

# Will Conservative Reforms to the Safety Net Reduce Poverty? A Skeptical Conservative Responds to Scott Winship

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## A Personal Note

Arthur Brooks, president of the American Enterprise Institute, once said, “What is most important on the right is not to shut down the competition of ideas.”<sup>2</sup> I welcome that spirit, and that is why I offer an alternative conservative perspective to the conventional wisdom that the 1996 welfare reform law, and the creation of the Temporary Assistance for Needy Families (TANF) block grant, was an “unprecedented success.” In fact, I argue that TANF is a policy failure and should not be held out as an example of “conservatism.”

My critiques of TANF have led some to question my impartiality. For example, one conservative wrote: “...also, you know he works for [REDACTED] now, right? Not exactly disinterested.” I want to set the record straight. I write my papers as a conservative and as a citizen. I 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. I helped develop and implement a version of Speaker Ryan’s “Opportunity Grants” proposal in the Reagan Administration. The fact that I question the conventional conservative wisdom about the success of the 1996 welfare reform law does not make me biased.

Ron Haskins, an architect of 1996 welfare reform law, described my paper *TANF is Broken! It’s Time to Reform “Welfare Reform”* as follows: “Germanis’ criticisms are reasonable and well supported by evidence. Congress and the administration would be well advised to carefully consider ways TANF could be reformed to minimize the game playing that many states now use to avoid spending TANF dollars on core TANF purposes and to avoid the federal work requirement.”<sup>3</sup> I realize that my critiques of TANF and in particular my “responses” to some conservative supporters of the program may seem harsh. They are not intended to impugn the motives of those who designed TANF and/or support it, but rather focus the debate on substantive issues. Quite frankly, good anti-poverty policy doesn’t have to pit conservatives and liberals against each other. I believe my analyses and recommendations advance sound policy regardless of one’s perspective.

For more comprehensive reforms to the safety net, I support a model developed in the Reagan Administration. It provided state flexibility, but had strong accountability provisions, most notably cost neutrality and rigorous evaluation, to ensure that needy families are actually helped. In contrast to the “Reagan model,” most conservatives today follow the “TANF model,” an approach that provides a block grant and has virtually no

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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. 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> See Jennifer Rubin, “Arthur Brooks: The battle of ideas,” *The Washington Post*, December 9, 2012, available at: <https://www.washingtonpost.com/blogs/right-turn/wp/2012/12/09/arthur-brooks-the-battle-of-ideas/>.

<sup>3</sup> Ron Haskins, “TANF at Age 20: Work Still Works,” *Journal of Policy Analysis and Management*, Winter 2015, available at: <http://mlwiseman.com/wp-content/uploads/2015/11/Haskins2015Age.pdf>.

*effective* accountability provisions and has, in my view, exacerbated poverty. I believe it is important that conservatives first learn the lessons of TANF (and fix it) before undertaking more comprehensive reforms to avoid repeating the mistakes of the past.

Many conservatives claim that welfare reform was a success based on a simplistic comparison of trends in poverty and other outcomes over time. I believe TANF exacerbated poverty and has failed to achieve its intended goals. I base my assessment on a wide range of data trends and research findings, attention to the actual implementation of the law, and a good dose of common sense. Everyone is entitled to their opinions and I have laid out the justification for mine here and elsewhere.<sup>4</sup> In discussing the impact of welfare reform policies, Speaker Ryan has said:

We shouldn't measure success by how much we spend. We should measure it by how many people we help. Those who protect the status quo must answer to the 46 million Americans living in poverty.<sup>5</sup>

I agree, and because the well-being of our nation's neediest citizens is at stake, I ask that those who believe TANF is a success reexamine the body of evidence with an open mind. Should we really base our evidence on a cursory before-and-after examination of trends in poverty rates?

Arthur Brooks recently said "Whether or not welfare reform worked is an empirical question. Almost all the data shows it did."<sup>6</sup> I disagree with this conclusion – there is considerable data to suggest that welfare reform has failed the poor. Moreover, empirical data without looking at state policies and how they were implemented is of only limited value. Indeed, TANF cannot be evaluated using conventional research tools because it is not a "program," but rather a fixed and flexible funding stream. It is no longer a story about work requirements and time limits and other policies traditionally associated with "welfare reform," but rather a story about how many states use it as revenue sharing to supplant existing state expenditures and fill budget holes. This requires a broader perspective – one that I believe I offer.

In asserting that conservative reforms to the safety net would reduce poverty, conservatives often point to Speaker Ryan's "Opportunity Grants" and other similar proposals. When I look at what's been written about those proposals, I see red flags and unanswered questions. If there is one thing I have learned from studying TANF, it is that technical details matter. In my critiques, I try to identify gaps and raise important issues, particularly about funding, accountability, and measuring results. If conservatives want their proposals to be seen as serious anti-poverty strategies, they should provide a very detailed description of their plans so that we can ensure that the TANF experience is **not** replicated.

It gives me no pleasure to contest fellow conservatives, but I take to heart Speaker Ryan's admonition that if we protect the "status quo" – in this case TANF – we "must answer to the 46 million Americans living in poverty." It would be a serious mistake to model any broader reform of the safety net on the "TANF model." I feel it is my obligation to do all I can to prevent this and, if nothing else, at least open the debate to substantive issues.

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<sup>4</sup> Many of my recent articles on welfare reform can be found at: <http://mlwiseman.com/?resume=peter-the-citizen-2>.

<sup>5</sup> Rep. Paul Ryan, "The GOP Plan to Balance the Budget by 2023," *The Wall Street Journal*, March 12, 2013, available at: <http://www.wsj.com/articles/SB10001424127887323826704578353902612840488>.

<sup>6</sup> Arthur Brooks on Twitter, January 14, 2016.

## Introduction

In “Conservative Reforms to the Safety Net Will Reduce Poverty,”<sup>7</sup> Scott Winship of the Manhattan Institute argues that conservative anti-poverty proposals presented by Speaker Ryan and conservative presidential candidates would reduce poverty and expand opportunity. He provides a brief overview of one candidate’s proposal and alludes to Speaker Ryan’s “Opportunity Grants” proposal, something he has written about favorably elsewhere. Winship expresses support for the idea that funds from a variety of programs should be combined and returned to the states. Much of his support for this approach is based on the 1996 welfare reform law and the putative success of the Temporary Assistance for Needy Families (TANF) block grant. He believes this approach would spark innovation that would increase employment and marriage, reduce non-marital births, and drive poverty down.

I share many of the criticisms conservatives (and others) have of the welfare system – it costs too much, there are too many programs and they are poorly coordinated, and there are disincentives to work and marriage. I even agree with Winship on one possible solution – an Opportunity Grants-like reform. I base my views on my experiences in the Reagan Administration. President Reagan’s 1986 welfare reform proposal, described in a report called *Up from Dependency: A New National Public Assistance Strategy*, advanced a more comprehensive version of Speaker Ryan’s “Opportunity Grants” proposal.<sup>8</sup> Although Congress did not pass President Reagan’s legislation, the exercise ultimately resulted in an interagency waiver process for welfare reform (using existing waiver authority) – a limited version of “Opportunity Grants.” Starting in 1987, the Administration began encouraging states to use this authority to experiment in how they provided welfare—through waivers from AFDC’s rigid rules (and, to a lesser extent, from Food Stamp and Medicaid rules due to more limited waiver authorities for those programs). The idea was that states and communities were best positioned to find solutions to welfare dependency.<sup>9</sup> By August 1996, 43 states had received welfare waivers from the U.S. Department of Health and Human Services (HHS).

This process did not provide a fixed level of funding, like a block grant. Instead, it was an approach that provided a real counterfactual using the “gold standard” of evaluation – random assignment – for both cost neutrality and evidence-based learning.<sup>10</sup> 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. Any difference in outcomes between the groups can be attributed to the

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<sup>7</sup> Scott Winship, “Conservative Reforms to the Safety Net Will Reduce Poverty,” January 8, 2016, available at: <http://economics21.org/commentary/jeb-bush-poverty-plan-scott-winship-01-11-16>.

<sup>8</sup> Low Income Opportunity Working Group, *Up From Dependency: A New National Public Assistance Strategy* (Washington, DC: The White House, December 1986).

<sup>9</sup> U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, *Setting the Baseline: A Report on State Welfare Waivers*, June 1997, <http://aspe.hhs.gov/hsp/isp/waiver2/title.htm>.

<sup>10</sup> See Judith M. Gueron and Howard Rolston, *Fighting for Reliable Evidence* (New York, NY: Russell Sage Foundation, June 2013) and Michael E. Fishman and Daniel H. Weinberg, “The Role of Evaluation in State Welfare Reform Waiver Demonstrations,” in *Evaluating Welfare and Training Programs*, edited by Charles Manski and Irv Garfinkel, (Harvard University Press, January 1992), pp. 115-142.

intervention – welfare reform – itself. Thus, policymakers could have confidence in whether the state reforms actually reduced welfare dependency and poverty by increasing self-sufficiency. And, the experience of the control group could be used to ensure cost-neutrality, as the budgetary effects of any programmatic changes would be measured by examining the experimental-control group differences in costs, just as one would in a formal cost-benefit analysis. This approach provided rigorous evidence, including many examples of state experiments that increased employment and earnings, and also reduced welfare dependency and poverty.<sup>11</sup> TANF ended this approach to welfare reform.

Most conservative proposals to reform the safety net today are not based on the “Reagan model,”<sup>12</sup> but the “TANF model.” Most conservatives continue to believe that TANF was an “unprecedented success,” when in fact I believe it has been a policy failure (Germanis, July 2015). TANF is not “welfare reform” at all; it is a fixed and flexible funding stream that 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. As I indicated in a recent paper intended for Speaker Ryan, “when it comes to welfare reform, conservatives have been unable to translate their ideas into effective policies.”<sup>13</sup> It should not be held out as an example of “conservatism.”

Winship’s article can be divided into two parts. First, he tries to demonstrate that the 1996 welfare reform has been a success by examining trends over time in poverty rates and other outcomes. Indeed, in a related article, he boldly proclaims, “Welfare Reform Reduced Poverty and No One Can Contest It.”<sup>14</sup> Despite his confidence, this section reflects a poor understanding of important evaluation concepts related to causal inference. Second, Winship elaborates on one presidential candidate’s welfare reform proposal and suggests that the approach would reduce poverty, because “the plan is modeled on the 1996 welfare reforms.” In this section, Winship fails to grasp the importance of the TANF experience and why the technical details of any proposal matter. It is the lack of substantive detail that makes me weary of conservative anti-poverty proposals.

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<sup>11</sup> Jeffrey Grogger, Lynn A. Karoly, and Jacob Alex Klerman, *Consequences of Welfare Reform: A Research Synthesis* (Santa Monica, CA: July 2002),

[http://www.acf.hhs.gov/programs/opre/welfare\\_employ/res\\_synthesis/reports/consequences\\_of\\_wr/rand\\_report.pdf](http://www.acf.hhs.gov/programs/opre/welfare_employ/res_synthesis/reports/consequences_of_wr/rand_report.pdf).

<sup>12</sup> Although President Reagan also supported block grants, the transformation to TANF’s predecessor program, the Aid to Families with Dependent Children (AFDC), was not based on this approach.

<sup>13</sup> Peter Germanis. The Need for *Common-Sense* Conservative Welfare Reform: Ten Questions for House Speaker Paul Ryan, January , 2016, available at: <http://mlwiseman.com/?resume=peter-the-citizen-2>.

<sup>14</sup> Scott Winship, “Welfare Reform Reduced Poverty and No One Can Contest It,” *Forbes*, January 11, 2016, available at: <http://www.forbes.com/sites/scottwinship/2016/01/11/welfare-reform-reduced-poverty-and-no-one-can-contest-it/>.

## Welfare Reform and Poverty

**Note:** “Welfare reform” as used in my response refers to TANF; it does not include changes to SNAP, the EITC, or anti-poverty programs. I focus on TANF because many conservatives use it as the model for more comprehensive reforms. Winship doesn’t define the term, but his focus is on cash welfare and statements like “liberals who claim that poverty stayed down only because of other benefits like the EITC or food stamps are deluding themselves” suggest that he believes TANF reduced poverty as well.<sup>15</sup>

*Winship on why skeptics of conservative safety net reform proposals to reduce poverty and expand opportunity are wrong: “That belief, however, flies in the face of what happened after welfare reform in 1996. With a very real assist from Hillary Clinton’s husband, a Republican Congress discovered a successful antipoverty strategy second only to strong economic growth. The key is to demand and support work and independence.”*

*And, in talking about a presidential candidate’s plan, he reiterated, “Most importantly, the plan is modeled on the 1996 welfare reforms, which, as I hope is clear, reduced poverty.”*

*Causality.* Winship presents a number of trends in poverty, comparing poverty rates before and after “welfare reform.” 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 undoubtedly influenced both caseloads and child poverty, particularly in the early years of TANF when poverty fell. From 1992 to 2000, the unemployment rate declined steadily, from 7.5 percent to 4.0 percent. Aid to the working poor was expanded, most notably the Earned Income Tax Credit (EITC), child care subsidies, and Medicaid and related health care coverage. In the 1990s, there were also many favorable social trends that preceded the enactment of TANF, including “broad attitudinal and behavioral changes in drug use, crime, teen sex and pregnancy, and other social behaviors that influence welfare caseloads.”<sup>16</sup> All of these factors affected the decline in poverty through 2000. Winship acknowledges factors like the EITC and the strong economy, but he does not attempt to disentangle their effects. Nevertheless, when referring to a candidate’s welfare reform plan, he concludes:

...the plan is modeled on the 1996 welfare reforms, which, as I hope is clear, reduced poverty.

A simple pre-post comparison of data over time is hardly evidence of “clear” policy impacts.

Before TANF, we relied on evidence-based research methods to make judgments about state welfare reforms, typically random assignment experiments. Most states conducted such experiments because they were a condition of waiver receipt and many continued them for a short period after TANF was enacted. Researchers at RAND prepared a comprehensive

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<sup>15</sup> In referring to a specific reform proposal, he also says: “[t]he plan is modeled on the 1996 welfare reforms, which, as I hope is clear, reduced poverty.” Since the plan he is referring to is based on TANF, I again assume he believes TANF has reduced poverty.

<sup>16</sup> Doug Besharov, “Welfare Reform Two Years Later,” July 1998.

synthesis of the impact of many state welfare reforms on welfare caseloads, child poverty, and a range of other outcomes.<sup>17</sup> Unlike Winship's cursory examination of poverty trends and speculative conclusions about causal effects, these researchers examined studies that tried to isolate the impact of welfare reform and focus on "net effects" – an important difference:

The primary focus of the synthesis is on the *net effects* of TANF, taking into account the effects of other factors such as the economy and other policy changes that may have affected the outcomes of interest.

While most reform approaches showed positive impacts on employment and earnings, as well as declines in welfare receipt and poverty, the magnitude of the impacts was considerably smaller than suggested by simple trends in national data. This is because the control group also benefitted from a strong economy and increased aid to the working poor. These findings were about state-based welfare reforms conducted during a period of declining poverty rates. TANF ended this evidence-based approach and there are strong reasons to believe that the impacts of the 1996 law today are very different than those of state welfare reform projects. In particular, the large windfall of federal dollars is gone (because Congress overpaid states in the early years) and many states now use TANF funds as a form of revenue sharing rather than to fund basic assistance or work activities.

In short, welfare reform played a role in the early decline in child poverty, but it did not account for anywhere near the impact that TANF supporters suggest based on simplistic pre-post comparisons. But, whether the impact is large or small, the poverty rate is a poor measure by which to judge TANF's impact and TANF is not welfare reform.

*The Wrong Measure.* Winship's primary focus is the poverty rate – either the official poverty rate or a more comprehensive poverty measure produced by researchers at Columbia University. The poverty rate is not a particularly useful 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.<sup>18</sup> In their synthesis of the consequences of welfare reform, Jeffrey Grogger, Lynn Karoly, and Jacob Klerman explain:

Whether poverty rates change depends on where in the income distribution any income changes take place. If income changes are small or occur only among those already above or below the poverty line, then the poverty rate would remain unchanged. Alternatively, income changes may be small on average but still lead to changes in the proportion of families classified as poor. For example, small increases in income may be

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<sup>17</sup> Jeffrey Grogger, Lynn A. Karoly, and Jacob Alex Klerman, *Consequences of Welfare Reform: A Research Synthesis* (Santa Monica, CA: July 2002),

[http://www.acf.hhs.gov/programs/opre/welfare\\_employ/res\\_synthesis/reports/consequences\\_of\\_wr/rand\\_report.pdf](http://www.acf.hhs.gov/programs/opre/welfare_employ/res_synthesis/reports/consequences_of_wr/rand_report.pdf).

<sup>18</sup> 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!*. These are lessons that are important for any comprehensive redesign.

associated with reductions in poverty if the income gains occur among those with incomes near the poverty threshold.<sup>19</sup>

Most TANF or TANF-eligible families do not have incomes near the poverty thresholds, so using the poverty rate alone is of limited value. There could also be important distributional effects. For example, Lynn Karoly of RAND examined the impact of work requirements in experimental evaluations conducted in the early years of “welfare reform” and noted the importance of this issue:

Twelve of the thirteen welfare-to-work programs found no significant impact of mandatory work requirements on income... Impacts on poverty were almost all insignificant as well, although more impact estimates were negative, suggesting that these programs may be somewhat more effective at raising incomes near the poverty threshold than at the bottom of the income scale. At the same time, many of the programs increased the fraction with incomes below 50 percent of the poverty line.<sup>20</sup>

A simple comparison of poverty rates would miss such distributional effects. If a program or policy lifted a small group of people out of poverty, but pushed a large number deeper into poverty, that would be important to know. Rather than using a particular “poverty line” or percentage thereof, an alternative would be to examine the poverty gap or depth of poverty.

Winship’s presentation of data trends is also misleading. He first presents data on the decline in welfare receipt among single mothers and then concludes, “This dramatic fall would have been a limited victory if poverty had risen among single-parent families and their children, but instead it fell.” He then presents data on poverty among single-mother families. What he doesn’t explain is that the number of families receiving TANF fell much faster than the number of poor families with children. Indeed, since 2000, the number of poor families with children has grown, while the number of families receiving TANF has continued to decline. An alternative measure that combines both variables is the TANF-to-poverty ratio, which measures the number of families that receive cash benefits from TANF for every 100 families with children in poverty. Between 1996 and 2014, this ratio declined from 68 to 23.<sup>21</sup> It is misleading to say welfare caseloads and poverty fell and thus claim that TANF is a success. The magnitude of the decline in each measure matters.

*An Alternative Measure.* A far better measure than the poverty rate is one that examines the number of families eligible for TANF and the number that receive it. In 1996 (before TANF), about 5.6 million families were eligible to receive benefits, and about 4.4 million (79 percent) did so. In 2012, 5.7 million families were eligible to receive benefits, but only 1.9 million (32

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<sup>19</sup> Jeffrey Grogger, Lynn A. Karoly, and Jacob Alex Klerman, *Consequences of Welfare Reform: A Research Synthesis* (Santa Monica, CA: July 2002), p. 149, available at:

[http://www.acf.hhs.gov/programs/opre/welfare\\_employ/res\\_synthesis/reports/consequences\\_of\\_wr/rand\\_report.pdf](http://www.acf.hhs.gov/programs/opre/welfare_employ/res_synthesis/reports/consequences_of_wr/rand_report.pdf).

<sup>20</sup> Lynn A. Karoly, “Estimating the Effect of Work Requirements on Welfare Recipients: A Synthesis of the National Literature,” Testimony before the Subcommittee on 21st Century Competitiveness, Committee on Education and the Workforce, U.S. House of Representatives, October 16, 2001, available at:

<https://www.rand.org/content/dam/rand/pubs/testimonies/2005/CT185.pdf>.

<sup>21</sup> 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>.

percent) did.<sup>22</sup> If TANF had really helped, one might expect the number of families eligible for benefits to decline, but it is now higher than before the law was enacted. And, between 1996 and 2012, the number of families eligible for TANF cash assistance but not receiving it grew from 1.2 million to 3.8 million. In other words, an additional 2.6 million families have been pushed deeper into poverty. While this too may be an oversimplification, in the absence of randomized experiments, this is a more direct way of measuring TANF's effects.

Winship raises concerns about underreporting and how that can bias results. I share these concerns, but the participation rates cited above (79 percent in 1996 and 32 percent in 2012) are computed using the numbers of families actually receiving benefits according to program data. Also, the eligibility estimates come from the TRIM model, which has been used for over 40 years by administrations of both parties to calculate eligibility for TANF and other programs.<sup>23</sup> (They are also based on monthly income, so they correspond to the period eligibility is based on.) Such adjustments may not be perfect, but the magnitude of the decline in eligible families receiving assistance is so large that it should be concerning.

*Other Measures.* Other researchers have raised concerns about the growth in deep poverty and demise of the cash assistance safety net. For example, using the Survey of Income and Program Participation (SIPP), Kathryn Edin and Luke Shaefer found that 1.5 million households (with 3 million children) were living on less than \$2 in cash per person, per day in 2011 – an increase of 130 percent since 1996.<sup>24</sup> Notably, the SIPP does a better job of capturing welfare receipt than other surveys, such as the Current Population Survey (CPS). They conclude, “We believe this is strong suggestive evidence that a decline in the reach of cash assistance was a major contributing factor to the growth in the extreme poor seen in the SIPP.” They also looked at the increase of households with children with zero cash income in the Supplemental Nutrition Assistance Program (SNAP) administrative data. The results are consistent with the survey data. Between 1996 and 2011, the number of such households increased over 300 percent, from 316,000 to 1.3 million. Notably, SNAP administrators would have access to TANF records and undertake other efforts to verify income.

*Common Sense.* Leaving aside issues of causality and the appropriate measure for assessing TANF's impact, sometimes just plain common sense is all that is needed to see that something is wrong. In Texas (home state of the current House Ways and Means Chairman Brady), between 1994/95 and 2013/14 the number of poor families with children rose from 552,200 to 707,100, and the number in deep poverty grew from 218,600 to 281,000. Meanwhile, the TANF caseload plummeted, from 257,800 to 34,300. As a result, the TANF-to-poverty ratio in Texas fell from

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<sup>22</sup> U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, *Welfare Indicators and Risk Factors: Thirteenth Report to Congress*, 2015, p. II-18, available at: <https://aspe.hhs.gov/sites/default/files/pdf/116161/FINAL%20Fourteenth%20Report%20-%20FINAL%209%2022%2015.pdf>.

<sup>23</sup> TRIM was developed and is maintained at the Urban Institute, with funding from the U.S. Department of Health and Human Services.

<sup>24</sup> H. Luke Shaefer and Kathryn J. Edin, “What is the Evidence of Worsening Conditions among America's Poorest Families with Children?,” November 10, 2015, available at: <http://static1.squarespace.com/static/551caca4e4b0a26ceeee87c5/t/566180c7e4b0d38e0d8859e7/1449230535159/Shaefer-Edin-WorseningConditions.pdf>.



47 to 5.<sup>25</sup> In FY 2014 it spent just 7 percent of its TANF/MOE funds on basic assistance.<sup>26</sup> TANF's work requirements and other provisions typically associated with welfare reform in Texas are largely irrelevant – virtually no one receives cash assistance! There are a dozen states now that have TANF-to-poverty ratio of less than 10. Cash welfare has virtually disappeared in some states, while poverty remains.

*The Wrong Time Period.* Winship says, “child poverty rates *before taking taxes and transfers into account* were lower than pre-welfare reform levels. By 2012, they were a touch lower than their 1993 peak...” For this comparison, Winship uses 1993 as his base; the 1996 law wasn't passed until August of that year, and TANF wasn't implemented by most states until the start of 1997. In a related piece discussing the decline in welfare caseloads, he says: “And even the 1994-to-1996 decline may have reflected the influence of welfare reform. By then, a majority of states were operating their welfare programs under federal waivers designed to encourage work and independence.” TANF added little to flexibility of states to test reforms to their cash welfare cases; indeed, most states simply continued their waiver-based policies under TANF. These waivers and state welfare reforms form the baseline; states would have had this flexibility whether TANF passed or not. The key question is not what did “welfare reform” do, but rather, what did TANF do relative to this baseline?

In addition, the decline in poverty ended in 2000 and has been rising since. If conservatives believe TANF was a success, why has poverty been on a steady climb starting just a few years after states implemented their TANF programs?

*TANF is NOT “Welfare Reform.”* TANF is not “welfare reform,” but a “fixed and flexible funding stream.” In a nutshell, TANF set in motion changes that would: (1) initially provide a large windfall 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 (with similar effects for the state funded maintenance of effort provisions); (2) give states excessive flexibility to use federal funds to supplant their own spending (by tens of billions of dollars since TANF was created); (3) give states excessive flexibility to convert TANF (over time) to a giant slush fund with minimal reporting and accountability provisions, which includes but is not limited to supplanted funds); (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.

If one believes TANF reduced poverty, what is the plausible causal mechanism? States already had flexibility with cash assistance and TANF added little to this (except for removing the entitlement altogether) and work requirements were weakened as 20 to 30 states had a 0 percent target for the period between FY 1998 and FY 2011. Even those states with a more challenging requirement have taken advantage of various loopholes created by the law. This leaves the big increase in federal funding and jaw-boning (i.e., sending a strong pro-work message) as potential factors in the early years. Over the long-term, all of the aforementioned problems have

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<sup>25</sup> 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>.

<sup>26</sup> Administration for Children and Families, Office of Family Assistance, TANF Financial Data – FY 2014,” July 7, 2015 available at: <http://www.acf.hhs.gov/programs/ofa/resource/tanf-financial-data-fy-2014>.

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 gaming the work requirements.

## Comprehensive Conservative Reforms to the Safety Net

More troubling than Winship's empirical analysis is his excessive confidence that conservative plans will reduce poverty, even when none of the details have been provided. Many proponents of various plans have said that they are building them on the TANF model. Unfortunately, when it comes to the TANF legislation, Congress got virtually every technical detail wrong; nothing in the law works well or as intended. For those who believe this is hyperbole, it is not. As I describe in *TANF is Broken!*, the funding provisions, work requirements, and other provisions either don't work, are gamed, or are just ineffective. The last thing policymakers should do is use TANF as a guide.

Winship examines one presidential candidate's proposal, but virtually all of the plans have problems and/or lack important detail.<sup>27</sup> If conservatives want to convince others that they are serious, it is time to spell out the details. Simply saying funds from various programs will be consolidated and returned to the states is not enough. In the discussion below, I outline just some of the questions conservatives should address in describing their plans.

***Winship: "That takes us back to [REDACTED]'s proposal, which would combine cash welfare ('Temporary Assistance for Needy Families,' or TANF), SNAP, and the federal rental assistance programs ('public housing' and 'Section 8') into [REDACTED] grants and send them to the states. These programs currently make up about \$130 billion dollars in federal spending, or a third of the non-health-care antipoverty budget."***

***Winship (quoting the proposal): "The reform will provide additional funding in the event of an economic downturn."***

What Winship has described is a TANF-like block grant, with additional funding in the event of an economic downturn. Does this mean adjustments for inflation and demographic factors are out? No adjustment for inflation means that funding would be reduced in real terms over time. No adjustment for demographic factors would penalize states with growing populations and reward states with shrinking populations. These choices may be intentional, but if so, proponents should explain the rationale. Other plans promise to be "deficit neutral" or "revenue neutral," which is not the same as a block grant. Some of the supporting documents for "Opportunity Grants" and related proposals are vague about how this would be accomplished. Some of the proposed adjustments, where they are explained, are based on imperfect formulas.<sup>28</sup>

TANF doesn't have an adjustment for inflation, though initially the block grant was set a level well above what would have been spent in the absence of the law. The Supplemental Grants were intended to help states with rapid population growth, but the formulas were flawed from the beginning and were not adjusted for later changes. So, the same states continued to get the same amount of funding for over a decade, whether their populations grew or not and irrespective of the size of those changes. Under a comprehensive reform proposal, this challenge may be even

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<sup>27</sup> See Peter Germanis, "How to Really Discuss Poverty like Grown-Ups: A Cautionary Tale about "Opportunity Grants," the "Flex Fund," and "Serious" Conservative Anti-Poverty Strategies," November 4, 2015, available at: <http://mlwiseman.com/?resume=peter-the-citizen-2>.

<sup>28</sup> *Ibid.*

greater, as multiple programs with diverse populations are combined. If there is an adjustment for demographic factors, it shouldn't be based on TANF's Supplemental Grants model, but proponents should provide details.

Winship makes it a point to note: "The reform will provide additional funding in the event of an economic downturn." The fact that a particular proposal says it will do something does not mean it will be done well. Here too the TANF experience is relevant – its Contingency Fund doesn't work as intended. The triggers used to establish eligibility are flawed – the unemployment rate trigger might not qualify states with very high unemployment rates in many years because the rates have to be rising, while the food stamp trigger has made virtually all states eligible for the past seven years and for the foreseeable future because it is based on food stamp caseloads over 20 years ago. For example, North Dakota has an unemployment rate of 2.7 percent, yet it is eligible for Contingency Funds. The Fund also has a higher MOE requirement, which has simply encouraged states to seek out and report more existing third-party spending, rather than actually increase spending. There is no requirement that the state actually spend the Contingency Fund award on basic assistance or welfare-to-work activities, which is what it was intended for. In many states, like the basic block grant, it just adds to the slush fund aspects of the program. And, states don't even have to spend it at all – they can substitute TANF Contingency Funds for block grant funds and build up their unspent reserve. Finally, the Contingency Fund is not fully funded. It is typically depleted half way through the fiscal year. It is not enough to say a proposal will adjust for economic downturns – it is important to have specifics to avoid repeating the mistakes of the past.

TANF, and to a lesser extent SNAP, require states to share in the cost of the programs. Would there be a similar state matching or maintenance-of-effort provision under the proposal? If so, how would it be determined? Would the rules governing the use of federal and state funds be the same or different? *TANF is Broken!*, in a section called "Funding and Flexibility: How Congress Shot Itself in the Foot," describes how states have manipulated funding streams to avoid federal requirements.

TANF is based on historic and highly unequal funding amounts. Gene Falk of the Congressional Research Service has documented the wide difference in federal TANF grants per poor child in 2013, ranging from \$280 in Texas and to \$2,572 in Vermont.<sup>29</sup> These, in turn, are based in part on the funding choices made the mid-1990s (and, in part, by the number of poor children). Would these vast differences be perpetuated or will there be a new formulation? Would they be locked in indefinitely? If there is a new formula, what would it be based on?

***Winship: "States would be granted wide leeway to redesign the way they provide assistance."***

TANF provides wide flexibility that allows states to count virtually any activity that is "reasonably calculated" to advance a TANF purpose. For example, states spend billions of TANF dollars on college scholarships (for young childless adults), preK, and child welfare. Would states continue to have such wide flexibility? Would they be able to use funds intended for food assistance for needy families with children and divert them to college scholarships or

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<sup>29</sup> Gene Falk, "Temporary Assistance for Needy Families (TANF): Financing Issues," Congressional Research Service, September 8, 2015.

other activities that don't support basic needs or welfare-to-work activities? The proposal mentions work requirements; since nearly all of the funding from the consolidated programs come from basic needs programs, how are states expected to fund large-scale welfare-to-work programs?

Would states be able to supplant existing state expenditures? If not, what protections would be built in to prevent that? Supplantation within TANF is prohibited with state maintenance-of-effort (MOE) dollars, but such protections can be complicated, ineffective, and administratively burdensome.

TANF eliminated the entitlement for assistance. Would states be able to eliminate benefits entirely from programs developed using the consolidated funding? If families are terminated from TANF, they generally have SNAP to fall back on. Would there be any protections or would states be trusted to make decisions?

***Winship: "They [states] will have to meet benchmarks for success related to work, poverty, marriage, and out-of-wedlock births."***

In the waiver era started by President Reagan, we measured success by examining results from a random assignment experiment. Under TANF, this evidence-based approach was replaced by largely useless outcome measurement approaches mandated in the law. For example, the high performance bonus and the "illegitimacy bonus" were designed reward states for meeting benchmarks, but largely provided windfalls unrelated to any actual performance (see Germanis, July 2015).

It is easy to say there will be "benchmarks for success"; the challenge is to come up with a counterfactual that captures what would have happened in the absence of the proposal. A simplistic pre-post assessment like the one Winship uses for TANF would be a seriously flawed approach. The amount of federal funding is large and the well-being of poor families is on the line. We cannot give states a blank check and hope for the best. Any comprehensive restructuring must provide a basis for evaluating it.

Then there are issues about what would happen if states fail to meet one or more benchmarks. Would there be financial penalties? If so, how large would they be? Would there be opportunities to request corrective compliance, reasonable cause, or some other remedy? What would keep states from gaming the benchmarks, as they do the work rates?

***Winship: "The proposal includes work requirements and time limits for beneficiaries."***

TANF included work requirements and time limits, but the block grant structure and wording of the law left so many loopholes, neither was implemented as intended. Who would be subject to work requirements, what activities would count as work, how much participation would be required, what would be the consequence of failing to meet work requirements (for the state and for individuals), and what would ensure that states actually spend money on work activities rather than simply hassling people off the rolls? Similar questions arise with time limits. What would be the evidence base used to develop any of these requirements under a consolidated

program, given that there is limited, current evidence for any of the programs individually, much less if they were consolidated?

*Winship: “There are also signs that the very limited experimentation with work requirements in public housing are paying off. A new evaluation of a Charlotte, NC demonstration, which began imposing work requirements in five of its fifteen public housing developments at the start of 2014, finds that it raised employment rates and did not increase eviction rates.”*

There were plenty of evaluations of work requirements before TANF was enacted. That didn’t prevent Congress from gutting work requirements as I explain in my July 2015 paper in a chapter called “TANF Work Requirements: An Epic Fail.” There is a huge difference between finding an evaluation of an intervention that works and then drafting legislation that encourages that kind of intervention.

Also, the study Winship cited is based on a comparison group methodology using a method called propensity score matching. While such approaches *try* to adjust for observable differences between treatment and comparison groups, selection bias remains a major concern, as unobserved differences can account for differences in outcomes. In the Reagan Administration, we had considered various quasi-experimental methods, but judged that they were too unreliable, so we insisted on random assignment. The authors of the study are responsible to point this out:

While these findings clearly support the effectiveness of the CHA’s work requirement in increasing employment, our research has several limitations. For one, this study is not based on a random-controlled experimental design. Although we utilized propensity score matching to control for observed differences between the Treatment and Comparison Groups, unobserved characteristics could bias the results. The range of outcome variables is also limited: future research might assess work requirement impacts on mental or physical health, children’s behavior, or other outcomes. Another limitation is that this study has only looked at the short-term outcomes, and we hope that future research tracks work requirement impacts over a longer time period.<sup>30</sup>

It is also noteworthy that the authors of the study Winship uses to justify an expansion of work requirements caution against such a policy:

**Given these limitations, we caution against drawing more general conclusions and believe it is premature to implement work requirements across the public housing program.**<sup>31</sup> [emphasis added]

The authors go on to raise a number of caveats related to the potential effectiveness of work requirements in public housing. They note that, “These issues also highlight potentially large obstacles to bringing work requirements to scale.”<sup>32</sup> They go on to discuss uncertainties

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<sup>30</sup> William M. Rohe, Michael D. Webb, and Kirstin Frescoln, “Work Requirements in Public Housing: Impacts on Tenant Employment and Evictions,” September 2015, p. 20, available at: <http://curs.unc.edu/files/2015/09/Work-Requirements-in-Public-Housing.pdf>.

<sup>31</sup> *Ibid.*

<sup>32</sup> *Ibid.*, p. 21.

surrounding the mix of services and costs, which they note were “substantial.” Again, they caution, “These and other questions should be addressed before work requirements are expanded to the entire public housing program.”<sup>33</sup>

To be fair, Winship only says there are “signs” that work requirements in public housing are “paying off.” I would agree, but this is all the more reason to be clear in explaining how the new work requirements would be implemented.

***Winship: “States are barred from spending less on the poor than they currently do, and they cannot use ~~XXXXXXXXXX~~ grants for things unrelated to poverty reduction.”***

What does it mean to say states couldn’t spend less on the poor – is that a bar on reducing assistance for any individual? Is it related to the block grant amount? Certainly, under TANF, states spend less on the poor because of inflation, supplantation, and diverting the money for other purposes. And, under TANF, states can set the eligibility for neediness anywhere they want – would that be permitted here or is “poor” really meant for those with incomes below the poverty guidelines, even though both SNAP and housing assistance programs allow families with incomes above poverty to remain eligible?

And what are examples of spending “unrelated to poverty reduction”? In TANF, states have so much flexibility, they can count anything reasonably related to poverty reduction. Does that mean conservative proposals would permit states to take money from SNAP and spend it on college scholarships and preK, because more education is associated with less poverty? Who would decide what is “related” to poverty reduction?

***Winship: “To quote from the backgrounder: ‘To ensure a robust safety net for those who have severe employment barriers and challenges, such as especially low skill levels, states will be permitted to exempt a minority of beneficiaries from these requirements.’ This, too, follows the successful 1996 approach.”***

For purposes of federal work participation rates, states cannot exempt those with barriers and challenges (unless severe enough to qualify for SSI or Social Security Disability Insurance). Of course, a state can adopt whatever policy it wants, but it would risk failing to meet the federal work rates. This provision may be intended to be different than the current law, but then Winship has mischaracterized it as saying it “follows the successful 1996 approach.” Anyone who believes the work requirements in TANF have been a success has not studied the actual implementation of the law and shouldn’t be designing more comprehensive welfare reforms. I say this as a conservative who believes in work requirements.

***Liberals have already begun to demagogue the plan, as some did with Speaker Ryan’s “opportunity grant” proposal last year. But the scare tactics will have to ignore several thoughtful features of the ~~XXXXX~~ plan (which are generally also in the Ryan plan):***

I am a conservative who has actually developed and implemented a version of Speaker Ryan’s Opportunity Grants. I am skeptical of conservative proposals because they are not thoughtful,

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<sup>33</sup> *Ibid.*

well-developed plans, but broad outlines that are based on an erroneous understanding of the TANF experience. By many accounts, states have not used TANF funds as Congress intended. As Ron Haskins, the primary staff person responsible for the 1996 law, recently observed regarding TANF's record, "States did not uphold their end of the bargain. So, why do something like this again?"<sup>34</sup> This is the most important question of all.

### **Conclusion**

During the waiver process started by President Reagan and continued by President George H.W. Bush and President Clinton, we had started to build the foundation for a comprehensive reform strategy like the one Speaker Ryan and Winship describe, but then TANF undid it. We now have to start over! The first step is to fix TANF.

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<sup>34</sup> Eduardo Porter, "The Republican Party's Strategy to Ignore Poverty," The New York Times, October 27, 2015, available at: <http://www.nytimes.com/2015/10/28/business/economy/a-strategy-to-ignore-poverty.html>.