

**Losing Ground on TANF:  
AEI's *The Reach of the Cash-Based Safety Net* Misses the Big Picture**

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In *The Reach of the Cash-Based Safety Net for Poor Families with Children in America*, Angela Rachidi and Shijie Jin of the American Enterprise Institute (AEI) examine “the existing reach of government programs that provide cash income to poor families with children and how it has changed over time.”<sup>2</sup> Their analysis seeks to address a concern raised by critics of the 1996 welfare reform law, namely that the creation of the Temporary Assistance for Needy Families (TANF) block grant shredded the cash assistance safety net. Rachidi and Jin suggest that the availability of cash aid from other programs, most notably the Supplemental Security Income (SSI) program and the Earned Income Tax Credit (EITC), has offset this loss and that the “vast majority of poor families with children receive cash assistance, although today it is in a form very different than it was before the reforms of the late 1990s.” According to Rachidi and Jin:

The ultimate conclusion, then, is that the current mix of cash-based benefits effectively lifts almost three million children out of poverty, and among families with children who remain in poverty (either according to the official or supplemental measure), the vast majority receive some cash benefit from the government. When noncash assistance is included, virtually all are covered. This reveals a social safety net that effectively covers most poor families with children in America.

There are two major problems with this conclusion. First, simply tabulating the percentage of poor families that receive benefits from one or more cash assistance programs *over the course of a year* and tracking a trend over time is far too simplistic a measure to make meaningful judgments about “coverage” and the adequacy of the cash assistance safety net. It is also important to examine the amount of benefits, their timing, and distributional effects.

Second, a simplistic percentage-based measure of cash assistance receipt ignores other important factors relating to “effectiveness.” For example, both the EITC and the SSI programs provide income support for millions of poor families and individuals, but there are also questions about payment accuracy, labor supply effects, and other important issues. The most serious omission in the Rachidi-Jin paper in this regard is their failure to address TANF’s shortcomings, particularly because Speaker Ryan and most conservatives see this as a model for reforming the rest of the safety net. Indeed, the Rachidi and Jin analysis supports the contention that the 1996 law decimated the cash safety net for many poor families and is not the “unprecedented success” its supporters say it is. Their claims of the “effectiveness” of the safety net rest on the assumption that other programs expanded (or were otherwise available) to offset the declining income support provided by TANF. (This is similar to the strange argument Scott Winship made, as reflected in the title of my paper “TANF is a Massive Policy Failure, But Other ‘Liberal’ Welfare Policies Reduced Poverty”<sup>3</sup> and Jordan Weissmann’s “The Odd Conservative Argument That Food Stamps and Medicaid Saved the Poor From Welfare Reform.”<sup>4</sup>)

This response addresses some of the claims made by Rachidi and Jin about the safety net, followed by a “PC Response” (where “PC” is short for “Peter the Citizen”).

### **TANF’s Failure as a Safety Net**

**Rachidi and Jin:** “Since 1996, critics have increasingly portrayed declines in TANF caseloads and spending as harmful to the poor. One commonly used metric is the TANF-to-poverty ratio, which shows that between 23 and 26 percent of poor families with children received TANF in 2014, down from 68 to 72 percent in 1996 (Bitler and Hoynes 2016; Pavetti 2016). Some use this to suggest that government aid is not reaching poor families with children. But a focus on TANF alone fails to reflect the full reach of the cash-based safety net for poor families. A better metric is the share of poor families who receive any cash-based assistance from the government.”

**PC Response:** Like other researchers, Rachidi and Jin document the declining reach of TANF as a cash assistance safety net. Between 1996 and 2012, they show that the percent of poor families with children receiving TANF fell from nearly 60 percent to just 22.5 percent in 2012. Notably, during this time period, the number of poor families with children rose as did the number of families with incomes low enough to qualify for TANF cash assistance.<sup>5</sup> These facts should lead anyone concerned about the adequacy of the safety net to question why what was once the nation’s primary cash assistance program has failed so many poor families.

Instead, Rachidi and Jin seem content to simply examine the percentage of poor families with children that received assistance “from at least one of the three largest cash-based programs (TANF, EITC, and SSI).” Based on this metric, the decline hasn’t been so large, dropping from about 92 percent in 1996 to about 82 percent in 2012. Their figure 3 shows the problem with this approach. Between 1996 and 2012, the percent of poor families with children receiving the EITC<sup>6</sup> and SSI remained about the same, at about 61 percent and 19 percent, respectively. The only difference is that nearly 40 percent of poor families with children lost TANF cash assistance (assuming TANF’s reach had remained the same as in 1996). This is a loss of TANF cash assistance of more than 2.5 million families. And, Rachidi and Jin fail to mention that even among those families that still receive TANF cash assistance, the dollar value of benefits has failed to keep pace with inflation in nearly every state. Indeed, nearly half the states have not increased their benefit levels since 1996 and some have actually reduced them, representing a decline of 34.5 percent or more when adjusted for inflation.<sup>7</sup>

Another problem with the Rachidi and Jin analysis is their reliance on EITC receipt to support their argument: “We conclude that when taken together, the vast majority of poor families with children receive cash assistance from at least one government program, mostly in the form of the EITC, which is directly linked to work, and disability assistance.” They examine receipt of *any* cash assistance over the course of a year and for the EITC they note that “the EITC is not reported on household surveys at all, and instead we must rely on simulated data based on income and other eligibility criteria.” According to figure 2 of their analysis, 36 percent of poor families with children received TANF or SSI in 2012 (down from about 65 percent in 1996). Another 46 percent received only the EITC and 18 percent do not receive any cash assistance.

Because the EITC is paid once a year as a refund, there are many months in which millions of families would not have access to a cash payment.

The EITC is limited to those who work. The problem with the collapse of TANF is that it was the primary source of support for some of the nation's neediest and most vulnerable families – those who can't or don't work. It is these families the critics of TANF, including myself, are concerned about. Take a single mother with two children who loses a job. Her earnings drop to \$0 and suppose she has no other income. With \$0 in income, she would qualify for about \$511 in SNAP (formerly food stamps) benefits. This represents less than one-third of the poverty level of \$1,591 for a family of three (in 2015). Even with TANF cash assistance, which ranged from \$170 a month for a family of three in Mississippi to \$789 a month in New York (in 2015), the combined TANF/SNAP benefits represents just 40 percent of the poverty line in Mississippi to 75 percent in New York (and about 55 percent in the median state). This is about \$680 to \$1,200 a month (about \$875 in the median state). She is unlikely to receive housing assistance, and while the family may qualify for more food aid (e.g., WIC or benefits from various child nutrition programs), these are relatively small and don't help her purchase other basic necessities. How is she supposed to pay rent, buy clothing, or purchase other household essentials without cash? Families need some cash *each month*. If the mother goes to work, she may eventually get the EITC, but she may have to wait over a year to get it.

**Rachidi and Jin:** “The social safety net for poor families with children includes multiple programs, and perhaps TANF should be only a small footprint when considering these programs together. A family headed by a disabled parent should receive disability assistance, not TANF. A family headed by an unemployed parent with unemployment compensation is not expected to also need TANF. And a full-time working family benefits much more from earnings and the earned income tax credit (EITC) than from TANF. For these reasons, discussing TANF in isolation dramatically understates the reach and effectiveness of the social safety net.”

**PC Response:** Most critics of TANF recognize that there are multiple assistance programs. The EITC is a financial incentive for those who work. Rachidi and Jin should recognize that there are people who can't work or who face challenges to working. There should be an adequate safety net for them and in particular for their children. The safety net should also provide a “hand up,” yet this is not what TANF has done – and it is something Rachidi and Jin ignore in their assessment of “effectiveness.” TANF's work requirements are dysfunctional and not about connecting families to work. Indeed, TANF is not “welfare reform” but a form of revenue sharing for state politicians who have used it to supplant existing state spending and fill budget holes. This is yet another reason why the Rachidi-Jin focus on the percent of poor families receiving cash assistance is too narrow a focus.

**Rachidi and Jin:** “This shift in the composition of benefits that poor families received might suggest a problem if total income, or income for most poor families, had declined because of it. As Figure 4 shows, the median income of poor families has remained relatively constant, with some fluctuation concurrent with the business cycle. This suggests that for most poor families, income was not negatively affected.”

**PC Response:** Looking at a median income figure is not necessarily reflective of what happens to most families. Indeed, had TANF’s coverage rate remained the same in 2012 and 1996, about 40 percent of poor families with children would have had more income – this isn’t most, but as noted above, it is over 2.5 million families. This is the group critics of TANF are concerned about.

My preferred approach to assessing TANF’s effects on poverty is based on a different model, but one that uses the same data as Rachidi and conducted by researchers at the Urban Institute. Table 1 shows the change in the average monthly number of families eligible for assistance compared to the average monthly number receiving assistance for selected years from 1996 through 2013. In 1996 (before TANF), about 5.6 million families were eligible to receive benefits, and about 4.4 million (79 percent) did so. In 2013 the number eligible for TANF was the same (5.6 million), but the number receiving benefits had dropped over 60 percent to 1.7 million (or 31 percent of eligible families). Using the conventional conservative pre-post method for assessing impact (not my preferred approach but one that seems to resonate with conservatives), a reasonable question is: If TANF is such a success and if families had really been “helped” (or motivated to get jobs), why isn’t the number of families with incomes below TANF’s eligibility thresholds lower today?<sup>8</sup>

<b>Table 1: Number and Percentage of Eligible Families Participating in TANF (Average Monthly Data, Selected Years, 1996-2013)</b>				
Year	TANF			
	Eligible (millions)	Participating (millions)	Eligible, Not Participating (millions)	Participation Rate (%)
1996	5.6	4.4	1.2	78.9
2000	4.4	2.3	2.1	51.8
2004	5.1	2.2	2.9	42.0
2008	5.2	1.7	3.5	33.0
2013	5.6	1.7	3.9	30.7

Source: U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, *Welfare Indicators and Risk Factors: Fourteenth Report to Congress*, August 22, 2016.

The more important statistic that can be derived from this table is the increase in the number of families that were eligible to receive TANF, but that did not. This number grew from 1.2 million in 1996 to 3.9 million in 2013. This is an increase of 2.7 million very poor families that were eligible for assistance but did not receive it. For the affected families, this represents a loss in benefits of about \$200 to \$750 per month (the maximum grant for a family of three, depending on the state). Most of these families were poor before being pushed off TANF (or deterred from coming on it) and are poor afterwards. This may not be reflected in a change in the poverty *rate* or in median family income figures, but certainly the fact that they are deeper in poverty should be a matter of concern.<sup>9</sup>

Other research confirms the importance of examining distributional effects.<sup>10</sup> For example, Gene Falk of the Congressional Research Service has also documented the collapse of the cash assistance safety net (my characterization):

Most of those eligible but not receiving AFDC or TANF were poor, with some in deep poverty (family incomes less than half the poverty threshold). Over the 1995 to 2012 period, an increasing number of adults who failed to take up benefits were non-workers and had no other workers in their families. The decline in the share of people eligible for cash assistance also meant that TANF had a smaller impact in ameliorating poverty – particularly among children in deep poverty – than did AFDC. In 2012, there were 3.1 million children in deep poverty that met TANF eligibility criteria but did not receive TANF assistance. The comparable number of children in deep poverty eligible for but not receiving AFDC in 1995 was 0.5 million. In 2012, TANF reduced the rate of deep poverty among children from 9.5% to 8.4%. In 1995, AFDC reduced the rate of deep poverty among children from 11.3% to 6.5%.<sup>11</sup>

In short, between 1995 and 2012, the number of children in families in both deep poverty and eligible for TANF cash assistance who *did not receive assistance* grew from 0.5 million to 3.1 million. Even this understates the impact on poverty – it ignores declines in participation among those with incomes above the 50 percent poverty threshold, the effect of more restrictive eligibility policies, and the impact of inflation on the value of grants in most states.

### **TANF is a Massive Policy Failure**

**Rachidi and Jin:** “Few public policy debates have been as contested as whether welfare reform in 1996, and the Temporary Assistance for Needy Families (TANF) program in particular, was a success or failure. Critics of welfare reform point to declining TANF caseloads and the struggles of the deepest poor as indications that it failed (Greenstein 2016; Sherman 2016).”

**PC Response:** The decline in TANF caseloads and rise in the depth of poverty are just two concerns. TANF is nothing less than a massive policy failure. More specifically, the creation of the TANF block grant with *excessive* state flexibility set in motion changes that would: (1) initially provide large windfalls of federal funds for states, but also put in place a funding structure that in the longer-term would provide insufficient resources due to inflation and demographic changes; (2) allow states to use federal funds to supplant their own spending (by tens of billions of dollars since TANF was created); (3) permit states to convert TANF (over time) to a giant slush fund with minimal reporting and accountability provisions; (4) impose a Rube Goldberg-like set of bureaucratic and ineffective funding formulas and requirements; and (5) give states excessive flexibility to avoid or evade virtually all of the federal requirements in the law, most notably work requirements and time limits. (For more detail, see: *TANF is Broken!*<sup>12</sup>) The result of this misguided effort is a safety net with massive holes – one that is not effective in providing either basic assistance to needy families or ensuring that low-income parents receive the work-related activities and services they need.

**Rachidi and Jin:** “Supporters note the large gains in employment among single mothers and declines in child poverty that followed its passage as signs of its accomplishments.”

**PC Response:** Supporters of TANF typically exaggerate the gains in employment and declines in poverty by failing to account in any rigorous way for other factors, such as the economy and

expansions in aid to the working poor, e.g., the EITC and Medicaid. And, they fail to examine the actual implementation of the “program.” The single most notable change in the transition from AFDC to TANF was giving states a large federal windfall, as states received about 20 to 30 percent more than they would have in the absence of the “reform.” TANF also gutted work requirements, as about 20 to 30 states faced a 0 percent target for the first 15 years of the program. When that wasn’t enough, TANF allowed states to take advantage of a myriad of loopholes. Even if one believes TANF had positive effects early (and there is good reason not to), the magnitude of those impacts pales in comparison to the collapse of the cash assistance caseload.

## **Conclusion**

The nation’s safety net is generous and we have made enormous progress in reducing poverty since the War on Poverty. But, the 1996 welfare reform law blew a massive hole in the cash assistance safety net for the very poor and has done little to provide the “hand up” conservatives so often call for. Sadly, my fellow conservatives have yet to offer a serious solution to these problems and the Rachidi-Jin analysis does little to advance this debate.

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<sup>1</sup> The views in this document reflect my own as a citizen and do not reflect the views of any organization I am now or have ever been affiliated with. By way of background, I am a conservative and have worked on welfare issues for the Heritage Foundation, the American Enterprise Institute, and the White House under both President Reagan and President George H.W. Bush. This paper assumes the reader has a basic understanding of the TANF program, but for those readers who want more context and background, see Peter Germanis, *TANF is Broken! It's Time to Reform "Welfare Reform" (And Fix the Problems, Not Treat their Symptoms)*, July 25, 2015 draft, available at: <http://mlwiseman.com/wp-content/uploads/2013/09/TANF-is-Broken.072515.pdf>.

<sup>2</sup> Angela Rachidi and Shijie Jin, "The Reach of the Cash-Based Safety Net for Poor Families with Children in America," *AEI Economic Perspectives*, February 2017, available at: <https://www.aei.org/wp-content/uploads/2017/02/The-Reach-of-the-Cash-Based-Safety-Net.pdf>.

<sup>3</sup> Peter Germanis, "TANF is a Massive Policy Failure, But Other 'Liberal' Welfare Policies Reduced Poverty: A Response to Scott Winship," August 22, 2016, available at: <http://mlwiseman.com/wp-content/uploads/2016/05/Winship-Poverty-After-WR.pdf>.

<sup>4</sup> Jordan Weissmann, "The Odd Conservative Argument That Food Stamps and Medicaid Saved the Poor From Welfare Reform," *Slate*, August 26, 2016, available at: [http://www.slate.com/blogs/moneybox/2016/08/26/the\\_odd\\_conservative\\_case\\_that\\_welfare\\_didn\\_t\\_hurt\\_the\\_poor.html](http://www.slate.com/blogs/moneybox/2016/08/26/the_odd_conservative_case_that_welfare_didn_t_hurt_the_poor.html).

<sup>5</sup> For the number of poor families with children over time, see Ife Floyd, LaDonna Pavetti, and Liz Schott, "TANF Continues to Weaken as a Safety Net," Center on Budget and Policy Priorities, October 27, 2015, Table 2, available at: <http://www.cbpp.org/research/family-income-support/tanf-continues-to-weaken-as-a-safety-net>; and for changes in the number of families eligible for TANF cash assistance, see U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, *Welfare Indicators and Risk Factors: Fourteenth Report to Congress*, August 22, 2016.

<sup>6</sup> The percent receiving the EITC did rise to a peak of about 70 percent in 1999, but then declined again so that the 1996 and 2012 percentages are about the same.

<sup>7</sup> Ife Floyd and Liz Schott, "TANF Cash Benefits Have Fallen by More Than 20 Percent in Most States and Continue to Erode," Center on Budget and Policy Priorities, October 15, 2015, available at: <http://www.cbpp.org/research/family-income-support/tanf-cash-benefits-have-fallen-by-more-than-20-percent-in-most-states>.

<sup>8</sup> It is true that the number of families with children grew by about 10 percent during this period, so one might expect a larger number of potentially eligible families, but TANF's financial eligibility rules have become more restrictive over time, particularly since benefit levels and income eligibility limits have not kept pace with inflation.

<sup>9</sup> In addition, nearly half the states have not increased their benefit levels since 1996 and some have actually reduced them, representing a decline of 34.5 percent or more when adjusted for inflation. Whereas the participation rate of eligible families was about 80 percent for the 15 years preceding the 1996 law, the erosion in the real value of AFDC/TANF benefits started in the 1970s. So, even those families remaining on assistance have been pushed deeper into poverty. Ife Floyd and Liz Schott, "TANF Cash Benefits Have Fallen by More Than 20 Percent in Most States and Continue to Erode," Center on Budget and Policy Priorities, October 15, 2015, available at: <http://www.cbpp.org/research/family-income-support/tanf-cash-benefits-have-fallen-by-more-than-20-percent-in-most-states>.

<sup>10</sup> See also Danilo Trisi and Arloc Sherman, "Incomes Fell for Poorest Children of Single Mothers in Welfare Law's First Decade," Center on Budget and Policy Priorities, August 11, 2016, available at: <http://www.cbpp.org/research/family-income-support/incomes-fell-for-poorest-children-of-single-mothers-in-welfare-laws>.

<sup>11</sup> Gene Falk, "Temporary Assistance for Needy Families (TANF): Size of the Population Eligible for and Receiving Cash Assistance," Congressional Research Service, January 3, 2017, available at: [file:///C:/Users/Peter/Downloads/R44724%20\(1\).pdf](file:///C:/Users/Peter/Downloads/R44724%20(1).pdf).

<sup>12</sup> Peter Germanis, *TANF is Broken! It's Time to Reform "Welfare Reform" (And Fix the Problems, Not Treat their Symptoms)*, July 25, 2015 draft, available at: <http://mlwiseman.com/wp-content/uploads/2013/09/TANF-is-Broken.072515.pdf>.