--can expect a $14,048 (22.4 percent reduction) in their 1987 tax bill. The report also claims that percentage reductions are consistently regresssive across each of the newly legislated nine income tax brackets (Bruner, unpublished report). By simple extension of the report's figures, Iowa's wealthiest 750 individuals and/or families are being given a total tax savings of over $10.5 million in 1987, while, taken as a group, Iowa's poorest 690,000 individuals and families will share less than $7 million in savings.

Confronted with the regressivity in recent tax policy formation, the majority of this state's residents seem to support the principle that those living at subsistence levels and above ought to bear their fair share of the cost of public facilities, services and assistance; that "fair share" includes both vertical progressivity and horizontal equity; and, that those who live below subsistence levels of income should benefit from tax structures rather than be harmed by the same.

On the level of income taxation, Iowa's record of heavily taxing its poor is due, in part, to low levels of standard deductions and minimal allowances for personal exemptions (Bruner, Register, September 17, 1987). Iowa also has one of the nation's lowest tax thresholds, that is the minimum income level at which income becomes subject to taxation. In Iowa, the threshold prior to October, 1987, had been $5,000; the U.S. median threshold is $5,100. Iowa's new threshold is $7,500 (Kahan, 1987; Register, October 28, 1987).

In the area of property taxation, Iowa has "circuit breaker" provisions--property tax relief features, triggered as one's property tax burden exceeds a set percentage of total income--only for the elderly and disabled; and these two groups receive no renter credits or deductions (Kahan, 1987). With regard to sales tax--inherently regressive--Iowa has no sales tax credit whereby the poor might offset this tax against their income tax burden. Furthermore, extension of the sales tax into the area of services as well as goods is generally viewed as a progressive move, since services are more often a matter of luxury rather than necessity.

State Tax Options

How, then, might tax reform be structured best to serve Iowa's individuals and families? A first step is renewed awareness of taxation as both a need and a benefit for the management of our being; that will be essentially revenue neutral so that present services need not be cut.

Two major issued remain unaddressed:

-- the sharp decreases in recent farmland valuations (and subsequent losses in local property tax revenues;

-- the wealth of potential property tax income presently--and historically--untapped in most communities, namely through the holdings of churches, synagogues and other not-for-profit organizations.

For tax reform to be comprehensive and fair, these issues, too, need to be addressed by state and local policy makers.

Editor's Note: More specific details relative to tax rates in Iowa, as well as comparison of tax rates in Iowa with those in surrounding states, can be found in the Appendix.

progressivity, tax rate cuts are not only ineffectual, they are also highly costly. Rate cuts, as those enacted by the October, 1987, law, benefit the wealthy considerably more than the poor).

Standard deductions are progressive in nature, since most high income families itemize deductions. In Iowa, however, the standard deduction is based on a percentage of income, with no minimum standard deduction. As a result, this potentially progressive feature which is also cost-efficient to the state (since the wealthy do not typically make use of it) is presently of little value to Iowa's working poor. A reasonably high, flat, standard deduction is needed, one not dependent upon income level. Low-income credits are also progressive and cost-efficient in nature. The credit is subtracted directly from one's tax liability, and is phased out as income levels increase. Thus, the working poor are the direct beneficiaries of this tax feature.

In the area of property taxation, Iowa could follow the lead of 31 other states in establishing property tax "circuit breakers" (Kahan, 1987). These, too, are progressive, cost-efficient means of providing direct tax relief to low-income families. Fixing an income ceiling, above which the circuit breaker is no longer allowed, means that only the targeted population receives the benefit; as a reduction in tax burden for poor homeowners and renters, circuit breakers are designed to provide direct tax relief to those needing it most.

Finally, tax reform can also be effected by modifications in the state sales tax. Since it is inherently regressive, the trend toward increased reliance upon this source of revenue should be considered. Legislators in recent sessions have considered raising the sales tax to five or even six percent. While it is probably unreasonable to expect the tax will ever be reduced, many feel it should not increase. To offset the burden it places on Iowa's poor families, a sales tax credit could be enacted. Like the property tax circuit breaker, this credit can be administered as a fixed percentage of income, allowable only for those who fall below a certain income ceiling (probably fixed at the federal poverty level).

As for the opposite end of the economic spectrum, development and investment could be encouraged by: 1) eliminating federal deductibility from Iowa's state tax laws, concurrently fixing tax rates to effect revenue neutrality; and 2) retaining the capital gains exclusion as fixed in the October, 1987, law--excluding from taxable income 60 percent of capital gains of up to $17,500 (Register, October 28, 1987).

Thus a comprehensive tax reform package is needed that will address the very basis for taxation of any form, reaffirming the state's commitment to quality of life for all; that will address the present regressivity in the three principle forms of taxation (income, property, & sales), moving all three closer toward progressivity; that will encourage investment and growth, employment and family well-

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APPENDIX

IOWA'S AID TO DEPENDENT CHILDREN PROGRAM
AND STATE TREATMENT OF THE POOR

The Aid to Dependent Children (ADC) program in Iowa serves nearly 40,000 families, and over 100,000 individuals. Seventy percent of these ADC recipients are children. When people think of the state's "welfare" population, they generally think of ADC program recipients.

The tables and charts presented in this appendix provide information on Iowa's ADC program and on the population that program is designed to serve. The tables and charts present important statistics; ones that speak to the challenges the state faces with its poverty population. The following seven points summarize the most important observations to come from examining the information presented:

1. The number of children living below the poverty level in Iowa is increasing while the number of children is declining. Between 1969 and 1985, the number of children living in Iowa declined by 22.6 percent while the number of children living in families below the poverty level increased by 33.2 percent. One in six Iowa children now lives below the poverty level. (TABLE 1 AND CHART 1)

2. One reason for this increase is the increasing number of single parent families. One in seven Iowa families with a child below age eighteen is a single parent family headed by a woman; 41 percent of all families in poverty in Iowa are single parent families headed by a woman. (TABLE 1 AND CHART 2)

3. Iowa ADC payment levels have not kept pace with inflation, and have fallen dramatically over the last decade. They now constitute only 44 percent of the federal poverty level. ADC benefits for most ADC families have been raised only twice in the last decade, and the state's overall spending on ADC has declined relative to other parts of the state budget. The purchasing power of an ADC grant is one-third less today than it was a decade ago, and 10 percent less than it was in 1983. (TABLES 2 & 3 AND CHART 3)

4. While there is limited recent information available regarding the characteristics of families on the ADC pro gram, it is known that they are not a heterogenous group. Still, as a group, they are more likely than the non-ADC

population to have heads of households who failed to complete high school and who became parents as teenagers. While over half of ADC families remain on ADC for two years or less, the majority of ADC program costs are expended on the one-quarter of those with very long stays on ADC. Over 80 percent of ADC households have two or fewer children.
(TABLE 4)

5. Iowa's ADC program and the related Medicaid program do not cover a number of persons that could be covered under those programs; if the State were to exercise a number of the options available for providing additional coverage under those programs. The absence of health care coverage is one of the greatest obstacles to many families in leaving ADC and finding employment.
(TABLE 5)

6. Child care subsidies frequently are cited as a necessary support program to allow ADC families to seek employment and training. In this respect, Iowa provides much less than most neighboring states. Iowa spends only $.55 per capita on child care subsidies, compared with an average of $2.42 per capita by neighboring states.
(TABLE 6 AND CHART 4)

7. Tax policies also have an impact on child poverty and welfare dependency. Iowa's individual income tax burden is extremely heavy on low and moderate income families; one of the reasons Iowa was named by the Citizens for Tax Justice as one of the "Filthy Fifteen" states for its tax policies on the poor. At $240 per year for a family of four living near the poverty level ($12,090), Iowa's income tax is higher than any neighboring state.
(TABLE 7 AND CHART 5)

TABLE ONE

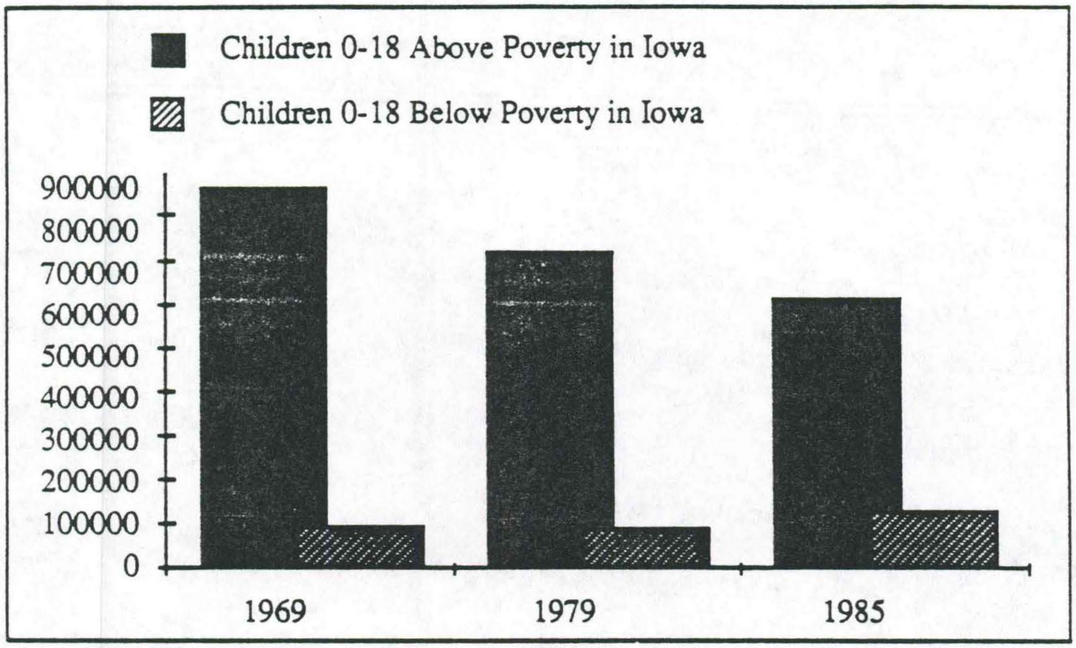
IOWA FAMILIES, CHILDREN UNDER AGE 18, AND POVERTY STATUS -- 1969, 1979, AND 1985

	Iowa Census Data 1969	Stats. 1979	Projection** 1985	Percent Change Btwn 69-85
IOWA FIGURES: ALL FAMILIES				
All Individuals	2,825,368	2,913,808	2,884,000	2.08%
Families with Related Children Under 18	400,704	408,913	394,000	-1.67%
Families with Children Under 18, Female-Headed	30,364	46,976	55,000	81.14%
Children Under 13	959,143	815,837	743,000	-22.54%
IOWA FIGURES: BELOW POVERTY				
All Iowans	318,605	285,989	409,000	28.37%
Families with Related Children Under 18	34,145	41,014	59,000	72.79%
Families with Children Under 18, Female Headed	11,512	16,681	24,000	108.48%
Children Under 18	97,541	93,899	130,000	33.28%
IOWA FIGURES: % BELOW POVERTY				
All Iowans	11.3%	9.8%	14.2%	25.76%
Families with Related Children Under 18	8.5%	10.0%	25.0%	75.73%
Families with Children Under 18, Female Headed	37.9%	35.5%	43.6%	15.10%
Children Under 18	10.2%	11.5%	17.5%	72.05%

Source: U.S. Census Data and Population Projections. ** Data Provided for the 1985 projections is derived from using national data for trends in family and poverty characteristics and adjusting for Iowa's population change relative to that for the U.S. as a whole. Figures for Iowa total population and for population of persons aged under 18 from U.S. Census projections and "1986 Statistical Profile of Iowa" prepared by the Department of Economic Development. Poverty figures for the state of Iowa as a whole are taken from a report by the State Department of Education based upon Department of Revenue tax statistics. Female heads of household figure for the state in 1985 is derived from Department of Revenue tax statistics.

CHART ONE

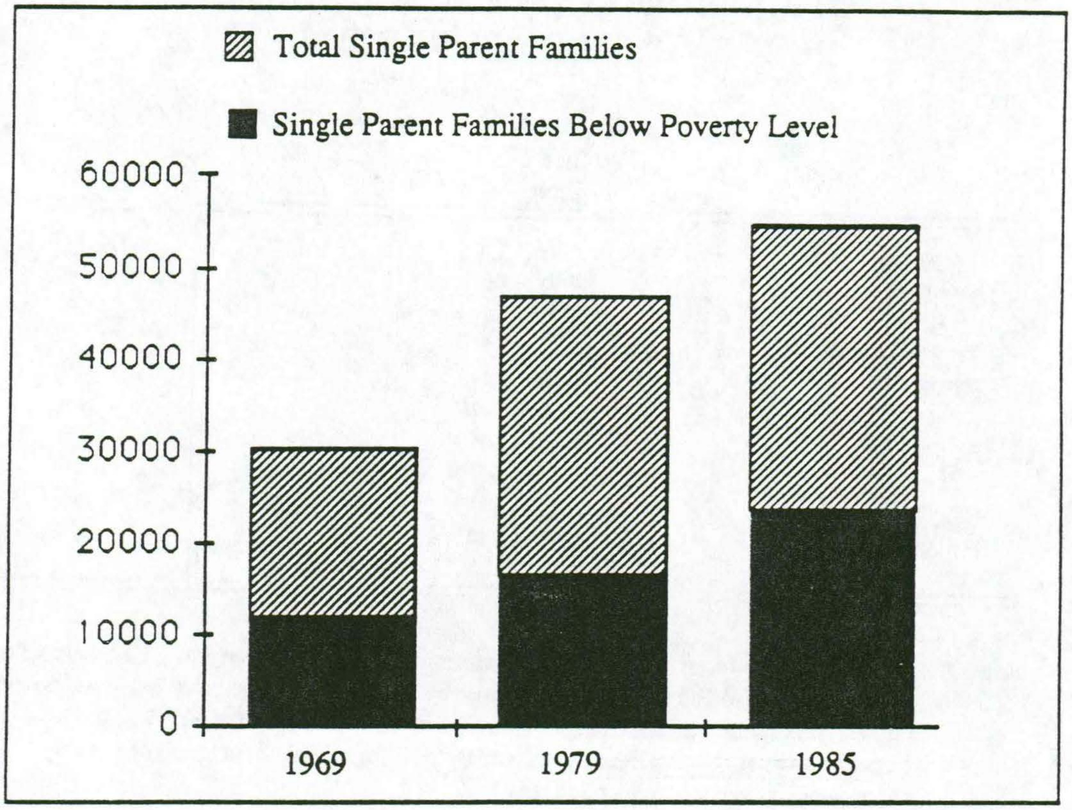
INCREASE IN POVERTY AMONG IOWA'S 0-18 POPULATION 1969-1985



	1969	1979	1985	% Change
Children 0-18 Above Poverty	861,062	721,928	613,000	-28.81%
Children 0-18 Below Poverty	97,541	93,899	130,000	33.28%
Total Children in Iowa	958,603	815,827	743,000	-22.49%
% Below Poverty	10.18%	11.51%	17.50%	71.95%

CHART TWO

THE INCREASE IN SINGLE PARENT FAMILIES IN IOWA AND THE PERSISTENCE OF POVERTY, 1969-1985



	1969	1979	1985	% Change 1969-1985
Total Female Headed Families	30,364	46,976	55,000	81.1%
Female Headed Families below Poverty	11,512	16,681	24,000	108.5%
% Below Poverty	37.9%	35.5%	43.6%	15.1%

TABLE TWO

IOWA'S ADC PAYMENT LEVELS OVER TIME, ADJUSTED FOR INFLATION, AND AS A PERCENTAGE OF POVERTY LEVEL

	ADC GRANT FAMILY SIZE			ADC GRANT ADJ. FOR INFLATION	ADC GRANT AS A % OF POVERTY
	Two	Three	Four		
FY 79 (July 78 +)	$275	$340	$395	100.0%	64.0%
FY 80	$292	$360	$419	93.5%	59.8%
FY 81	$292	$360	$419	83.9%	54.1%
FY 82	$292	$360	$419	77.2%	51.0%
FY 83	$292	$360	$419	74.0%	49.4%
FY 84	$305	$360	$419	72.2%	47.4%
FY 85	$305	$360	$419	69.5%	45.8%
FY 86	$322	$381	$443	71.4%	48.3%
FY 87	$322	$381	$443	69.8%	47.5%
FY 88 (July 87 +)	$322	$381	$443	66.7%	44.0%

Note: The Consumer Price Index is used as the measurement for inflation, with FY 1979 set as a base year equal to 100%. The percentage is derived by adding the payments for 2-, 3-, and 4-person families and dividing by the change in the CPI, then normalizing for FY 79 as the base year. The percentage of poverty figure is derived by dividing the payment level for a family of four by that year's poverty level for a family of four.

Sources: Department of Human Service and Legislative Fiscal Bureau

TABLE THREE

IOWA STATE EXPENDITURE EFFORT AND CASELOADS FOR ADC PROGRAM, FY 1979 THROUGH 1987

	AVERAGE ADC CASELOAD FOR FY TOTAL	REGULAR	UP	STATE EXP./ MILLIONS $	STATE EXP./ CPI
FY 79 (JULY 78 +)	32,200	31,350	850	$50.1	100.0%
FY 80	35,622	34,305	1,318	$53.6	94.5%
FY 81	40,240	37,518	2,722	$59.3	93.7%
FY 82	33,345	33,345	0	$50.1	72.8%
FY 83	35,750	33,044	2,706	$56.3	78.4%
FY 84	38,964	34,542	4,422	$58.9	79.2%
FY 85	39,395	34,682	4,713	$61.4	79.4%
FY 86	40,331	34,938	5,390	$60.6	76.2%
FY 87	39,878	34,971	4,907	$56.4	69.3%

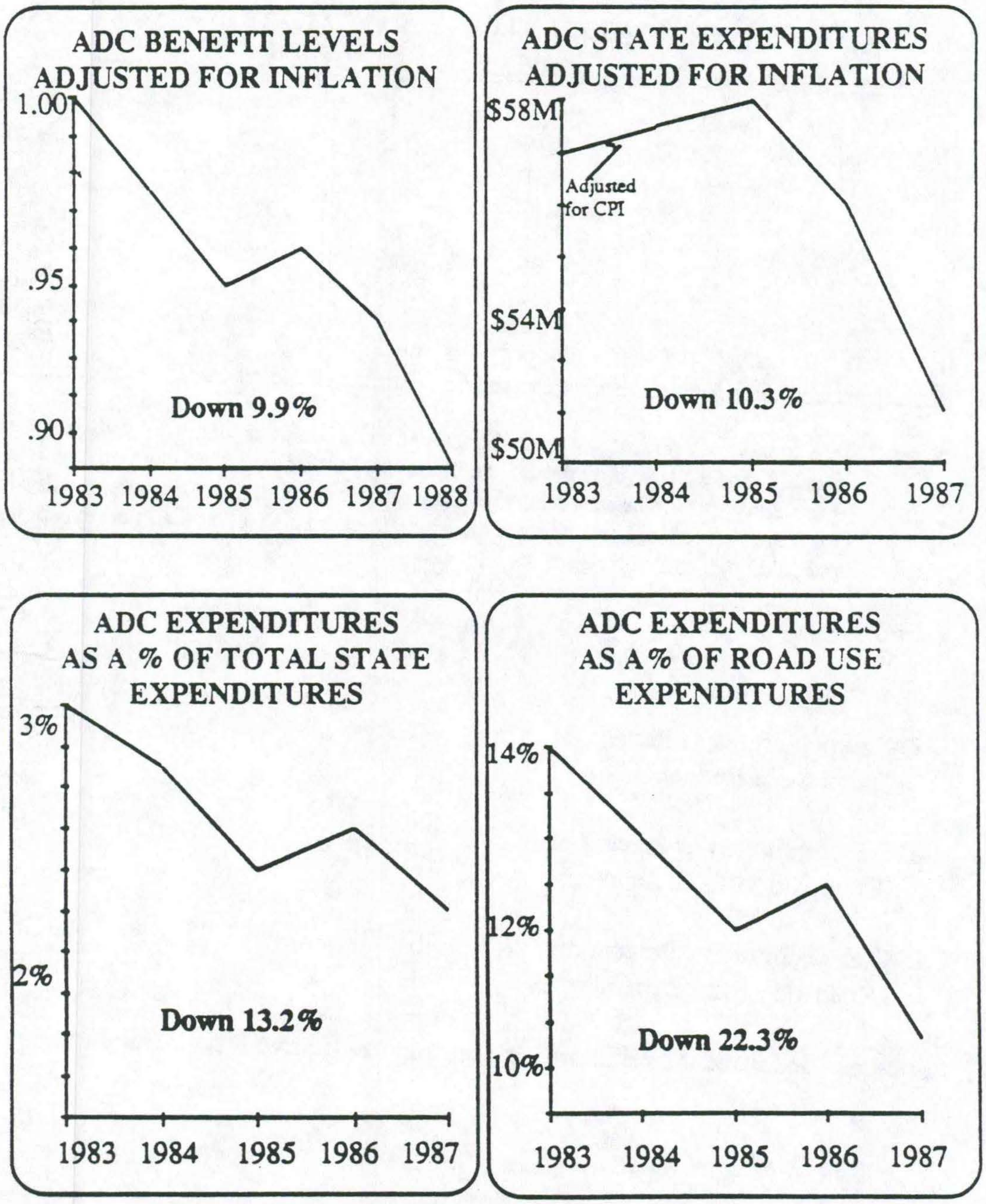
Note: State Expenditures adjusted for the Consumer Price Index is derived by dividing state expenditures for the year by the change in the CPI for that year, then Normalising with FY 79 equalling 100%. The state match rate changes in relation to Iowa's economic status; and total (state plus federal) expenditures have increased at a higher rate than state expenditures alone, although still well below the CPI.

	FY 1983	FY 1987	Change 83-7
ADC Expenditures as Percent of Total State Budget	2.95%	2.56%	-13.20%
ADC Expenditures as Percent of State Aid to K-12 Schools	8.91%	7.40%	-16.98%
ADC Expenditure as Percent of Road Use Fund Expenditures	14.22%	11.05%	-22.28%

Sources: Department of Human Services and Legislative Fiscal Bureau.

CHART THREE

ADC BENEFIT AND EXPENDITURE LEVELS-- FY 1983 TO FY 1987 ADJUSTED BY THE CPI AND CONTRASTED WITH OTHER



SOURCE: Department of Human Service and Legislative Fiscal Bureau

TABLE FOUR

CHARACTERISTICS OF IOWA'S ADC FAMILIES

ADC Caseload Characteristics, May, 1987

Regular ADC Cases	34,964
Children in Regular Cases	60,525

Single Head of Household Iowa ADC Families by Number of Children

One Child	49.1 %
Two Children	31.4 %
Three Children	13.9 %
Four or More Children	5.6 %

Single Head of Household Iowa ADC Families by Age of Youngest Child

Youngest Child Under Three	34.1 %
Youngest Child Over Three	65.1 %

....

ADC Heads-of-Household Not Completing High School .... 43.0 %

High School Dropout Rate, Iowans Over 25 .... 13.5 %

....

ADC Single Heads of Households Who Were Adolescent Mothers .. 19.9 %
(First Child born before Mother was 18 years old)

Percentage of First Order Live Births to Adolescents .... 8.0 %
(percent of total live births to adolescents is 3.5 %)

....

Projected Average Stay and Percent of Cost of Iowa ADC Families

	% of Families Served	% of ADC Cost
2 or Fewer Years of ADC Dependency	50 %	14 %
2 to 8 Years of ADC Dependency	25 %	29 %
8 or More Years of ADC Dependency	25 %	57 %

TABLE FIVE

MEDICAID AND ADC OPTIONS FOR ADDITIONAL COVERAGE:

ADC Options for Additional Coverage

1. Provide for a "tools-of-the trade" exclusion from resources before determining eligibility for ADC. This option would also make these families eligible for Medicaid.

2. Provide emergency assistance coverage for families threatened with eviction from home or already homeless.

Medicaid Option for Additional Coverage

1. Cover pregnant women and children up to age five, up to the federal poverty level, with no spend-down (part of SOBRA).

2. Cover SSI-related individuals (elderly, disabled, or blind), up to the federal poverty level, with no spend-down (part of SOBRA).

3. Cover caretaker relatives (e.g. adults) in families that would qualify for ADC except for income, under the Medically Needy program provisions.

4. Cover prior ADC recipients who find employment eliminating their eligibility for ADC, for the federally-allowed period of extension of Medicaid benefits.

5. Cover medically needy and SOBRA individuals, under higher resource guidelines than the ADC and SSI programs or with no resource guidelines.

TABLE SIX

IOWA EXPENDITURES AND CLIENTS SERVED WITH SUBSIDIZED DAY CARE SERVICES -- AND CONTIGUOUS STATE COMPARISONS

	FY 1986 Government Expenditure	Per Capita Government Expenditure	Number of Children Served	Children Served Per Capita (*1000)	State Population in Census 1980
IOWA	$1,608,712	$.55	1,250	.43	2,913,806
Wisconsin	$11,200,000	$2.38	11,300	2.40	4,705,767
Minnesota	$14,392,000	$3.53	15,000	3.68	4,075,970
Missouri	$10,175,136	$2.07	6,775	1.38	4,916,686
Nebraska	$3,988,217	$2.54	11,329	7.22	1,569,825
Kansas	$3,787,760	$1.60	2,882	1.22	2,363,679
South Dakota	$479,378	$.69	1,681	2.43	690,768
Illinois	$46,866,200	$4.10	20,293	1.78	11,426,518

Note: "FY 1986 Government Expenditure" is the toal amount spent on subsidized day care services through federal, state, and county social service block grant funds and through any additional state government programs providing day care services. The expenditures do not include any state expenditures for protective day care services or emergency day care services. For all states except Iowa, data was obtained by direct contact with state agencies in those states and is for fiscal year 1986. Iowa figures are for fiscal year 1987 and are as follows:

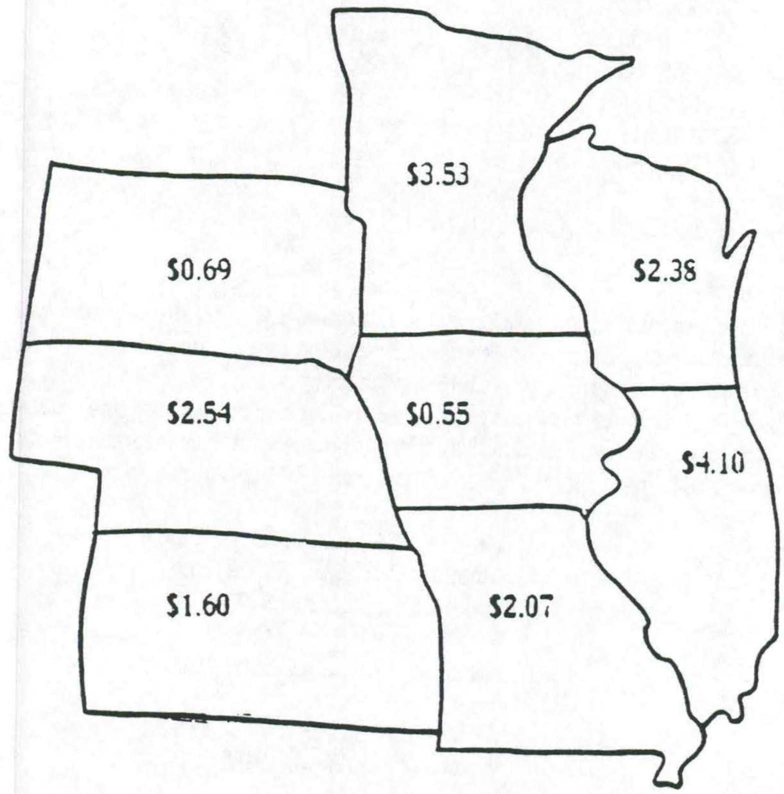
SSBG Funds --	Federal	$566,676
	State	$523,269
	County	$179,099
Lottery --	State	$163,000
IETP --	Federal	$100,618
	State	$75,000

Total: $1,608,712

Sources: Iowa Department of Human Services; Senate Democratic Caucus, Steve Conway.

CHART FOUR

PER CAPITA COMMITMENT TO SUBSIDIZED CHILD CARE SERVICES -- IOWA AND CONTIGUOUS STATES



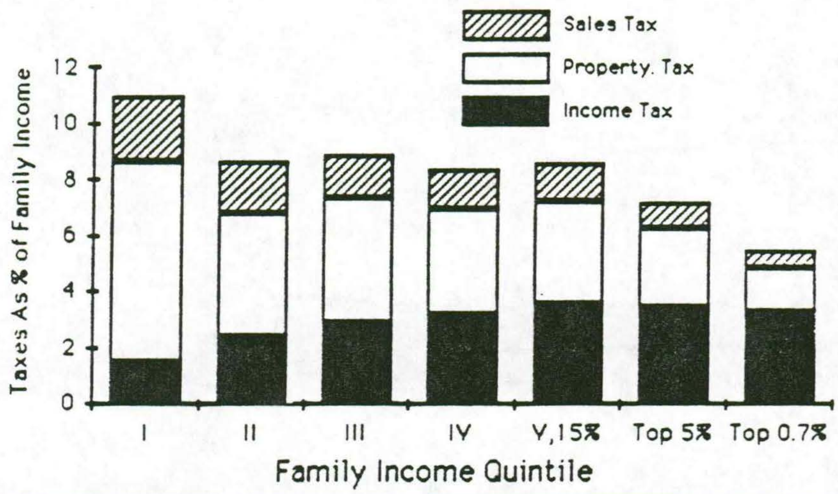
Source: Iowa Department of Human Services and Senate Democratic Caucus, Steve Conway. Actual dollar expenditures are obtained by dividing total state, federal, and local government spending on subsidized child care services by total state population.

TABLE SEVEN

State taxes expressed as a percent of income, by income quartile, including income, sales, and property taxes, Iowa and Contiguous States for Tax Year 1985

IOWA TAXES IN 1985
As Shares of Family Income

	I	II	III	IV	V,15%	Top 5%	Top 0.7%
85 INCOME	$7,411	$17,004	$25,126	$34,824	$50,921	$140,987	$460.724
Income Tax	1.5%	2.4%	2.9%	3.2%	3.6%	3.5%	3.3%
Property Tax	7.2%	4.4%	4.5%	3.8%	3.7%	2.8%	1.6%
Sales Tax	2.3%	1.9%	1.5%	1.4%	1.3%	0.9%	0.6%
TOTAL TAX	11.0%	8.7%	8.9%	8.4%	8.6%	7.2%	5.4%



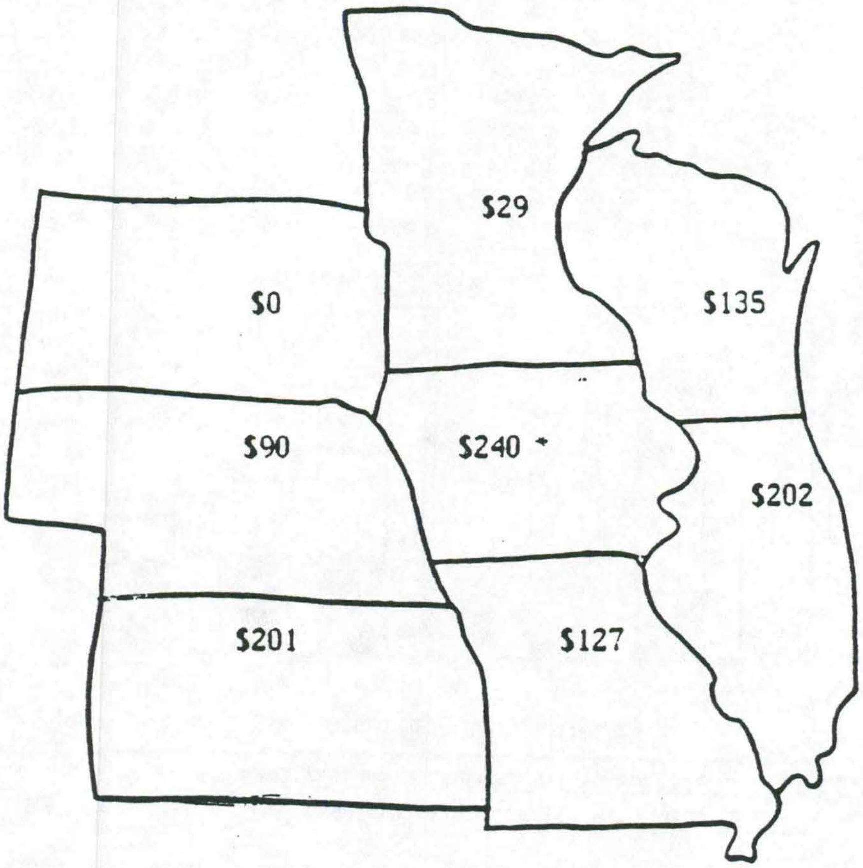
TOTAL STATE TAX LIABILITY BY INCOME QUARTILE, 1985

	I	II	III	IV	V,15%	Top 5%	Top 0.7%
IOWA	**11.0%**	**8.7%**	**8.9%**	**8.4%**	**8.6%**	**7.2%**	**5.4%**
Illinois	**9.5%**	**7.5%**	**7.5%**	**6.8%**	**6.8%**	**5.4%**	**4.1%**
Kansas	**6.7%**	**6.0%**	**5.3%**	**5.4%**	**5.5%**	**4.9%**	**3.6%**
Minnesota	**2.2%**	**7.1%**	**9.7%**	**10.5%**	**11.3%**	**9.8%**	**6.9%**
Missouri	**8.1%**	**8.3%**	**7.4%**	**7.2%**	**6.6%**	**5.2%**	**3.5%**
Nebraksa	**7.4%**	**6.5%**	**6.8%**	**6.5%**	**7.0%**	**6.5%**	**5.6%**
South Dakota	**10.8%**	**7.4%**	**6.6%**	**5.7%**	**5.3%**	**3.9%**	**2.2%**
Wisconsin	**3.1%**	**9.6%**	**10.7%**	**10.4%**	**10.7%**	**9.5%**	**7.1%**
U.S. AVERAGE	**6.9%**	**6.6%**	**6.8%**	**6.8%**	**7.1%**	**6.3%**	**5.1%**

Source: Citizens for Tax Justice. Post federal tax reform and state response not yet available.

CHART FIVE

IOWA'S INDIVIDUAL INCOME TAX ON A FAMILY LIVING AT THE POVERTY LEVEL -- A COMPARISON WITH SURROUNDING STATES



Map shows the 1987 state income tax liability for family of four with an income level at the poverty level. For this example, the hypothetical tax return is for a married taxpayer with an income of $12,090, one wage earner, two dependents, and filing a standard deduction.

Source: Citizens for Tax Justice

Historical Highlights of Aid to Families with Dependent Children (AFDC) Program

1935

Congress passes Social Security Act, and on August 14, President Franklin D. Roosevelt signs Act into law. The Act includes a Federal-State program that will provide cash assistance to needy, dependent children in their own homes when deprived of parental support (Title IV-Subpart A).

1936

First Federal funds to help States meet the costs of benefits for dependent children are made available in February 1936 to sixteen States participating in the program. Total Federal, State and local expenditures in that month: $1,768,188.

1939

States are given the option to extend eligibility to needy children, aged 16 and 17, if they are regularly attending school.

1950

New provision permits States to include as a recipient, if appropriate, one needy relative with whom the dependent child is living.

1956

Title IV-A amendment allows States to provide social services to help families with dependent children break the dependency cycle.

1961

States are given the option to establish an unemployed parent program for families with children that are deprived of support and care due to the unemployment of the primary wage earner.

1962

The program's name is changed to Aid to Families with Dependent Children. Federal financial participation for social services is increased from 50 percent to 75 percent.

1967

Emergency Assistance program is enacted, which allows benefits for up to 30 days in a 12-month period to prevent destitution of children under 21 and their families. Work Incentive Program (WIN) is established under Title IV-C, requires eligible recipients to register for work, training or manpower services. Incentives are enacted to encourage title IV-A recipients to get jobs and remain employed by allowing a portion of their earnings to be disregarded in calculating eligibility for benefits.

1975

With enactment of Title XX, social services are removed from Title IV-A. Provisions for child support and enforcement are enacted under Title IV-D.

1981

Omnibus Budget Reconciliation Act brings about major changes in AFDC; eligibility requirements are tightened, and program administration is strengthened. In addition, the AFDC changes help employable recipients to find jobs, and others become ready to enter the job market through the Community Work Experience Program (CWEP). State IV-A agencies are given authority to operate WIN through WIN Demonstrations.

1982

Passage of the Tax Equity and Fiscal Responsibility Act expands work programs by implementating the employment search provisions.

1984

State options are expanded in work program areas. Other changes are enacted which affected eligibility, countable income and resources.