The 1996 "Welfare Reform" has NOT Served the Poor or the Country
A Response to *The Washington Post*

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Many conservatives view the 1996 welfare reform law (particularly the creation of the Temporary Assistance for Needy Families or TANF block grant) an unprecedented success and a model for reforming other safety net programs. I offer an alternative conservative perspective, based on a model developed in the Reagan Administration, which provided states flexibility, but had strong accountability provisions – most notably cost neutrality and rigorous evaluation – to ensure that states actually help needy families. This approach was continued by President George H.W. Bush and President Clinton. For the past year, I have been writing critiques of TANF and "responses" to those who suggest TANF has been a "success." Thus far, these "responses" have been directed at conservatives in the hopes that they would promote common-sense welfare reform.

It now appears that a response is also warranted to *The Washington Post* editorial board, which "revisited" the 1996 welfare reform law and came to the following astounding conclusion:

> Welfare reform has served the poor, and the country as a whole, better than its many critics predicted, but not as well as it might. In other words, after 20 years, welfare reform needs reform.

The suggestion that TANF served the poor and the country at all is wrong – it blasted a hole in the cash assistance safety net and allowed states to use funds meant to help poor families as a giant slush fund. TANF is not "welfare reform"; it is a blank check to states with no accountability. To say that "after 20 years, welfare reform needs reform" is an understatement.

In the response below, I highlight some of the statements by *The Post's* editorial board and follow them with a "PC Response" (short for "Peter the Citizen"). This "response" is not intended to be a comprehensive assessment of either board's statements or of TANF itself; it is intended to simply highlight misleading statements about the 1996 welfare reform and provide a more complete picture of the law and its effects.

***The Post*:** "Mr. Clinton signed an overhaul of the nation's cash assistance program for the poor, converting it from an open-ended benefit to a time-limited one conditioned on work effort and funded by a fixed federal grant to the states (plus state dollars)."

PC Response: While the law sent a symbolic message about the importance of work requirements and time limits, in practice, neither of these elements have been implemented in the way Congress intended. As I describe in *TANF is Broken!*,[2] 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.

In short, TANF is not “welfare reform” at all, but a flexible funding stream with a myriad of dysfunctional requirements. It has failed to provide an adequate safety net or an effective welfare-to-work program. In many states, it has become a slush fund used to supplant state spending and fill budget holes.

***The Post*:** “Supporters hailed the new program, Temporary Assistance for Needy Families (TANF), as the antidote to the previous system’s perverse incentives for dependency, especially among single mothers.”

PC Response: To the extent that the previous system had “perverse incentives,” those were already being addressed using an evidence-based welfare reform approach. States didn’t need TANF to test changes to their cash assistance programs. In 1987, President Reagan started encouraging states to use existing authority to conduct welfare reform experiments – through waivers of AFDC’s rigid rules (and, to a lesser extent, food stamp and Medicaid rules due to more limited waiver authorities for those programs). This approach was continued by President Bush and President Clinton. This process ensured accountability by requiring cost neutrality and rigorous evaluation. For both conditions, it relied on a real counterfactual using the “gold standard” of evaluation – random assignment.[3] The findings from random assignment experiments are considered the most credible, because the experimental and control groups are alike and subject to the same external conditions, with the only difference being the intervention itself. Thus, any difference in outcomes between the groups can be attributed to the intervention – welfare reform. As a result, it would be possible to know whether state reforms actually reduced welfare dependency by increasing self-sufficiency.

In 1996, Congress replaced this evidence-based approach with TANF – a blank check with no accountability. Instead, it should have improved the “waiver process” by gradually expanding flexibility in other programs. Policymakers should look to the “Reagan model” for ideas about how to reform welfare, not build on the failed “TANF model.” (First, however, they should fix TANF so that is functions as intended – as a safety net and a welfare-to-work program.)

***The Post*:** “Opponents (this editorial page included, at the time) feared it would cast poor women and children into deeper privation.” The editorial goes on to state, “Some of the poor who are hardest, and most expensive, to help, have gotten no help, especially during recessions.”

PC Response: The fact that the editorial acknowledges that “some” of the poor “have gotten no help” makes one wonder how on the same page the board can conclude that “welfare reform served the poor.” And, based on a variety of statistics, it is not just *some* of the poor – it is *millions* of the poor who otherwise would have received assistance – both cash and employment-related services – had TANF not been put into place.

Assessing the impact of TANF on poverty and other outcomes is difficult, because there is no readily available counterfactual. Instead, making this judgment requires looking at a variety of data sources and examining the actual implementation of the law. (I describe these issues in more detail in "Welfare Reform *Increased* Poverty and No One Can Contest It."[4])

One simple statistic is the TANF-to-poverty ratio, which relates the number of families receiving cash assistance for every 100 poor families with children.

- For the nation as a whole, this ratio declined from 68 in 1996 to 23 in 2014. The loss of cash assistance for millions of poor families has pushed them deeper into poverty.
- In 1994/95, Alabama had the lowest TANF-to-poverty ratio at 34; in 2013/14, 44 states had a TANF-to-poverty ratio lower than Alabama's 1994/95 ratio.
- In 2013/14, 12 states had a TANF-to-poverty ratio of less than 10 – more than two-thirds lower than Alabama's pre-TANF level.[5]

How are these statistics compatible with the conclusion that "welfare reform" served the poor?

Most observers look to changes in the poverty rate for evidence of welfare reform's impact, but the poverty *rate* is not a good measure for assessing the impact of welfare reform on those receiving cash assistance, because the eligibility levels for cash aid are well below the poverty thresholds and poverty is measured based on annual income.[6] TANF benefits range from about 10 percent to about 45 percent of the federal poverty level.[7] Most TANF families are poor whether they receive cash assistance or not – taking their benefits away won't immediately change the poverty rate, but it will push them deeper in poverty.

Another approach is to look at the number of families eligible for TANF, how many receive it, and how those numbers changed over time. In 1996, 5.6 million families were eligible to receive TANF and 4.4 million did so, for a take-up rate of 78.9 percent; in 2012, 5.7 million families were eligible, but only 1.9 million received TANF, for a take-up rate of 32.4 percent.[8] A reasonable question is: If TANF is such a success and if these families had really been "served," why are there more families with incomes below TANF's eligibility thresholds?[9] And, the number of families financially eligible to receive assistance but *not* receiving it grew from 1.2 million in 1996 to 3.8 million in 2012 – an increase of 2.6 million. For the affected families, this represents a loss in benefits of about $200 to $700 per month (the maximum grant for a family of three, depending on the state).

But TANF is not a "program" with national rules; states decide how to spend the money. Many have simply taken the funding and supplanted existing state expenditures or otherwise filled budget holes. It is a fact that TANF as cash assistance is virtually non-existent in many states. In 2013/14, over 10 percent of the nation's poor families with children (764,920) lived in the state of Texas.[10] Between 1994/95 and 2013/14, the TANF-to-poverty ratio in Texas fell from 47 to 5. This is not an isolated case. As noted above, a dozen states now have a TANF-to-poverty ratio under 10, when the lowest before TANF was created was 34. How has TANF "served the poor" in these states?

***The Post*:** **"**In its first half-decade, welfare reform produced dramatic results, as both caseloads and poverty rates declined rapidly. Additional improvements have been harder to come by since the recession of 2001 and the subsequent decade of slower economic growth and job creation."

PC Response: *The Post's* conclusion that "welfare reform produced dramatic results" is overly simplistic and highly misleading. (Note: TANF did without-a-doubt reduce caseloads, but the key to success should be caseload decline along with increased employment and reduced poverty.) *The Post's* claim should be put into proper perspective; consider the following:

First, most claims of TANF's putative success in reducing poverty rely on simplistic comparisons in employment and poverty rates over time. A pre-post assessment of "welfare reform" is an extremely weak approach to establishing causality. Obviously, there are many other economic, demographic, and policy-related changes that influence poverty rates. In particular, TANF was enacted in the midst of a period of strong economic growth and increased aid to the working poor, most notably expansions in the Earned Income Tax Credit (EITC), child care subsidies, and Medicaid and related health care coverage.

Researchers at RAND prepared a comprehensive synthesis of the impact of dozens of state welfare reform programs on welfare caseloads, child poverty, and a range of other outcomes.[11] The random assignment evaluations they reviewed examined programs in the very period when caseloads and poverty fell rapidly nationally. While most reform programs showed declines in welfare receipt, and some showed reductions in poverty, the magnitude of the impacts was considerably smaller than suggested by the simple trends in national data. This is because the control group also benefitted from a strong economy and increased aid to the working poor.

Second, the positive trends in employment and poverty started well before TANF was implemented by states in 1997 – whether due to the economy, increased aid to the working poor, or a variety of other factors. These trends would have continued whether TANF was enacted or not.

Third, *The Post* equates TANF and "welfare reform." In fact, states were already experimenting with "welfare reform" through waivers; they didn't need the 1996 law to test new welfare policies. TANF is a flexible funding stream. In the first-half decade, TANF provided states with a massive influx of federal funding (because the block grant was based on historic funding levels years before TANF was enacted when welfare caseloads were at a historic high) and gave them added flexibility in determining how those funds could be spent.

Fourth, even if one believes TANF reduced poverty, what is the plausible causal mechanism? As noted above, states already had flexibility with cash assistance and TANF added little to this as most states simply continued their waiver policies. The issue the editorial board should consider is, what did TANF add to this existing flexibility that could reduce poverty? Could it be work requirements, more funding flexibility, or new federal rules and requirements? Not likely.

- TANF's work requirements are unreasonable, dysfunctional, and are not about work. For individuals to count in the work rate, they must participate 130 hours per month for a small grant. In 14 states, the maximum TANF benefit is under $300. The TANF expectation that families in these low-benefit states value their time at $2 per hour or less is unreasonable. In no state, does the maximum grant for a family of three divided by 130 hours per month result in an hourly valuation as high as the minimum wage. And few states offer more than a handful of recipients "educational or job training programs" because of the law's unjustified restrictions on those activities. As such, their main function has been to impose barriers and cut caseloads through a process known as "bureaucratic disentitlement." Even with sharply reduced caseloads, states have resorted to gimmicks to satisfy federal work rate targets that themselves are unreasonable (see "TANF Work Requirements: An Epic Fail" in *TANF is Broken!* [12]). Such gimmickry does nothing to help the poor get connected to work opportunities.

- TANF gave states the flexibility to divert funding from basic assistance and work activities to fill budget holes. States now spend billions of dollars each year on college scholarships, preK, and child welfare among dozens of other activities. While these may be useful activities, each dollar spent in this way reduces the amount for needy families with children. This type of diversion is particularly problematic when it simply reflects supplantation – the practice of using federal funds to replace state funds. In many states, TANF has become welfare for the state, not needy families.

- The 1996 law took a simple, straightforward funding mechanism and replaced it with a myriad of flawed funding formulas and requirements that complicate the program and allow states to further game some aspect of the program (see "Funding and Flexibility: How Congress Shot Itself in the Foot" in *TANF is Broken!* [13]). Such "overcomplexification" does not reduce poverty.

This leaves the big increase in federal funding and jaw-boning as potential factors in the early years. Over the long-term, all of the aforementioned problems have remained, but the initial windfall has disappeared and is now a large deficit (as inflation eroded the value of the block grant) and states have become far more adept at using TANF like a slush fund and in gaming its work requirements.

***The Post*:** "Today states use only about half of their total TANF funds for core purposes."

PC Response: A closer look at state spending figures shows just how much the cash assistance safety net has fallen apart. Again, it is not *some* that have been harmed, it is *millions* of families. Before TANF, states spent about 80 percent of their funds on basic assistance – and that was of a larger pie when adjusted for inflation. Here are some more statistics to consider about how states spent their TANF and associated state funds in FY 2014:

- <u>Ten</u> states spend less than 10 percent of their funds on basic assistance.
- <u>Twenty-four</u> states spend less than 20 percent of their funds on basic assistance.
- <u>Forty</u> states spend less than 30 percent of their funds on basic assistance.[14]

And, this spending in most states hasn't been diverted to work-related activities, as this accounted for just 8 percent of spending.[15] (Keep in mind that the size of the pie is shrinking.) Since TANF's inception, states have used tens of billions of dollars to supplant existing spending; and have used tens of billions more to fill budget holes, yet the number of poor families with children is higher than when TANF was enacted.

Between 1996 and 2014, spending on cash assistance declined by nearly $23 billion, from about $31.2 billion to $8.4 billion (in 2014 dollars).[16] It is true that total spending on means-tested programs has increased since the 1996 law, but these increases have generally not helped the neediest families – those with incomes low enough to qualify for TANF cash assistance. Robert Moffitt of Johns Hopkins University has documented a decades-long shift in spending on means-tested program away from the very poor (those with incomes below 50 percent above the federal poverty line) to those with incomes as much as 200 percent of the poverty line.[17] He observes, "You would think that the government would offer the most support to those who have the lowest incomes and provide less help to those with higher incomes. But that is not the case."[18]

***The* Post:** "Welfare reform's time-limited, work-based concept, in short, has been broadly vindicated and enjoys wide bipartisan support."

PC Response: Except for a signaling effect, TANF's five-year time limit is largely a non-factor. States can easily avoid cutting families off by using state-only maintenance-of-effort (MOE) funds or a 20 percent hardship exemption. Conversely, states can enact their own time limits. The editorial points to Arizona's "draconian" one-year time limit. How does giving states the flexibility to enact such time limits – without any evaluation or monitoring requirements – vindicate the time-limit concept? And, because the 1996 law replaced an evidence-based approach to reform that was building knowledge, with a blank check to states, there is very little credible empirical evidence about the impact of time limits. As for TANF's work-based concept, *The Post* should look at the actual implementation of work requirements – there is a huge difference between "concept" and "reality" (see "TANF Work Requirements: An Epic Fail" in *TANF is Broken!* [19]).

The fact that something has "bipartisan support" does not make it good policy. TANF is not a "program" that can easily be understood. It is a flexible funding stream that has undermined real "welfare reform." The editorial contributes to the misinformation about TANF; there would likely be bipartisan opposition to TANF if policymakers and the public understood what TANF has become.

***The Post*:** "A comprehensive approach would include measures to ensure states spend more of their funds on the law's core purposes; more flexibility in how individuals may meet work requirements, to reflect realistic needs, in today's labor market, for education, vocational training, addiction treatment or other long-term services; increased support for child care, to help parents who hold low-wage jobs with unpredictable schedules; and a mechanism for increased funding during recessions."

PC Response: This is a start, but only a small step to the kind of reform that is needed. Why should states be allowed to spend any money on activities that don't meet a core welfare reform purpose? The block grant structure is a seriously flawed funding approach for a safety net program; TANF doesn't need another "mechanism" for recessions – the block grant needs to be replaced with a more responsive funding approach. A full discussion of TANF's problems is beyond the scope of this response; for a more comprehensive reform, see "A SWEET Alternative" in *TANF is Broken!*, which outlines a general framework for real reform – the Simple Welfare, Employment, Education, and Training (SWEET) program.

Conclusion

It should be obvious – *The Washington Post* should issue a retraction and provide its readers a more informed assessment of the impact of the 1996 welfare reform law and needed reforms.

[1] 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 consider myself 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.

[2] 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.

[3] For an excellent summary of the issues and deliberations during this period, see Judith M. Gueron and Howard Rolston, *Fighting for Reliable Evidence* (New York, NY: Russell Sage Foundation, June 2013).

[4] Peter Germanis, "'Welfare Reform' Increased Poverty and No One Can Contest It: A Note to Conservatives," April 24, 2016, available at: http://mlwiseman.com/wp-content/uploads/2015/11/Welfare-Reform-Increased-Poverty.pdf.

[5] All data in this section is from Ife Floyd, LaDonna Pavetti, and Liz Schott, "TANF Continues to Weaken as a Safety Net," October 27, 2015, available at: http://www.cbpp.org/research/family-income-support/tanf-continues-to-weaken-as-a-safety-net.

[6] I often point to poverty figures and changes over time in making my arguments, but I do so in a broader context. My entire argument about welfare reform's success or failure does not hinge what happens to the poverty rate or the number of poor families. Even if TANF somehow had a positive impact, it would still need a major restructuring to address flawed funding formulas, federal requirements that are ineffective and gamed, supplantation, and many other problems described in *TANF is Broken!*.

[7] 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.

[8] 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*, September 22, 2015, available at: https://aspe.hhs.gov/sites/default/files/pdf/116161/FINAL%20Fourteenth%20Report%20-%20FINAL%209%2022%2015.pdf.

[9] 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.

[10] Unless otherwise noted, all data in this section is from Ife Floyd, LaDonna Pavetti, and Liz Schott, "TANF Continues to Weaken as a Safety Net," October 27, 2015, available at: http://www.cbpp.org/research/family-income-support/tanf-continues-to-weaken-as-a-safety-net.

[11] Jeffrey Grogger, Lynn A. Karoly, and Jacob Alex Klerman, *Consequences of Welfare Reform: A Research Synthesis* (Santa Monica, CA: July 2002), available at: http://www.acf.hhs.gov/programs/opre/welfare_employ/res_systhesis/reports/consequences_of_wr/rand_report.pdf.

[12] 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.

[13] 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.

[14] Liz Schott, LaDonna Pavetti, and Ife Floyd, "How States Use Federal and State Funds Under the TANF Block Grant," Center on Budget and Policy Priorities, October 15, 2015, available at: http://www.cbpp.org/research/family-income-support/how-states-use-federal-and-state-funds-under-the-tanf-block-grant.

[15] *Ibid*.

[16] 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*, September 22, 2015, available at: https://aspe.hhs.gov/sites/default/files/pdf/116161/FINAL%20Fourteenth%20Report%20-%20FINAL%209%2022%2015.pdf.

[17] "U.S. Welfare Spending Up – But Help for the Neediest Down," Press Release, May 6, 2014, available at: http://releases.jhu.edu/2014/05/06/u-s-welfare-spending-up-but-help-for-the-neediest-down/.

[18] *Ibid*.

[19] 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.