MAKING THE SYSTEM WORK: MANAGEMENT REFORM

by
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For more than a decade, official welfare policy has vainly sought to abolish the federal-state system of categorical matching grants. President Carter's Program for Better Jobs and Incomes was the most recent in a long line of proposals to "federalize" welfare by replacing programs such as Aid to Families with Dependent Children (AFDC) with a national system of income supplements. Both Republican and Democratic administrations (and conservatives and liberals in both parties) have pressed for comprehensive cash transfer programs, for a "negative income tax" or a "guaranteed income."

During the period 1972-76, roughly between the collapse of Nixon's Family Assistance Plan (FAP) and its resurrection in new guise as the Income Supplement Program, a very different approach was made to welfare reform. It was an attempt to improve the management of the existing system. A small group of federal managers, mostly recruits from the Reagan Administration in California, undertook the reorganization of HEW's Social and Rehabilitation Service (SRS) and the re-design of federal welfare regulations.

Their program of "management reform" had the goal of strengthening state and local administration of welfare. The guiding belief was that means-tested categorical grant programs could be made efficient and equitable (and significantly less vulnerable to abuse than centralized flat grants) — but only if the states and localities would tighten their supervision of them. The SRS managers sought this goal by relaxing some federal requirements (which stood as obstacles to management innovations by the states) and by sharpening others (to compel the states to modernize their methods and raise their performance standards). Financial incentives were designed, including allocation formulas to reward states that met new SRS performance goals. Sanctions were also developed, principally a system of scaled reductions in federal matching funds to penalize the states that failed to comply with SRS "quality control" standards. Against the furious opposition of the HEW employee union and welfare professionals, program operations were decentralized through dispersal to the SRS regional offices, in order to bring the operations into closer touch with field conditions in the states.

The SRS management team aimed to end the growth of welfare costs and caseloads. They struck at the obvious and notorious abuses of the system with regulations to check welfare fraud and improper payments, to enforce financial responsibility on absent parents, and to limit the value of property that recipients could own. They struggled to pare down programs to the levels required by law, to eliminate the frills added by program advocates in HEW. Costly, required services ("homemaker services," for example, which employed professional social workers) and training programs (classroom training in the WIN program, for example) were eliminated — in the case of these examples, in favor of "chore services" and "direct job placement."

Another goal of the SRS managers was to focus available resources on those most in need and to help them become self-supporting. Battles were fought to prevent the diversion of funds to non-welfare purposes. In the Social Services Program, for example, the SRS managers condemned the use of funds for "general budgetary relief" of state governments; and they attacked concepts such as "group eligibility" for occasioning an "extension of welfare to the middle class." It was an approach that brought SRS management into head-on conflict with many state and municipal governments, client groups, associations of social workers, vendor organizations, and program advocates in Congress and HEW.

THE REAGAN MODEL

Management reform made a major break with past approaches to national welfare administration. In large part, this reform model was based on the philosophy and practice of the Reagan Administration's welfare program in California. In March of 1971, Governor Reagan had outlined four goals of "A Responsible Program for Welfare and Medi-Cal Reform."[1] These goals were:

1. To increase assistance to the "truly needy who have nowhere else to turn to meet their basic needs."
2. To require welfare recipients who are employable to seek work, enroll in job training, or take a temporary public assistance job in order to retain welfare benefits.
3. To strengthen "family financial responsibility."
4. To reduce Medi-Cal benefits to "an equal footing with the health care benefits available to our working men and women who must pay their own health care needs themselves."

The California Welfare Reform Act radically redrew the administrative regulations used in the State welfare system. Three reforms were involved: review of AFDC eligibility standards and grant schedules; work requirements and employment programs for "employables"; and use of strong anti-fraud measures.

The tightening of California's eligibility standards and the adjustment of grant schedules were intended to halt the growth rate in AFDC caseloads, but in such a way as to restrict the welfare rolls to "the truly needy." Thus, the definition of "unemployment" for those applying for aid under the

AFDC-U program was drawn much more sharply. An immediate decrease resulted in the number of new cases when many of the "partly-employed" (including those who worked as many as 35 hours per week) were declared ineligible. Other changes in AFDC eligibility and benefits involved income determination and the relationship of income to payments. A new grant schedule, adopted in April 1972, reduced payments to those with income of various kinds, including income from employment, while increasing grants to those without any sources of income.

The "Employables Program" required AFDC-U recipients and others capable of employment to accept available work — or lose their grants. Among the components of this effort to reduce welfare dependency was the Community Work Employment Program, which provided part-time work in temporary public service projects to welfare recipients, but paid them only the amount of their grant. Immediately upon application for benefits, AFDC recipients were required to register with the State Department of Human Resources Development, the agency providing employment services. If no job was available, they might be referred to specialized training, such as the WIN program. If neither a job nor training was available, the recipient was required to participate in a Community Work Experience Project. Envisioned as a kind of transitional step between welfare and regular employment, and intended to inculcate improved work habits, the CWEP projects were designed to satisfy unfulfilled public needs and services, so that existing jobs in the public and private sector would not be jeopardized.

Loopholes in the welfare system, and other sources of abuse, were countered by anti-fraud devices. Principal among these was a procedure known as the Earnings Clearance System (ECS), for checking the outside earnings of recipients. Extending authority to the Director of Social Welfare to examine tax reports and to share the names of applicants and recipients with other public agencies, ECS was devised to reveal unreported earnings that would justify reductions in grants or removal from the welfare rolls. At the same time, an effort was made to strengthen "family financial responsibility," principally by authorizing attachment of wages and property liens against absent fathers of AFDC children.

Taken together, these changes constituted a program that was not only distinct among state welfare systems, but that also differed markedly from the main currents of thought and policy on welfare reform in Washington. For example, the Reagan reforms denied the validity of the prevailing wisdom on work incentives and dropped the concept of cash inducements to employment. The new system was built on the premise that devices such as "earnings disregards" had already failed to trim the welfare rolls — indeed, that in some cases they had actually encouraged those with adequate incomes to move onto welfare. Among the first priorities of the Reagan program, therefore, were cuts in payments to employed recipients, reductions in allowances for work-related expenses, and such experiments in compulsory employment as the Community Work Experience Program.

The management philosophy underlying the new program was also distinct. From the beginning, it was clear that professional social workers would have a reduced policy role. Management controls were placed firmly in the hands of fiscal administrators; the powers of the program specialists, whether state social workers or county welfare directors, were sharply trimmed; and great emphasis was placed on the availability of computerized data for management and budgeting purposes.

Within a year of the implementation of the California welfare reforms, claims were made of a dramatic success. In a nationally televised speech in March 1972, Governor Reagan asserted that "we've turned the welfare monster around in California, and we're convinced our approach to reform is the right answer to the problem." He detailed the claim as follows:

> Fifteen months ago, California's welfare system was spawning 10,000 new welfare recipients a month . . . Without drastic action it threatened to bankrupt the State's treasury. We began implementing a series of strong actions designed to curb ludicrous abuses of the system in which people earning as high as $16,000 a year were still drawing welfare checks. By tightening eligibility requirements we were able to get many of these freeloaders off the welfare rolls while increasing by 30% the grants to the truly needy, including the aged, disabled, and blind. We adopted plans to crack down much harder on welfare cheaters and to track down absent fathers who, because of non-support, had pushed their families onto the rolls. We created a law which set up a project to require able-bodied, employable welfare recipients to either seek work, accept a job if offered, take part in job training, or work in selected jobs in their community in return for welfare grants. If they do not comply they'll be cut off from welfare. Today, there are 182,000 fewer Californians on welfare than there were ten months ago. Without our reforms, there would now be more than half a million more Californians drawing welfare than there actually are, at an increased cost to our taxpayers of $1.1 billion this year and next.

The Nixon Administration abandoned FAP in the late summer of 1972. Looking ahead to the second term, the Administration made the decision henceforth to work with — to *manage* — the existing welfare system. The aim was to cut its costs, eliminate its abuses, and restore public confidence in it. The model for action was the California welfare reform program.

Caspar Weinberger, formerly Reagan's Director of Finance, then Nixon's Director of the Office of Management and Budget, was chosen to supervise the new approach. He became Secretary of HEW and Counsellor to the President for Human Resources. Associated with the policy of impoundment, Weinberger saw himself as an expert on fiscal controls. "My experience," he conceded, "has been an unceasing attempt to reduce government expenditures at all levels."[2] He had a reputation, too, as a superb manager of bureaucracies. Indeed, Weinberger had been the prime mover in the reorganization of OMB as a policy arm of the presidency. With the young management experts he brought into OMB

— many of whom later accompanied him to HEW — he had forged new centralized machinery for policy oversight and control. He was also known as an opponent of "federalization" (he opposed the new Supplementary Security Income (SSI) legislation, for example). At OMB, he had been a strong advocate of program decentralization, and had urged reforms to strengthen the role of state and local governments in administration.

Weinberger's Associate Director for Management at OMB was James S. Dwight, formerly Chief Deputy Director, under Weinberger, of the California Department of Finance. It was to Dwight that Weinberger delegated much of the initial planning for the new approach to welfare reform. The first steps signalled the debt to the Reagan model. An OMB task force was sent to California to study the 1971 legislation; the resulting report, *Welfare in California: Showing the Way*,[3] was widely circulated in the Administration. In December 1972, and throughout January and February 1973, Reagan staff were involved with OMB and HEW staff in reviews of federal welfare regulations. Robert Carleson, Reagan's Director of Social Welfare, and his deputies, John Svahn and Ronald Zumbrun, were among those consulted.

In March of 1973, Dwight was nominated to head the Social Rehabilitation Service, the agency in HEW responsible for administering the categorical grant programs. By then, the main elements of the new "management reform" approach to welfare had been hammered out. President Nixon outlined some of them in his State of the Union Message:

> The Nation's public assistance system . . . remains as I described it in a message last year — "a crazy quilt of injustice and contradiction that has developed in bits and pieces over the years."
>
> The major existing program, Aid to Families With Dependent Children, is as inequitable, ineffectual, and inadequate as ever.
>
> The administration of this program is unacceptably loose. The latest national data indicate that in round numbers, one of every twenty persons on the AFDC rolls is totally ineligible for welfare; three more are paid more benefits than they are entitled to; and another is underpaid. About one-quarter of AFDC recipients, in other words, are receiving improper payments.
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> Complex program requirements and administrative red tape at the Federal and State levels have created bureaucracies that are difficult to manage.
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> Inconsistent and unclear definitions of need have diluted resources that should be targeted on those who need help most.
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> Misguided incentives have discouraged employable persons from work and induced fathers to leave home so that their families can qualify for welfare . . .
>
> I have directed that vigorous steps be taken to strengthen the management of AFDC through administrative measures and legislative proposals.
>
> Under these reforms, Federal impediments to efficient State administration of the current AFDC system will be removed wherever

> possible. Changes will be proposed to reduce the complexities of current eligibility and payment processes. Work will continue to be required of all who can reasonably be considered available for employment, while Federal funds to help welfare recipients acquire job skills will increase.

The key phrases in the Message — "administrative red tape" and "federal impediments," "those who need help most" (the "truly needy," in Reagan's term), "misguided incentives that have discouraged employable persons from work," "vigorous steps to strengthen management," "to help welfare recipients acquire job skills" — all echoed the language of *Welfare in California: Showing the Way*.

MANAGEMENT REFORM IN ACTION

Comprehensive reforms such as FAP afford the excitement of fundamental change, the prospect of sweeping away the old system at one blow. By contrast, management reform — as dull as the minutiae of federal welfare regulations, and as difficult to explain — lacks intellectual glamor. Perhaps for this reason, although volumes have been written on the negative income tax and other failed proposals, no account exists of the national welfare reforms actually undertaken in the period 1973-75. The space available here is sufficient only to outline the achievement of management reform. We will focus on four areas.

1. **The Social Services.** The 1962 and 1967 Public Welfare Amendments to the Social Security Act created a grant-in-aid program of social services. It was a program that encompassed family planning, counselling, services for handicapped children, care for the mentally ill, day care services, employment and training services, and many forms of assistance. From Fiscal Year 1969 through Fiscal Year 1972, spending for social services grants more than quadrupled, rising from $354 million to $1.69 billion. The likelihood is that, despite this huge increase in funding, the actual volume of services provided to poor people remained unchanged. (Certainty on the matter is impossible, however, for one of the peculiar features of the program was that the federal government lacked even the most rudimentary accounting of the services that were actually being supported.) By and large, the money seems to have been siphoned into already existing state programs, paying for everything from prison uniforms to pre-school education. The grants-in-aid program was, in fact, a form of "poor relief for the states" or, as Wilbur Mills described it on the floor of the House of Representatives, "the worst loophole that has ever been written into the law on the financing of government."[4] The funding expansion was unplanned; indeed, at first, it went almost unnoticed. As part of the public assistance titles of the Social Security Act, the program was "open-ended" — that is, the federal government was obliged to match state expenditures, whatever level they might reach — and neither Congress nor the Executive Branch was fully aware of how much the program might cost until the funding explosion was well under way. The program was fundamentally undirected, in some states benefiting mainly the poor, in others providing services to all classes of society.

It was on this program that the management reform team first focussed. One of their aims was to discontinue its open-ended character, and thereby to cut its costs or, at the least, end their uncontrolled, undirected increase. Another aim was to force on the states an accounting not only of the costs, but also of the results of the program. Yet another intent was to target services to those most in need, namely the recipients of welfare payments: the goal of the program could then be the rehabilitation of those on welfare and, eventually, their removal from the welfare rolls.

A first step was to work with Congress to establish a $2.5 billion ceiling on the social services program. A second was to re-write HEW regulations.[5] The number of services was reduced, definitions of services were tightened, the purposes for which federal financial participation would be available were limited, and restrictions were placed on the types of state funding that could be used to win federal matching outlays. Underlying the new regulations was an effort to restructure the relationship between SRS and the states. In the new relationship, SRS would no longer fill a promotional role, emphasizing program expansion, but would instead exercise a "careful stewardship of limited resources." In order to compel the states to carry out their financial responsibility, fiscal management staffs would be expanded, especially in the SRS Regional Offices. Within the Central Office of SRS, program units were to be more effectively subordinated to policy control and financial management. Thus, SRS would no longer play the role of "an advocate who pays the bills without question."

For nearly a year, controversy raged around the new regulations. Welfare client groups combined with program advocates in Congress in shrill assaults on every aspect of the plan. They were joined by state welfare agencies, volunteer groups, and vendor organizations. Employee unions within HEW and SRS also organized for resistance.

The management team at SRS, facing a powerful combination of pressures, was forced to make concessions and retreat from some of its original goals. Yet, in the end, a basic compromise was reached. Although the goal of targetting social services to welfare recipients alone was dropped, agreements were reached with the states that they must spend at least half of their social services funding on welfare recipients, and that other families, in order to qualify for free social services, must have incomes that were less than 80 percent of the state median income. Another victory for the SRS management was to bar certain state activities from federal funding. Medical care services, construction and capital improvements, room and board, general education services, hospital and nursing home care, and cash assistance payments — all were cut from the program.

In 1975, these achievements were recorded in a new Title XX to the Social Security Act. Title XX retained the $2.5 billion ceiling on federal funding, and imposed on the states the responsibility to produce detailed plans for services, to account for all expenditures, and to record the results of their programs. For the first time, after years of controversy and the expenditure of billions of dollars, the facts were available on the social

services that were being provided in each state, and on who was using them. An open-ended program had been brought under control and given structure and focus.

2. **Quality Controls.** Long before the management reforms of the early 1970s, efforts were made to stop improper welfare payments — whether overpayments to eligible recipients or payments to ineligibles. Partly, the problem was one of fraud and abuse by recipients; partly, it was a problem of poor administration by the states. In either case, it was known that erroneous payments constituted a problem of huge proportions. A study in 1962, for example, showed that 52 percent of the welfare recipients in Washington DC were actually ineligible. In the early and mid-1960s, HEW conducted a nationwide AFDC caseload investigation, known as "The National Eligibility Review," and undertook the design of "quality control" standards. The QC concept, as it became known in the idiom of welfare professionals, was that states should be made to audit their caseloads and report on errors. In fact, however, as late as December 1972, more than half the national caseload remained outside QC coverage. It was a system loosely administered and ineffective against the spiralling problem of welfare abuse.

The management team at SRS made improvement of the QC program one of its chief aims. Dwight and the others saw QC as a means not only of cutting costs and caseloads, but as a tool to improve all aspects of state welfare administration. Again, they started out by re-writing HEW regulations, in this case to deny federal financial participation in all improper expenditures, whether overpayments or payments to ineligibles.[6] In effect,the new regulations sought to force the states into instant and comprehensive reform: federal financial penalties would become effective immediately, and no tolerance for error would be allowed. Once more, a protracted struggle began with state agencies and Congress.

Faced by nearly universal resistance, the SRS managers soon agreed to adopt a gradual approach. A compromise was reached under which federal financial participation in erroneous payments would continue for another year; but, in return for this concession, the states agreed to cooperate in a full audit of their caseloads and to accept target dates for reduction of error: The first full QC audit conducted in AFDC history revealed an incredible 41.1 percent error rate in the national caseload.[7]

The SRS managers exploited to the full the anxiety of the states to reduce their error rates by the target dates. The sole answer to improper payments, SRS told the states, was to improve the administration of their programs across a broad front. SRS provided management advice and technical support of many kinds. Examples were given of state QC successes in a series of "How They Do It" pamphlets published by SRS. Teams of SRS managers crisscrossed the country to pressure and persuade the states to improve their performances.

Although it soon became clear that many states would fail to meet their QC targets, and that the deadlines would have to be postponed, the program nevertheless achieved an almost immediate effect. The first year of QC enforcement saw the first major decline in the national AFDC

caseload. In the first six months of 1974, 50,000 ineligibles were removed from the rolls at a savings of $71 million. Over a longer period, too, the program achieved major changes in state welfare administration. Reporting on their responses to QC in late 1974, forty-nine states noted the use of increased verification procedures, forty-four said they had adopted new or revised agency policies, thirty-nine reported the beginning of new staff training programs, and so forth.

The achievement of the SRS managers was to make QC a permanent part of national welfare administration. Today, state QC units, following uniform procedures established by federal regulations, still review each state agency's caseload. The system obviously failed to put an end to all erroneous payments, but it dropped many thousands of ineligibles from the rolls and sharply cut the rate of overpayments. More than this, it revitalized and tightened the management of every state welfare agency.

3. **Child Support Enforcement.** In the early 1970s, it was increasingly apparent that a major problem of welfare concerned the non-support of children by absentee fathers. When the AFDC program first began, death of the father had been the principal basis of eligibility: 42 percent of the 1940 caseload was attributed to this cause. But by 1960, the father's death accounted for only 8 percent of the caseload, and the father's absence for 68 percent. The 1960s and early 1970s saw a further rapid growth in this source of welfare dependency. As a percentage of the total caseload, AFDC families with absent fathers increased to 74.2 percent in 1967, to 75.4 percent in 1969, to 76.2 percent in 1971, and to 80.2 percent in 1973. In terms of numbers, the caseload attributed to the father's absence mounted from 3.9 million persons in 1967 to 8.7 million in 1973. Thus, in only six years, families with absentee fathers contributed nearly 5 million additional recipients to AFDC rolls.[8]

Prior to 1973, many vain attempts were made to induce deserting fathers to pay child support. In 1951, a provision was added to the Social Security Act requiring that prompt notice be given to law enforcement officers whenever AFDC was furnished to children abandoned by a parent.[9] When this procedure failed to yield results, a 1965 statute provided that state and local welfare agencies could obtain from HEW the home or work address of the absent parent. When this, also, achieved little, 1967 Amendments to the Social Security Act went several steps further. One new section provided for obtaining address information from the Internal Revenue Service in all AFDC cases where there was a court order for child support. Other sections provided that, as part of its AFDC program, each state must create a single organization to establish paternity and collect support payments. Again, however, there were few results. One reason was the reluctance of welfare professionals to engage in what they saw as an invasion of privacy and harassment of welfare recipients. Another reason was the failure of HEW to monitor state enforcement or to emphasize child support collections within the total welfare program. At both the state and national levels, the prevailing attitude seemed to be that it was better to provide child support from public funds than to compel deserting fathers to carry out their family responsibility.

California offered the only prominent example of an effective child support enforcement program: Governor Reagan announced more than $50 million in child support collections for FY 1973. The California achievement was built on financial incentives to county welfare departments. The Reagan reforms had shifted responsibility for collection of payments from the county welfare professionals to the county district attorney's office, and the state was paying county attorney fees in successful support actions.[10] A "Support Incentive Fund" had also been created from which payments were made to counties of a set percentage of funds collected and applied to recipient support.[11] Dwight and Svahn, looking to this program as a model, worked closely with the Senate Finance Committee and its staff to elaborate new national child support legislation. The result was Title IV-D of the Social Security Act,[12] which imposed new obligations on welfare recipients and state agencies while also establishing a Federal Office of Child Support Enforcement. Applicants for AFDC were required, as a condition of eligibility, to assign their support rights to the state and to cooperate with state agencies in establishing paternity and collecting child support payments. Each state was required to create a IV-D agency to establish paternity, operate a service to locate absent fathers, and collect support payments. A major role was also given to the Federal Government in the new program. A "Parent Locator Service," with computer access to federal records, was established. OCSE was to review and approve state IV-D policies and programs, to keep records of child support collections and payments, and to audit IV-D agency operations. The federal courts were used to enforce support orders, and the IRS was authorized to collect delinquent payments. Other federal agencies were required to process orders for garnishment of the wages and benefits of federal employees.

The new program was tailor-made for the management team at SRS. Its emphasis on decentralizing operations by dispersing them to the states, but still maintaining strong federal supervision, spoke exactly to their conception of effective welfare reform. So did the use of financial incentives or penalties, and also the goal of cutting costs and trimming caseloads while nevertheless channelling additional funds to recipients. Again, strong regulations were developed.[13] Again, a program combining pressures with persuasion was launched from SRS to bring state agencies into compliance. And again, "How They Do It" publications described the most successful state actions. A study was made of selected jurisdictions showing that the total collections of their enforcement programs, divided by their costs, yielded a cost-benefit ratio of 5:1.[14] Evidence was also presented that the new programs were achieving a significant slowing effect on AFDC expansion.

When OCSE submitted its first annual report to Congress, there were clear evidences of success. All told, at the close of FY 1976, the states reported some $325 million in collections and distribution payments for AFDC families. In the following year, this total climbed to $430.8 million.[15] Overall, based on reported collections and expenditures, states took in an average of $1.58 for AFDC families for each $1.00 spent na-

tionwide. Beyond these cash returns in AFDC, there were important savings in other ways: thousands of families were kept off the welfare rolls, and the hidden AFDC subsidies to many deserting fathers were brought to an end.

4. **Work Incentives.** The concept of re-training welfare recipients for work — "workfare not welfare" — was a theme of several programs in the 1960's. The first was the Community Work and Training (CW&T) Program, authorized in 1962, which provided federal matching funds for job training and also covered some administrative and social services costs. The program had little success: in five years, no more than a dozen states adopted CW&T. In part, this lack of success was probably due to the fact that CW&T was quickly superseded by a more comprehensive program: Title V of the Economic Opportunity Act of 1965 provided for a Work Experience and Training Program. Yet Title V made as little headway against the growth of the welfare rolls as CW&T. An increase of nearly a million AFDC recipients was recorded in the three years prior to June 1967. Set against that explosion, the results of both work and work-training programs were puny; in the period 1964-67, 133,000 recipients enrolled in the programs, 70,000 continued in training, and a total of no more than 22,000 found jobs.

In 1967, a new Title IV-C of the Social Security Act established the first "Work Incentives" program (WIN I). Placing heavy emphasis on rehabilitative training, WIN I provided a wide variety of services to convert the AFDC client into a productive, self-reliant member of society. Again, however, set against the burgeoning growth of the welfare rolls, the program failed. During the period from October 1968 to September 1971, the AFDC caseload grew by an average of 150,000 individuals every month. In the same 36-month period, WIN I placed a total of about 43,000 enrollees in jobs. WIN II, a major re-structuring of the program launched by the so-called Talmadge Amendment, became effective in July 1972. The first months of WIN II also proved much less than a success, largely because the Nixon Administration gave the program little priority. So long as FAP offered the prospect of a federalized "workfare" program, WIN was given short shrift. Just as in the Social Services matter and QC, however, 1973 proved to be the watershed: FAP was publicly abandoned, and the Administration embraced WIN as a key component of its new management approach to welfare.

John Svahn and others from California had worked with Congressional staffs in designing WIN II. The program's use of strong federal incentives and penalties, and its emphasis on employment-related training and on job placement (rather than on rehabilitation), reflected their influence. Now in control of HEW, the Californians began a campaign to make the new program work. Heavy pressures were placed on WIN staff to meet increased placement goals. Placements in unsubsidized jobs, which had been running at about 1,500 per month in late 1972, were increased to a rate of 3,500 by March 1973. The first six months of 1973 saw 96,000 job placements — more than twice the number of placements achieved in the whole history of WIN I.

The next step was to bring about a further re-structuring of WIN — the "WIN Re-Design." Convinced that HEW's traditional services orientation for WIN — the high cost "training model" — was bankrupt, the new management team set out to reduce the influence of professional social workers in the program. Dwight and Svahn believed that there was a much larger reservoir of employables among AFDC recipients than WIN II had tapped: they hoped to double, even to triple the number of job placements. They were eager to pursue this goal, in part because they saw the work requirement as a valuable deterrent to welfare, a dampener on the expansion of caseloads. On the basis of their technical knowledge of the CWEP program, they were convinced that it would pay to emphasize direct job placement even more. Above all, the SRS managers believed in basing decisions on accurate operational data, and they aimed to obtain much more comprehensive management information on each element of the WIN program.

The WIN Re-Design also had a number of technical goals. Research had revealed a problem in the time-lag between an individual's first registering for welfare and his exposure to the labor market. The common-sense solution of the WIN Re-Design was to require registration at the local manpower office, rather than at the welfare agency. A closely related innovation required that the individual engage in a series of job search activities immediately after registration. The aim of the SRS managers here was to create a new service providing structured employment assistance directly to registrants. Another goal of SRS was to reduce the emphasis on subsidized on-the-job training and public service employment. This was achieved, in part, by redirecting funds to job placement activities. Changes in the formula for allocation of WIN discretionary funds formed yet another objective. Financial incentives were given to the states to place registrants in unsubsidized employment, but to do so in such a way as to yield the greatest possible return on each dollar spent.

Although the new regulations prompted much controversy, and although the recession of 1974-75 offered a poor economic climate for the program, the WIN Re-Design achieved a substantial success. Statistics for FY 1975 showed that, despite the high unemployment rate, a total of 170,681 job entries had been made — of which 113,000, or almost exactly two-thirds, took place without prior training. By March of 1976, all the states had adopted the WIN Re-Design procedures and were responding to the performance incentive features of the new funding allocation formulas. WIN's transformation was complete: a program emphasizing rehabilitation had been changed into one focussed on direct job placement.

THE ACHIEVEMENT OF MANAGEMENT REFORM

The management reform program of 1972-76 was the only sustained attempt in recent years to invigorate the existing federal-state system of welfare administration. Measured against its original objectives, the program had a mixed record of failure and success. Nevertheless, the results proved that the existing system could indeed be managed and its worst faults remedied. As a demonstration of the potential for improvement of the existing system, the management reform effort stands as a major alternative to plans for federalization and comprehensive reform.

Only if management reform had achieved the status of accepted national policy would it have fulfilled all its aims. Its success was in bringing the growth and costs of welfare under control, even in the face of persistent opposition, and despite the lack of accompanying statutory change. The keys to this achievement were the restoration of accountability to the assistance programs; the fashioning of a more effective federal-state relationship in welfare administration; and a return to the basic goals of public assistance.

Accountability. The SRS managers blamed much of the welfare crisis of the previous decade on poor financial management. The programs had mushroomed, they believed, because states were able to take advantage of weak controls on federal funding, and because clients were subjected to few checks on eligibility and need. Therefore, the basic strategy of the new managers was to re-emphasize proper accountability of the programs.

At the heart of the reform effort was an emphasis on improved financial information. Although an initial scheme to build a fully computerized financial management system was never realized, a huge improvement was made in the availability and accuracy of data. For the first time, Congress was privided with a month-by-month and state-by-state analysis of expenditures, together with detailed projections of future costs. An even more important achievement was the development of evidence on the *results* of expenditures. Much more was involved than accounting techniques, for there were important policy implications in forcing the states to take heed of what their programs had actually accomplished. One result of the new stress on documenting accomplishments was to check the impulse to unplanned expansion: by requiring the states to evaluate the results of Social Services expenditures, for example, Title XX achieved a gradual reduction in pressures for program growth. In line with the original plan, too, the emphasis on cost-effectiveness favored those programs that could demonstrate a contribution to removing dependents from the welfare rolls.

Another key step, and another accounting technique with broad policy implications, was the tightened definition of "improper expenditures." At the level of state claims, Social Services regulations prohibited improper program outlays; similarly, at the level of individual transactions, QC regulations forbade improper payments to recipients. Also important was the use of mandatory reductions in federal matching funds to punish

states making improper payments. The threat led to improvements in management at all levels of the system.

The stricter accounting of individual cases forced by the QC and Child Support Enforcement programs produced important changes in recipient behavior. Closer scrutiny of claims and periodic redeterminations were keys to checking much abuse of the system. Equally effective was the vigorous enforcement of the work requirement. The tightened linkage between eligibility for payments and participation in WIN not only made recipients more conscious of their obligation to support themselves, but also deferred casual registrations by the non-needy.

The Relationship With the States. As important as any of the technical innovations was a change in the tone and posture of federal management. "SRS," Dwight was fond of saying, "will no longer be a patsy that always pays the bills." The message to state agencies was that a line had been drawn on improper expenditures. Within SRS, the new attitude signalled an end not only to the practice of winking at abuse, but also to the tradition of championing every expansion of state programs, regardless of cost. The proper role of federal managers, Dwight insisted, was to monitor and evaluate expenditures for compliance with federal law: program advocacy was not their business, nor were the details of state operations. This philosophy of the appropriate federal function guided many regulation changes: provisions that had stretched Congressional intent to require additional services were dropped; so, too, were provisions that imposed minutely detailed requirements on state agencies.

Major improvements were made in state management of the assistance programs. In part, this was achieved by compulsion — with tightened regulations, or Child Support Enforcement audits, or WIN quotas — and by an aggressive assertion of federal prerogatives. Equally important gains, however, were made by providing greater freedom and flexibility to the states, by persuasion, and by technical assistance. Part of the success of state campaigns against recipient fraud, for example, was made possible by relaxing federal requirements. Similarly, the development of state financial management systems owed much to the constant persuasion and cajolery of the SRS managers. The great triumph of technical assistance was the development in SRS of a central clearinghouse of information on the most effective state management practices. Indeed, the SRS "How They Do It" publications proved that the states, as they responded to the reform program, were functioning as genuine laboratories of governmental innovation.

The changed federal-state relationship was reflected in the reorganization of SRS. The decentralization of operations, through dispersal to the regions, was a deeply controversial step at the time, but it was crucial. Within SRS, decentralization cut at the power of the program specialists and provided the opportunity for new management experts to be brought in. One result was to reduce further the pressures for program expansion and to defuse some of the political tensions that had built up in the old SRS staff. Another was the development of management capabilities

focussed on financial control and program evaluation. In the states, decentralization meant greater opportunities for experimentation and more flexibility in planning programs.

The Basic Goals of Public Assistance. The guiding theme of many of the management reforms was to re-focus resources on welfare recipients, with the aim of making them self-supporting. The objectives in the struggle over social services, for example, were to target funds much more precisely to the neediest clients and to anticipate and deal with the causes of dependency. Similarly, the QC program sought to end overpayments and payments to ineligibles in order to direct additional funds to qualified recipients. And the WIN Re-Design not only escalated the attack on joblessness, but aimed to check improper registrations. Although all these efforts fell somewhat short of their aims, significant results were achieved. The ever-expanding array of services was cut back under Title XX; some savings realized under QC were diverted into increased benefits; the WIN program converted large numbers of recipients into self-supporting employees; and Child Support Enforcement removed many deserting fathers from a position of hidden privilege on the AFDC roles.

The major achievement of management reform, however, was to guide the attention of state and local administrators back to the basic goals of public assistance. Partly, this was done by trimming back federal requirements that had proliferated during the era of expansion: the underlying federal law was revealed to favor the attack on welfare dependency. Partly, too, this redirection was accomplished by re-writing federal regulations to underscore the basic goals of public assistance, and by evaluating state programs in terms of their contributions to achieving these goals. Even more, however, the redirection was a triumph of persuasion with state agencies. The missionary theme of the SRS managers was that the states themselves could lead the needed program of welfare reform. But, first, they must return to the basic goals of public assistance, repair the existing structures of welfare administration, and learn to make the system work.

FOOTNOTES

[1] *Journal of the California Assembly*, March 3, 1971, pp. 699-880 (Reg. Sess., 1971).

[2] Hearings, Senate Appropriations Committee, April 19, 1971.

[3] California State Department of Social Welfare, 1972.

[4] *Congressional Record*, vol. 118, pt. 27, 92 Cong. 2 sess. (1972), p. 35518.

[5] The development of the regulations may be traced in *Federal Register*, 1973, vol. 38, No. 32, pp. 4608-13, and No. 83, pp. 10783-10787.

[6] See *Federal Register*, 1975, vol. 40, No. 151, pp. 21737-21739; vol. 40, No. 97, pp. 32954-32958.

[7] See "Quality Control in AFDC" Information Memorandum to State Agencies Administering Approved Public Assistance Plans, March 17, 1975.

[8] See *Social Services Amendments of 1974*, Report of the Committee on Finance, U.S. Senate, December 14, 1974, p. 42.

[9]For the "Notice of Law Enforcement Officials" (NOLEO) Sec. 42 USC. Section 602(a)11.

[10]California Civil Code, Section 248.

[11]California Welfare and Institutions Code, Section 15200.

[12]PL 93-647.

[13]See *Federal Register*, 1975, vol. 40, No. 90, pp. 20096-20106.

[14]See *First Annual Report to the Congress on the Child Support Enforcement Program*, HEW, June 30.

[15]*Child Support Enforcement: Second Annual Report to the Congress for the Period Ending September 30, 1977*, HEW, December 31, 1977.