

**How to Really Discuss Poverty like Grown-Ups:
A Cautionary Tale about “Opportunity Grants,” the “Flex Fund,”
and “Serious” Conservative Anti-Poverty Strategies**

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Oren Cass of the Manhattan Institute for Policy Research recently wrote an article, “Can We Discuss Poverty Like Grown-Ups.”² It was a response to Eduardo Porter’s *New York Times* column, “The Republican Party’s Strategy to Ignore Poverty.”³ Cass felt that Porter questioned the “sincerity of conservative anti-poverty strategies.” He added, “If the left-wing response to serious conservative ideas for tackling poverty is going to involve ear-covering and shouting ‘la-la-I-can’t-hear-you,’ constructive bipartisan discussions will grow increasingly rare.”

I didn’t read Porter’s article as questioning the “sincerity” of conservatives – rather it was questioning the wisdom of the conservative block grant approach to helping the poor. On that point, Porter is absolutely right, particularly with respect to the creation of the Temporary Assistance for Needy Families (TANF) block grant. TANF is not “welfare reform” at all, but 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 – it is welfare for states, not for poor families (see Germanis, 2015). Despite its failings, conservatives with “serious” conservative ideas often promote TANF as a model for reforming other programs.⁴

As a conservative myself, my biggest concern is the tone and nature of conservative rhetoric on the subject of welfare reform generally, and TANF specifically. My recent critiques of conservative commentaries on this subject⁵ make me feel like the ancient Greek philosopher, Diogenes of Sinope, who once said, “Other dogs bite only their enemies, whereas I bite also my friends in order to save them.”

¹ 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. I am expressing my views as a concerned citizen. This critique assumes the reader has a basic understanding of the TANF program; 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>. Comments on this or any of my publications are welcome; please email them to me at petergermanis1@gmail.com.

² Oren Cass, “Can We Discuss Poverty Like Grown-Ups? Eduardo Porter questions the sincerity of conservative anti-poverty strategies,” *City Journal*, October 28, 2015, available at: <http://www.city-journal.org/2015/eon1028oc.html>.

³ 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>.

⁴ See, for example, 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>.

⁵ See: Peter Germanis, “\$2 a Day: An *Even More* Complete Picture – TANF is ‘Welfare for States,’ Not for Needy Families,” September 27, 2015, and Peter Germanis, “TANF is a massive policy failure – Let’s start over: A Response to Robert Doar,” October 22, 2015. Both are available upon request by emailing me at petergermanis1@gmail.com.

In this critique, I will outline two key things that conservatives need to do, if they want their ideas to be considered “serious” anti-poverty proposals. First, acknowledge that TANF is a massive policy failure, or at least that it needs more than “tweaking.” I have outlined TANF’s many failures elsewhere (Germanis, 2015). In this document, I will illustrate the failure of conservatives to understand TANF by setting the record straight about the Obama Administration’s proposal to allow waivers to TANF’s work requirements. The fact that conservatives felt these waivers would “gut welfare reform” shows how little they paid attention to the actual implementation of work requirements. The creation of the 1996 welfare reform law gutted these requirements, by wiping out any requirement in many states and creating loopholes after loopholes in the law itself.

Second, provide details about your proposals, not vague generalities. Cass takes issue with Porter for confusing “block grants” with “revenue neutral” and “deficit neutral” proposals. Here, conservatives themselves are confused – mixing these terms as if they were interchangeable (see examples below). More important, neither Cass, nor any of the proponents of proposals like “Opportunity Grants” or the “Flex Fund” have provided any detail on how their proposals would be implemented with respect to cost neutrality, evaluation, or accountability. We spent three years in the White House under President Reagan developing the concept and procedures to implement a proposal similar to the one Cass describes. I spent four years in HHS as the chief staff person responsible for monitoring evaluation plans and real cost neutrality reports under the AFDC waiver process. The issues are not easy. The creation of TANF ended what was a real mini-version of “Opportunity Grants,” as described below. The key would have been to refine that process and expand waiver authorities in other programs, not replace it with a block grant, particularly one like TANF with virtually no accountability or evaluation.

In short, the creation of TANF gutted the weak work requirements that existed under AFDC, as well as a welfare reform approach like the one advocated by Cass himself. The conservatives who now advocate “serious” reform proposals are the same ones who think TANF is a “success.” When it comes to understanding TANF and the block grant experience, conservatives simply haven’t learned the lessons of TANF and the challenges of a block grant. They haven’t even been able to craft meaningful work requirements. They have no business advancing more “serious” proposals until they do.

Setting the Tone

The title of Cass’s article suggests that Porter’s response was childish, dismissing out-of-hand conservative policy approaches. Given that Porter raised serious policy concerns, Cass’s title is harsh and inaccurate, and in fact, represents the type of rhetoric of which he is accusing Porter. Many conservatives have articles that take the same approach to liberal positions they disagree with.

To illustrate my point, I will use the conservative response to the July 12, 2012, guidance issued by the U.S. Department of Health and Human Services (HHS) regarding TANF’s work requirements. The guidance gave states more flexibility to test alternative welfare-to-work programs:

HHS has authority to waive compliance with this 402 requirement and authorize a state to test approaches and methods other than those set forth in section 407, including definitions of work activities and engagement, specified limitations, verification procedures, and the calculation of participation rates. As described below, however, HHS will only consider approving waivers relating to the work participation requirements that make changes intended to lead to more effective means of meeting the work goals of TANF.⁶

What was the conservative response? Conservative critics wrote article after article claiming that President Obama was gutting TANF's work requirements, with sensationalist headlines like "Obama Administration Ends Welfare Reform as We Know It" and "How Obama has Guttled Welfare Reform." Governor Mitt Romney made this a major issue in the election. Regardless of the substance of the waiver proposal, the fact of the matter is that Congress and President Bill Clinton gutted work requirements when they created TANF in 1996. I have written about this extensively in my *TANF is Broken!* paper in a section aptly titled, "TANF Work Requirements: An Epic Fail" (see Germanis, 2015).

I chose this example because Cass was domestic-policy director of Governor Mitt Romney's presidential campaign and he presumably had a major role in the candidate's response to the HHS guidance. During the campaign, Governor Romney's team ran a TV ad dismissing President Obama's policy initiative, claiming that it would "gut welfare reform":

***Romney TV Ad, "Right Choice":** President Obama quietly announced a plan to gut welfare reform by dropping work requirements. Under Obama's plan, you wouldn't have to work and wouldn't have to train for a job. They just send you your welfare check. And welfare-to-work goes back to being plain old welfare. Mitt Romney will restore the work requirement because it works. <http://www.factcheck.org/2012/08/does-obamas-plan-gut-welfare-reform/>*

It is ironic that Governor Romney's campaign claimed that he would restore "the work requirement." In 2005, in the midst of his term as governor, Massachusetts had the lowest work participation rate in the nation (when measured according to TANF rules) at just 12.6 percent. Nevertheless, Massachusetts did not face a work participation rate penalty for falling below TANF's 50 percent work requirement. That's because states with section 1115 welfare reform waivers when the 1996 welfare reform law was enacted were allowed to continue their waiver policies to the extent they were inconsistent with TANF through the end of the approved project period; Massachusetts was able to continue its waiver policies through the end of 2005. Governor Romney's use of these waivers allowed the state to exempt parents with a child under six years of age and waived TANF's strict limits on how long education activities can be

⁶ U.S. Department of Health and Human Services, Administration for Children and Families, Office of Family Assistance, "TANF-ACF-IM-2012-03 (Guidance concerning waiver and expenditure authority under Section 1115)," July 12, 2012, available at: <http://www.acf.hhs.gov/programs/ofa/resource/policy/im-ofa/2012/im201203/im201203>.

counted. Thus, the state's work rate with the waivers was 59.9 percent.⁷ Why was it “gutting” welfare reform when President Obama proposed more flexibility in counting education and training activities, but not when Governor Romney took advantage of similar flexibility? And, based on what experience would Governor Romney have restored a real TANF-like work requirement?⁸

My main concern with conservative responses to anything TANF-related is the lack of substance and any understanding of what TANF is and what it has become. They have failed to realize how TANF itself led to the gutting of work requirements. The actual work requirements were so diluted by the caseload reduction credit and various loopholes made possible by the block grant structure and wording of the law that most states never mounted work programs on a large scale, something evident in the data on work participation levels. Instead most relied on the caseload reduction credit and the fact that they could count unsubsidized employment as an activity (which, in turn, is mainly a function of generous earnings disregards). While some states did operate serious work programs, it was because the states chose to do so as a matter of state policy, not federal work requirements. Congress' attempt to close loopholes in the Deficit Reduction Act of 2005 was a failure – it simply led to other loopholes enabled by the block grant structure. Indeed, throughout most of the 1998 to 2011 period, 20 to 30 states had a 0 percent work target (meaning that in order to avoid a penalty, they had to engage 0 percent of their caseload a certain number of hours per week in the statutorily prescribed work activities ... not a difficult standard to meet by any means). Since 2012, these targets have been raised in many states, so states have focused more on the loopholes on a massive scale.

A full discussion of how the law gutted work requirements is beyond the scope of this paper, but one example is particularly interesting. Governor Kasich of Ohio, who was involved in drafting the TANF legislation when he was in Congress, submitted a corrective compliance plan to address three years of failing to meet work rates (2007-2009, before he was governor) in an attempt to avoid about \$135 million in penalties. The central element of the corrective compliance plan has nothing to do with engaging more families in work activities. Instead, the plan would make \$10 payments to SNAP participants who have a child and have enough in earnings to be counted toward the TANF work rate.⁹ Here is how Ohio officials at the Department of Jobs and Family Services describe the action.

ODJFS also initiated the Ohio Works Now Program, which provided a \$10 monthly OWF benefit to families on the Food Assistance Program who were working. By receiving this benefit, these working families could be counted toward the state's TANF work participation rate. This program was only in effect from January to June 2012. About 72,323 assistance groups received benefits on average each month. Benefits totaled \$4.3 million and were paid from TANF funds.¹⁰

⁷ See HHS data, Table 1B available at: <http://www.acf.hhs.gov/sites/default/files/ofa/wpr2005.pdf>. Even without the waiver, however, Massachusetts would have been able to meet the overall work rate requirement in 2005 through another conceptually flawed provision in the 1996 law – the caseload reduction credit.

⁸ In 2006, the waiver no longer applied and the state's work participation rate of 13.6 percent was the lowest of any state in the nation.

⁹ See: John Kasich, Executive Order 2011-19K, <http://www.governor.ohio.gov/Portals/0/pdf/executiveOrders/2011-19K.pdf>.

¹⁰ See: <http://www.lsc.state.oh.us/fiscal/redbooks130/jfs.pdf>.

So, by investing \$4.3 million in what is really a gimmick, the state gutted the work requirement in 2012 and in doing not only met the rate for that year, but potentially wiped out a significant share of penalties from prior years.¹¹ This did virtually nothing to help low-income families get jobs and wasted federal and state staff time dealing with a gimmick.¹² And, where did Ohio get the idea to do this? My guess is from Massachusetts, which adopted a similar program after Governor Romney left office and the pre-TANF waivers had expired. The state had not built up the infrastructure to implement work requirements on a large enough scale to meet TANF's targets, so Massachusetts adopted this approach to avoid a penalty and has used it off and on through this very day.

It is also interesting that the welfare administrators in states represented by reform-minded politicians such as Representative Ryan and Governor Walker of Wisconsin, and Governor Kasich of Ohio, have submitted testimony to urge Congress to make modifications to TANF's work requirements consistent with the waiver proposal, yet there have been no claims of gutting work requirements from conservatives. For example, Eloise Anderson, Wisconsin's Secretary of the Department of Children and Families, testifying before the House Ways and Means Committee, argued that the "the participation requirements, as currently structured, must be revised to ensure that the standards align with the ultimate goal of the TANF program: moving recipients from welfare to work."¹³ Based on her experience, she recommended a number of changes to the work requirements, including eliminating the distinction between core and non-core hours, recognizing the need for more flexibility in counting educational and training activities. Cynthia Dungey, Director of the Ohio Department of Job and Family Services, made similar recommendations in her written testimony submitted for the record.¹⁴ And, the Kasich Administration recently submitted a request for waivers of TANF's welfare-to-work rules under the aforementioned HHS guidance.¹⁵ Why no outrage about gutting welfare reform?

I don't believe that conservatives are hypocritical – I assume that Cass and other conservatives are unaware of these examples; otherwise, the criticisms levied on President Obama would be the height of hypocrisy.

¹¹ The state met the overall work rate for 2012, but failed to meet the two-parent work rate, despite the use of this gimmicks. See HHS table 1A at: http://www.acf.hhs.gov/sites/default/files/ofa/wpr2012_final.pdf.

¹² In fact, both administrative data on work participation and press reports suggest the state is also focusing on boosting its work rate by cutting families from the rolls, rather than actually helping them find jobs. See, for example, Jon Honeck, "Poor families seeking aid face more obstacles," *The Columbus Dispatch*, June 18, 2012; Jack Frech, "Ohio is taking help away from desperate families," *The Columbus Dispatch*, August 25, 2012; Darrel Rowland, "Ohio's welfare focus is cutting rolls, not aiding job hunts," *The Columbus Dispatch*, September 21, 2013; and Josh Jarman, "Ohio counties kick people off welfare to satisfy feds," *The Columbus Dispatch*, November 4, 2015.

¹³ Eloise Anderson, Secretary Wisconsin Department of Children and Families and Chairperson of the Secretaries Innovation Group Before the Committee on Ways and Means Subcommittee on Human Resources U.S. House of Representatives April 30, 2015, available at: <http://waysandmeans.house.gov/wp-content/uploads/2015/06/Eloise-Anderson-Testimony-043015-HR3.pdf>.

¹⁴ Written testimony of Cynthia Dungey, Director of the Ohio Department of Job and Family Services, submitted to the U.S. House Ways and Means Committee, Subcommittee on Human Resources, July 15, 2015, available at: <http://humanservices.ohio.gov/WorkArea/DownloadAsset.aspx?id=2147639143>.

¹⁵ Catherine Candisky, "Ohio wants easing of federal welfare-to-work rules," *The Columbus Dispatch*, November 2, 2015, available at: <http://www.dispatch.com/content/stories/local/2015/11/02/easing-of-work-rule-requested.html>.

Block Grants vs. Cost Neutrality

Cass believes Porter made a mistake in referring to “Opportunity Grants” as a block grant, emphasizing instead that this and similar proposals are “deficit neutral” or “revenue neutral”:

A central component of this plan, which Ryan calls an “Opportunity Grant,” would combine the funding on numerous anti-poverty programs, including TANF, food stamps, and housing vouchers, into a single chunk of money for a state to spend on anti-poverty initiatives. That sounds like a block grant, and TANF was a block grant, so Porter finds it “hard to view these plans as anything but a bald effort to save money.”

If you click Porter’s link, however, and read Ryan’s plan, you’ll learn that it would be “deficit-neutral relative to current law.” A helpful, bright blue call-out box reiterates this point and further specifies that ‘each participating state gets the same amount of funding they receive from the programs’ being consolidated. In July 2014 remarks made while introducing the plan, Ryan also specified that states get “not a penny less” and that they would be required to “spend this money on people in need.” Porter looks beyond Ryan, though, suggesting that “the block grant approach has emerged as the central plank of the Republican strategy.” If he is thinking of Senator Marco Rubio’s aggressive proposal to consolidate anti-poverty funds and hand them back to states through a “Flex Fund,” that plan is specifically “revenue neutral” as well.

While Cass is right to draw a distinction between block grants and cost neutrality, his criticism of Porter is off base. First, he suggests that Porter is wrong for calling Opportunity Grants a block grant. Although the reference provided by Cass does use the term “deficit neutral,” it also makes multiple references to the proposal as a “block grant.”¹⁶ Here are some examples:

One of the major criticisms of welfare reform was that the Temporary Assistance for Needy Families block grant didn’t have a counter-cyclical component, whereas other programs, such as SNAP, were very responsive during the last recession. A pilot project, by its nature, could not include a counter-cyclical component. But if the Opportunity Grant program were expanded, it would benefit from increasing assistance during recessions.¹⁷

So, this clearly suggests that the funding would be fixed. The report continues:

Currently, the TANF program includes a contingency fund, which allows states to supplement their block grant during recessions and other periods of poor economic growth. During the recent recession, Congress authorized an additional amount of money for the TANF contingency fund.

¹⁶ U.S. Congress, House Budget Committee, *Expanding Opportunity in America: A Discussion Draft from the House Budget Committee*, July 24, 2014, p. 14, available at:

http://budget.house.gov/uploadedfiles/expanding_opportunity_in_america.pdf.

¹⁷ *Ibid*, p. 18.

There are a number of possible options for designing a block grant that would be counter-cyclical. First, the block grant could vary based on the level of unemployment in a state. If unemployment rose beyond 6.5 percent, there could be an automatic increase in the level of the Opportunity Grant funding, which would automatically fall with unemployment.

A second option would be to require states to set aside a certain percentage of their OG funds and to save them for future expenditures. That way they could vary the amount spent each year depending on where they were in the business cycle – decreasing the amount of the OG during good times, and increasing the amount of the OG during times of economic distress.

Finally, the OG grant could create a contingency fund similar to TANF's, but one more responsive to economic conditions. The TANF contingency fund has placed very complex rules on states. Rather than creating a complicated rule, use of the contingency funds could be contingent solely upon the unemployment rate in a specific state.¹⁸

This sure sounds like the TANF block grant. And, while some of the options would adjust for an economic downturn, notably the proposal says nothing about inflation. As Cass himself notes, "TANF funding declined in real terms from \$23 billion in 1996 to \$16.5 billion in 2014 (in constant 2014 dollars)." (Note: the \$23 billion should be \$24.9 billion and that amount rises each year as inflation erodes the value of the block grant.)

But, let's go further. Let's go the introductory remarks of Representative Ryan at a conference at the American Enterprise Institute (my former employer) and a panel of discussants. At that conference, here's how Ron Haskins, the chief staff person responsible for the 1996 welfare reform law, described Representative Ryan's Opportunity Grants proposal:

So the opportunity grants are really crucial. If you were a Republican and you believed the opportunity grants and flexibility in block grants are the way to go, you could not improve on Paul's proposal.¹⁹

He seems to think they are block grants. In reacting to the use of the term "block grant," Representative Ryan says:

This isn't exactly a block grant. It's not your garden variety of block grant where you just cut a check to the states and call it a day.

This is very different because ... there're going to be abuses with that. This Opportunity Grant is designed to streamline funding streams into one grant that is there to have customized and personalized aid to each person. So..., each person has a different issue. There are different kinds of poverty. Unfortunately, this Washington one-size-fits-all,

¹⁸ *Ibid*, p. 18.

¹⁹ Ron Haskins, remarks at the American Enterprise Institute event, "Expanding Opportunity in America: A Conversation with House Budget Committee Chairman Paul Ryan," July 24, 2014, available at: https://www.aei.org/wp-content/uploads/2014/07/-paul-ryan-event_175426104263.pdf.

know-it-best first in Washington approach shrieks them as if they're the same. And so you have to bring this down at the local level and have a customized, personalized form of aid.²⁰

In this response, Representative Ryan says nothing to contradict the notion that this would be a fixed funding stream. He simply talks about how the flexibility would be different. And, in other documents, the House Budget Committee under Representative Ryan's leadership has explicitly used the term "block grant" in reference to both the Medicaid and the Supplemental Nutrition Program (SNAP) programs in numerous budget-related documents.²¹ As Representative Paul Ryan wrote in *The Wall Street Journal*, in reference to the 1996 welfare reforms and moving forward, "This budget extends those reforms to other federal aid programs. It gives states flexibility so they can tailor programs like Medicaid and food stamps to their people's needs."²²

Cass also directs us to a press release by Senator Rubio that states, and suggests that his revenue-neutral Flex Fund is different from a block grant:

Our anti-poverty programs should be replaced with a revenue-neutral Flex Fund. We would streamline most of our existing federal anti-poverty funding into one single agency. Then each year, these Flex Funds would be transferred to the states so they can design and fund creative initiatives that address the factors behind inequality of opportunity.

This worked in the 1990s with welfare reform. In that case, Congress gave the states the ability to design their own programs, and in turn the states enacted policies that promoted work rather than dependence. In the years that followed, this led to a decline in poverty rates and welfare expenses.²³

The reference to the 1990s welfare reform also points to the idea that this would be a block grant like TANF.²⁴

²⁰ Remarks at the American Enterprise Institute event, "Expanding Opportunity in America: A Conversation with House Budget Committee Chairman Paul Ryan," July 24, 2014, available at: https://www.aei.org/wp-content/uploads/2014/07/-paul-ryan-event_175426104263.pdf.

²¹ U.S. Congress, House Budget Committee, *The Path to Prosperity: Fiscal Year 2015 Budget Resolution*, April 2014, pp. 54 and 62, available at: https://budget.house.gov/uploadedfiles/fy15_blueprint.pdf. Unlike the TANF block grant, these proposals suggest that there would be adjustments for inflation and population growth, but provide no specific details. As discussed below with regard to the "Flex Fund," there are complicated technical issues that do not appear to have been considered, much less resolved.

²² 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>.

²³ Senator Marco Rubio, "Reclaiming the Land Of Opportunity: Conservative Reforms For Combating Poverty," January 8, 2014, available at: <http://www.rubio.senate.gov/public/index.cfm/press-releases?ID=958d06fe-16a3-4e8e-b178-664fc10745bf>.

²⁴ This approach did not reduce poverty, though as a fixed funding stream it has reduced welfare expenditures over the long-term. But, even on this count, Congress greatly overcompensated states in the early years by basing the block grant on historic expenditures – it was only many years later that it actually began saving money as inflation eroded its value.

Elsewhere, Cass elaborates a bit more on how the Flex Fund would work and distinguishes it from a block grant:

The Flex Fund sounds like a block grant, but it is not the type of program-by-program block grant typically proposed as a pretext for capping the growth of costs. To the contrary, the funding formula would be pegged to the size of the population in need and would grow at the same rate as the poverty threshold itself — a figure that already factors in growth in cost of living for the relevant household.²⁵

To his credit, Cass seems to recognize that the fixed funding associated with a block grant is flawed. However, what he describes is not revenue neutral in terms of providing funding at the level it would have been with a true counterfactual. He doesn't define what he means by the "population in need" and many of the programs he would include in his Flex Fund have eligibility criteria that are not linked to the poverty thresholds, e.g., TANF and housing assistance. He refers to the poverty thresholds when discussing an adjustment for inflation, so maybe he means the number of poor families or people. But, that is an imperfect proxy, because the number that fall below a particular poverty threshold says nothing about the degree or depth of poverty — a crucial factor in determining the amount of spending. For example, if a state has 100,000 poor families that fall an average of \$10,000 below the poverty thresholds and a state can reduce the gap to \$5,000, but doesn't change the number of poor families, would the amount of funding remain the same? Conversely, there are many families that have short spells of poverty, but are not poor for the year. Poverty is measured using annual income — most means-tested programs base eligibility and benefit amounts on monthly income. How would Cass's formula adjust for such short-term spells?

And, if Cass is suggesting an adjustment for the number of poor families, will he use state data on poverty? This comes with a fairly significant lag. The Census Bureau only publishes the national poverty figures more than nine months after the end of a calendar year. And, at the state level, there is considerable year-to-year variation due to sampling error. This would be particularly problematic in states with small populations (though one possibility would be to increase state sample sizes). But, there is also significant measurement error in our poverty statistics (e.g., underreporting or misreporting of income) and the official poverty statistics do not include non-cash income. So, if a state chose to convert its cash welfare programs (which are included in the measurement of poverty) to targeted in-kind benefits (which are excluded in the measurement of "official" poverty) and the number of poor rose, would the state receive more Flex Fund dollars? And, what if a state wanted to implement the proposal at the sub-state level — where will the data come from then? The devil is in the details, none of which are provided in any of the conservative proposals Cass has described.

I think I know the point Cass is trying to make — he wants a proposal to give states flexibility and be cost neutral relative to what costs would have been in the absence of the proposal. This is something we gave very careful thought to in the Reagan Administration. We proposed a bold strategy — bolder than either the "Opportunity Grants" or the "Flex Fund" proposals — outlined in a report called *Up from Dependency*. It proposed "a program of widespread, long-term

²⁵ Oren Cass, "The Height of the Net," *National Review*, October 14, 2013, available at: <http://www.nationalreview.com/article/367805/height-net-oren-cass>.

experimentation in the restructuring of public assistance through community-based and state-sponsored demonstration projects.”²⁶ To implement this strategy, it called for a “general and system-wide waiver authority.”²⁷ The plan would allow states to pool the federal and state funds from 59 separate welfare programs and to use those funds to redesign the welfare system, as long as the proposals were designed to address the needs covered by the programs in the demonstrations and the demonstrations were structured to move individuals and families toward self-sufficiency. In addition, demonstrations were to be cost-neutral with respect to the federal government and had to include a rigorous evaluation.

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). 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 and, perhaps more important, to provide an alternate avenue to program reform.

This process did not provide a fixed level of funding, like block grants, nor did it create alternative formulas like the one Cass describes. Instead, we focused on an approach that would provide a real counterfactual and so we considered a range of evaluation approaches designed to measure net impacts. We examined statistical models and various comparison group designs, but early experiences in several states suggested that these approaches were imperfect. Statistical modeling and quasi-experimental studies are often plagued by various biases; so we looked to the “gold standard” of evaluation – random assignment.²⁸ 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 – itself. And, the beauty of this approach is that 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. If there were population changes or inflation, the program could adjust (and would be reflected in the control group’s expenditures). The added advantage of this approach to cost neutrality is that it could also be used for evaluation to determine whether the state reforms actually reduced welfare dependency by increasing self-sufficiency.²⁹

²⁶ Low Income Opportunity Working Group, *Up From Dependency: A New National Public Assistance Strategy* (Washington, DC: The White House, December 1986), p. 5.

²⁷ Low Income Opportunity Working Group, *Up From Dependency: A New National Public Assistance Strategy* (Washington, DC: The White House, December 1986), p. 58.

²⁸ Random assignment studies are not perfect either; they may miss entry and general equilibrium effects. And, the control group may be influenced by the “atmospherics” surrounding welfare reform, thus muting its effects. 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) 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.

²⁹ Even with random assignment, there are many challenges to cost neutrality, such as sample size, crossover, control group contamination, the representativeness of sites selected, and so on. A full discussion of these issues is

By August 1996, 43 states had received welfare waivers from the U.S. Department of Health and Human Services (HHS).³⁰ TANF added little to flexibility of states to test these welfare reforms and indeed most states simply continued their waiver-based policies under TANF through the end of the approved project period. This process was much like “Opportunity Grants” and the “Flex Fund.” The next step would have been to increase the waiver authorities in other programs. Instead, TANF gutted not just the work requirements, but this evidence-based approach to welfare reform.

Granted, the waiver process could have been improved, particularly if the goal was to provide nationally-relevant policy information.³¹ But, the approach and the lessons learned during the waiver process are important and “serious” conservative reformers would benefit from studying that experience. The lack of detail in the current proposals and the many praises of TANF raise serious concerns that the result may be another debacle like TANF, but on a larger scale.

Evaluation and Accountability

There is nothing concrete about how the results of the various conservative initiatives would be used to inform the policy-making process. “Opportunity Grants” simply talks about outcomes and a third-party evaluation and Cass’s description of the Flex Fund proposal seems to suggest that states know what they are doing and that somehow the results would be obvious. Cass asserts: “The Flex Fund itself is an important reform, with the potential to improve the performance of today’s programs and to produce further innovation.” How will you know whether performance improved without an evaluation? I certainly hope it’s not the way most conservatives judge TANF by; their approach typically involves a simplistic pre-post comparison of poverty and employment for some period before TANF through 2001, without adequate acknowledgment of other forces that affected these outcomes and, perhaps more important, the lessons from TANF’s implementation (see Germanis, 2015).

Even more troubling is the lack of any kind of requirements for accountability. Basically, Cass suggests that states are closer to the problem and are better situated to develop anti-poverty policies. This may be, and indeed was the premise behind President Reagan’s waiver-based approach, but that approach had accountability, most notably the cost neutrality and evaluation requirements. But Cass would just have the federal government turn over hundreds of billions in federal tax dollars and trust the states. This is hardly a position all conservatives are in agreement on. For example, when Robert Rector, a senior research fellow at the Heritage Foundation, was asked about the “Flex Fund,” he raised serious concerns about the proposal:

beyond the scope of this paper, but for a discussion of some the challenges, see: Anne Gordon, Jonathan Jacobson, and Thomas Fraker, *Approaches to Evaluating Welfare Reforms: Lessons from Five State Demonstrations* (Washington, DC: Mathematica Policy Research, Inc., October 1996).

³⁰ 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>.

³¹ For a discussion of some of these issues, see Michael L. Wiseman and Mark Greenberg, “Fixing Welfare Waiver Policy,” *Public Welfare*, Winter 1995, pp. 10-17. These are two separate articles, but share the same title.

If you look at the overall record of the federal government giving the states money, it's one of inefficiency, not accountability. I challenge you to find one example of success from a conservative point of view.³²

And, there is plenty in the TANF experience to reaffirm this concern, particularly the propensity of state politicians to use federal TANF funds to simply supplant existing state expenditures or otherwise fill budget holes, rather than provide for basic needs and invest in welfare-to-work programs. For example, states have spent billions of federal TANF dollars to supplant state expenditures on college scholarships and preK programs, ostensibly because such “investments” are likely to reduce out-of-wedlock pregnancies (the third of four broad TANF goals). What did states do with the freed up state expenditures? In some cases, they funded solely state funded programs outside the TANF program to provide assistance to families that would otherwise count against them in the calculation of TANF's work rates.³³ In other cases, who knows? These freed up expenditures are not subject to reporting. Indeed, there is limited accountability for the over \$20 billion in TANF and related maintenance-of-effort spending that is considered non-assistance. You see, states are only required to report detailed information on the 26 percent of TANF funding used for “assistance.” There is no information on how many families are served with other types of programs or what the outcomes are.

Would states be able to use “Opportunity Grants” or “Flex Fund” dollars to supplant and fill budget holes? Could a state take all the federal dollars and simply pay for all its preK and college-related costs? Arguably, Cass and congressional staff would want some limits and accountability. But, as with cost neutrality, the devil is in the details and conservatives have not offered such details.

“You Don't Care about the Poor”

Or, so Cass characterizes Porter's article. I don't know whether Porter believes this about conservatives; perhaps he was just stating the obvious outcome of what seems to be a conservative proclivity for block grants. Indeed, Arizona is a prime example of why a block grant with excessive state flexibility is a bad idea.

Between 1995/96 (before TANF was implemented) and 2013/14, the number of poor families with children in poverty rose from 153,400 to 195,400; for deep poverty these figures were 74,800 to 87,100.³⁴ Meanwhile, despite rising economic need, the TANF caseload has plummeted, from 64,900 to 14,700 – and this is before the next big cut when the state implements its one-year time limit for cash assistance. Thus, the TANF-to-poverty ratio fell from 42 to 8. And, not only has the state not raised benefits since 1996, it's actually reduced them. Arizona's cash benefit is just \$278 a month, or 17 percent of the poverty level – a 47 percent decline in inflation adjusted terms since 1996. In 2014, the state spent just 9 percent of

³² Quoted in Mark Niquette and Peter Gosselin, “Can Rubio Make Helping the Middle Class a Republican Issue?,” *BloombergPolitics*, April 14, 2015, available at: <http://www.bloomberg.com/politics/articles/2015-04-14/can-rubio-make-helping-the-middle-class-a-republican-issue->.

³³ See, for example, Legislative Analyst's Office, “The 2013-14 Budget: Analysis of the Health and Human Services Budget,” February 27, 2013.

³⁴ Center on Budget and Policy Priorities, “Arizona: TANF Caseload and TANF-to-Poverty Ratio Fact Sheet,” October 27, 2015, available at: http://www.cbpp.org/sites/default/files/atoms/files/tanf_trends_az.pdf.

its TANF and MOE funds on basic assistance and a paltry 3 percent on welfare-to-work activities³⁵ – TANF’s core welfare reform purposes. (And, expect these figures to decline further when the state implements its one-year time limit in 2016.) Instead, it has diverted hundreds of millions of dollars over the years to fill state budget holes. As state representative John Kavanagh, chairman of the Arizona House Appropriations Committee explained, “Yes, we divert – divert is a bad word. It helps the state.”³⁶

Sadly, the experience of Arizona is all too common.³⁷ It is the result of a block grant structure with excessive state flexibility. The block grant doesn’t adjust funding for inflation or demographic shifts. The excessive state flexibility allows states to divert funding from safety net and welfare-to-work priorities to supplant existing state expenditures or fill other budget holes.

Conclusion

Cass writes:

America spends nearly \$1 trillion on anti-poverty programs, yet no one seems happy with the results. Mindlessly writing another, bigger check is not evidence of “caring.” Pursuing substantive reform within the existing budget is not an attempt to “ignore” anything. Maybe the new proposals are good policy, maybe they’re bad policy, but they’re certainly serious and worthy of consideration.

I agree – the amount spent is not the problem. I, as a conservative, am sympathetic to this approach, but I have no confidence that those in Congress or think tanks would do it right. When we developed President Reagan’s initiative, we had the benefit of working with dozens of political and career staff throughout the Executive Branch, as well as getting input from nationally-recognized experts in evaluation from firms like MDRC, Mathematica, and Abt Associates. My recommendation to conservatives is to study the history of welfare reform and engage experts with programmatic and evaluation knowledge; congressional staff and most advocates do not have the experience needed to design such ambitious proposals.

But, the first step is to learn the lessons of TANF. We cannot give states a blank check and hope for the best. If conservatives want to be seen as having serious ideas for tackling poverty, it is time to acknowledge that TANF, and indeed block grants of any kind, are bad public policy. Only then can we have “serious” discussions.

³⁵ Center on Budget and Policy Priorities, “Arizona: TANF Spending Fact Sheet,” October 2 2015, available at: http://www.cbpp.org/sites/default/files/atoms/files/tanf_spending_az.pdf.

³⁶ Cited in Jason DeParle, “Welfare Limits Left Poor Adrift as Recession Hit,” *The New York Times*, April 7, 2012.

³⁷ See 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>.