Did a Flexible Block Grant for Welfare Spur State Innovation? Absolutely – But That "Innovation" Didn't Help Poor Families

Peter Germanis[1]

January 14, 2017

Block grant advocates for welfare argue that states are better positioned to design programs for the poor and that the fixed funding gives them incentives to manage resources efficiently. For example, Veronique de Rugy and Andrea Castillo of the Mercatus Center explain:

> Providing federal welfare payments to the states in the form of block grants is one way to more closely align incentives and knowledge in the welfare system. This reform option combines the deep pockets of the federal government with the increased discretion and better knowledge of more localized government bodies. Rather than burdening the federal government with properly raising and targeting spending, block granting enables the federal government to merely entrust each state with a lump-sum welfare payment to allocate according to certain conditions.[2]

They point to the Temporary Assistance for Needy Families (TANF) block grant as a model for this approach.

> The PRWORA [the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 which created TANF] reforms of the late 1990s provide an excellent case study of the efficacy of providing welfare payments in block grants. Whereas the eligibility rules, amounts, and allocation of benefits in the old AFDC program were almost entirely at the discretion of the federal government, the new TANF program placed funding and program discretion back at the state level. Rather than being beholden to one inflexible federal standard that might or might not encompass unique individuals' varied needs, the TANF block grants allowed states to tailor the programs to fit state constituents' specific necessities.[3]

Daniel Sutter, a Mercatus Center colleague, adds that the debate over block grants today "can be informed by an examination of how TANF block grants led states to adopt innovative policies to improve the welfare system…"[4]

While state flexibility can be a useful tool, the TANF experience demonstrates that the block grant approach is *not* the panacea some conservatives believe it to be. Many states did not use their "flexibility" and "discretion" to build a better safety net or establish work requirements designed to help families prepare for and connect to work. Instead, much of TANF's "innovation" is reflected in ways states use TANF dollars to fill budget holes, cut caseloads, and game federal requirements. As Ron Haskins, an architect of the 1996 law, now cautions, "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."[5]

TANF Was Not Needed for State Welfare Reform

TANF was not needed to provide states flexibility to test new reform approaches; such flexibility already existed. In 1986, President Reagan announced a bold new strategy to reform the welfare system, described in *Up from Dependency: A New National Public Assistance Strategy*.[6] This proposal would have allowed states to consolidate funds from all means-tested welfare programs to test alternative welfare reform approaches. Although Congress did not pass President Reagan's legislation, the exercise ultimately resulted in an interagency waiver process for welfare reform that provided states considerable flexibility – through waivers of AFDC's rigid rules (and, to a lesser extent, food stamp and Medicaid rules due to more limited waiver authorities for those programs).

The preTANF waiver process did not provide a fixed level of funding, like block grants. Instead, it relied on a real counterfactual using the "gold standard" of evaluation – random assignment – for both cost neutrality and evidence-based learning.[7] 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 could be attributed to the intervention – welfare reform – itself. And, the experience of the control group can 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. This approach provided rigorous evidence about the impacts of welfare reform, including many examples of state experiments that increased employment and earnings, and also reduced welfare dependency and poverty.[8]

The waiver model was continued by President Bush and President Clinton. By August 1996, 43 states had received welfare waivers to test a wide variety of reforms. When the 1996 law passed, many states simply continued their waiver policies – they didn't need TANF to enact "welfare reform" because they had already done it. The TANF block grant did not add anything to their flexibility to test changes to their cash assistance and welfare-to-work programs, it just absolved them of the responsibility to evaluate their reforms and gave them freedom to treat TANF as a slush fund to fill budget holes.

State Innovation under TANF – The Need for "A *Much* Better Way"

TANF did not spur innovative new state welfare reforms, but it did lead many states to find creative ways to: (1) manipulate TANF funding rules to maximize their own revenues; (2) eviscerate the cash assistance safety net by adopting very strict eligibility standards and erecting barriers to accessing benefits; and (3) evade federal requirements, most notably work requirements and time limits. The following list illustrates some of the unintended ways states have "innovated" under TANF. For each "innovation" one or two state-specific examples are provided, but for each there are at least a dozen examples that could have been chosen.

Federal TANF funds are used to supplant state general revenue spending and fill budget holes. States receive a block grant equal to peak expenditures for their pre-TANF programs for cash welfare, emergency assistance, and job training programs during the FY 1992 to FY 1995 period. Under TANF, states have diverted a significant share of federal spending away from core welfare reform purposes (i.e., basic assistance, work activities, and child care).

> Examples: In ***Wisconsin***, "a significant portion of the federal funding for ... assistance is being siphoned off for use elsewhere in the budget, to the detriment of the Wisconsin Works (W-2) program and child care subsidies for low-income working families. …That shell game uses TANF funds to free up state funds … to use for other purposes, such as the proposed income tax cuts."[9]
>
> In ***Arizona***, most of the federal TANF funds have been diverted to pay for state services like child welfare and foster care. Thom Reilly and Keiran Vitek of the Morrison Institute for Public Policy observe:
>
> > TANF was designed to serve two explicit functions: to help poor adults with children move into the labor market, and to provide a safety net for families when they cannot work. It seems clear that Arizona has abandoned these two original functions and instead chosen to funnel TANF funds into an overburdened and underfunded child welfare system that has been plagued over the years by both structural and operational failures.[10]
>
> Indeed, in FY 2015, Arizona spent just 8 percent of its TANF/MOE funds on core welfare reform activities; and only 7 out of every 100 poor families with children in 2014-15 received cash assistance, down from 42 out of 100 when TANF was enacted.[11] As John Kavanagh, former chairman of the Arizona House Appropriations Committee explained, "Yes, we divert – divert is a bad word. It helps the state."[12]

Supplanting *existing* state expenditures and filling budget holes leaves less federal funding for welfare reform activities. Since TANF's inception, states have used *tens* of billions of federal TANF dollars to simply replace existing state spending; the goal of welfare reform should be to help needy families, not state politicians.

State maintenance-of-effort (MOE) spending often reflects existing state spending[13] or decisions to fund program expansions elsewhere in a state's budget. In addition to the federal block grant, each state must spend its own funds as part of a "maintenance-of-effort" (MOE) requirement. The required spending amount is based on its historical (FY 1994) expenditures for cash, emergency assistance, job training, and welfare-related child care expenditures. The basic MOE requirement is set at just 80 percent of this historical spending level, but this falls to 75 percent for any year in which a state meets its TANF work requirements. Under TANF, many states have reduced their MOE commitment for core welfare reform purposes, and instead just count spending elsewhere in the budget for programs that meet one of TANF's broad purposes.

> Example: In FY 2015, "***Texas*** used 38 percent ($374 million) of its federal and state TANF funds for pre-K/Head Start, a larger share than any other state except New Jersey.

> Texas's pre-K spending consisted entirely of state MOE funds, which accounted for 95 percent of Texas's MOE for 2015. In other words, Texas has withdrawn nearly all of its own spending from any other uses under TANF."[14] Meanwhile, in FY 2015, the state spent just 14 percent of its TANF/MOE funds on core welfare reform activities; and only 4 out of every 100 poor families with children in 2014-15 received cash assistance, down from 47 out of 100 when TANF was enacted.[15]

Claiming existing state spending as MOE or counting new expenditures elsewhere in the budget as TANF MOE is not "welfare reform."

Some states claim the spending of third-party, non-governmental organizations as MOE, allowing them to spend less of their own money on core welfare reform activities. The spending of third-party non-governmental organizations can count toward a state's MOE requirement if they meet a TANF purpose and are "donated" by the organization.

> <u>Example</u>: In FY 2014, ***Georgia*** counted $99 million in food bank spending toward its MOE requirement, representing 57 percent of the state's total MOE expenditures.[16] Meanwhile, in FY 2015, the state spent just 23 percent of its TANF/MOE funds on core welfare reform activities; and only 5 out of every 100 poor families with children in 2014-15 received cash assistance, down from 82 out of 100 when TANF was enacted.[17]

Counting private funds for *existing* services in the community is not "welfare reform."

The definition of "needy" for many TANF-funded programs includes families with incomes well above the poverty line. Federal law and rules do not define "needy." States can currently set income limits as high as they want. While these limits are quite low for cash assistance, they are often between 200 and 300 percent of poverty for other activities (and for some, there are no income limits).

> <u>Example</u>: ***Michigan*** "spends about $100 million a year in TANF dollars on college scholarships – and many recipients are from families that earn more than $100,000 year."[18] Meanwhile, in FY 2015, the state spent just 18 percent of its TANF/MOE funds on core welfare reform activities; only 16 out of every 100 poor families with children in 2014-15 received cash assistance, down from 88 out of 100 when TANF was enacted.

Under AFDC, virtually all spending was limited to poor families, as state income limits for cash assistance were generally quite low. Given the fixed funding of a block grant, permitting states to divert spending to non-poor populations for purposes unrelated to welfare reform means there is less funding for cash assistance and welfare-to-work programs *for the poor*.

TANF's work requirements are gamed by states – one approach is to increase the numerator of the participation rate calculation by paying token benefits to families that meet participation requirements, but that would otherwise not be on cash assistance; this artificially inflates the work rate. TANF requires states to meet minimum work participation standards – a 50 percent overall work rate and a 90 percent work rate for two-parent families. To count toward these work rates, a "work-eligible individual" must be engaged in one or more of 12 specified work activities for a minimum number of hours per week in a month. One of these "core" work activities is "unsubsidized employment."

> Example: In FY 2015, ***Maine*** had an average monthly TANF caseload of 4,715 families and its work participation rate was 16.3 percent. To meet the federal work rate target of 50 percent, the state added an average monthly 17,688 families to the welfare rolls, paying them $15 a month. These were families that otherwise would not have received cash aid but were expected to work enough hours so they could count in the work rate. This gimmick artificially boosted the state's overall work rate to 71.3 percent.[19]

TANF's work requirements are also gamed by removing families unlikely to meet the work requirements from the denominator, funding them outside the TANF/MOE structure; this artificially inflates the work rate.

> Example: In FY 2015, ***Illinois*** placed over half its assistance cases in various "solely state funded programs" to avoid having to include them in the work rate calculation. The largest of these programs was aptly called "Single Parent Cases Not in A Countable Activity Paid with State Only Funds." The average monthly number of cases in solely state funded programs in Illinois outnumbered the actual number of TANF cases (21,611 vs. 18,643). This boosted the state's overall work rate from well below the required 50 percent target to 65.9 percent. [20]

The goal of work requirements should be to connect the poor to work opportunities; gimmicks do nothing to advance this goal.

TANF's five-year time limit for families in which an adult received federally funded assistance is easily circumvented by using state-only MOE funds or simply removing the adult from the assistance unit.

> Examples: In ***New York***, when families reach the federal five-year time limit, the state continues assistance to most of the families under an MOE-funded separate state program. ***California*** removes adults from the benefit payment and so the time limit no longer applies.

When the 1996 law passed, states were just beginning to experiment with time limits and there were no impact results regarding their effectiveness. Thus, whether bypassing the federal time limit is good policy or not is an empirical question, but it is another example of state "innovation" to avoid a federal requirement. The more concerning aspect of time limits is how some states have used them to cut their welfare rolls to free up TANF funds for other purposes.

> "In 2009, ***Arizona*** cut the monthly TANF benefit for a family of three from $347 to $278 and in 2010 it shortened the time limit from 60 to 36 months. The next year, it shortened the time limit to 24 months. The state also applied these time-limit changes to grandparents raising their grandchildren — the only state that has done so."[21] In July 2016 it reduced the time limit to 12 months. Meanwhile, in FY 2015, the state spent just 8 percent of its TANF/MOE funds on core welfare reform activities.[22] Making time

limits shorter to cut caseloads and divert the savings to other activities is not an "innovative" policy and it is not what was intended when Congress passed the 1996 law.

TANF's flexibility has led to new ways to hassle needy families to keep them from receiving assistance. In the preTANF waiver era, most state welfare reforms combined a mix of "help" and "hassle." If state reforms had negative effects on family incomes, child well-being and other outcomes (based on a random assignment experiment), the waivers could be terminated. In other words, states were expected to reduce welfare rolls by giving needy families a "hand up," not just pushing them off assistance, **and** they had to prove it. Under TANF, this responsible, evidence-based approach was replaced by giving state politicians a blank check.

> <u>Examples</u>: In "Georgia's Hunger Games," journalist Neil deMause describes how the hassle factored worked in **Georgia**:
>
> > "Local offices were really taking a lot of steps to dissuade people from applying — or once they had applied, they were doing things to make the process really cumbersome and difficult," recalls Allison Smith of the Georgia Coalition Against Domestic Violence, whose office began documenting troubling reports of welfare applicants being discouraged from applying for benefits by any and all means necessary: "Making them go through 60 job searches a week, or come to 8 orientations." One woman in her seventh month of pregnancy was ordered to take a waitressing job that would require her to be on her feet all day. Another was told that if she applied for TANF while living in a shelter her children would be taken away. Smith recalls, "Some of the stuff that was said to individuals was pretty awful – 'If you can't find a job, we'll have you shoveling s*** at the dog pound.'"[23]
>
> This approach to welfare reform was certainly effective in reducing welfare caseloads – the state's caseload has fallen nearly 90 percent since TANF's enactment, from 131,900 in 1995-96 to 16,000 in 2013-14. What about poverty? The number of poor families grew by 60 percent, from 161,500 to 257,800 over the same time period.[24] Is this really what block grant advocates would consider a success?
>
> In 2015, ***Kansas*** enacted "an unprecedented set of restrictions" on families receiving TANF cash assistance. Aleta Sprague, a program fellow with the Asset Building program at New America, explains:
>
> > Beginning July 1, the lifetime limit on receiving TANF in Kansas will be reduced to 36 months; recipients will only be able to withdraw $25 a day; and families will no longer be permitted to use or withdraw cash assistance at a wide array of establishments, including movie theaters, jewelry stores, cruise lines, lingerie stores, and nail salons, to name just a few.
> >
> > While the lingerie stores and cruises have drawn the most headlines, the bigger scandal is that the Kansas law perpetuates a long legislative tradition of stigmatizing poor families through costly red tape designed to address vastly

> overstated “fraud” in the system, rather than crafting systems that help the poor to join the financial mainstream and effectively limit actual waste inherent in the way assistance is distributed.[25]

> In FY 2015, Kansas spent just 24 percent of its TANF/MOE funds on core welfare reform activities; only 10 out of every 100 poor families with children in 2014-15 received cash assistance, down from 52 out of 100 when TANF was enacted.[26]

If states believe taking a tough approach with recipients is an effective strategy, why doesn’t the federal government take the same approach with respect to its expectations from states? The amount of spending by recipients for cruises and other frowned-upon activities is a pittance compared to the tens of billions of dollars states have siphoned off for non-welfare reform purposes. Instead of a blank check with no accountability, why not require states to spend ***all*** of their TANF funds on core welfare reform activities and why not evaluate their efforts with a rigorous evaluation so we can again learn what works and what doesn’t?

Conclusion

Veronique de Rugy and Andrea Castillo argue that block grants enable “the federal government to merely entrust each state with a lump-sum welfare payment to allocate according to certain conditions.” The TANF experience clearly demonstrates that this “trust” was misplaced. Giving states a blank check with no meaningful accountability did not lead to innovation and advances in antipoverty strategies – in fact, it did the opposite. As Ron Haskins, an architect of 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?”[27]

There is a better conservative model of federalism – it is President Reagan’s waiver-based approach. It relies on a concept of cost neutrality (not a fixed block grant) and includes a requirement for rigorous evaluation. The 1996 welfare reform should have built on this approach, expanding and refining the waiver process for evidence-based learning.[28] Now we have to start over.

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

[2] Veronique de Rugy and Andrea Castillo, *US Antipoverty Policy and Reform* (Arlington, VA: George Mason Univerity, Mercatus Center, July 2016), p. 44, available at: https://www.mercatus.org/system/files/Mercatus-deRugy-Anti-Poverty-Policy-v1.pdf.

[3] [3] Veronique de Rugy and Andrea Castillo, *US Antipoverty Policy and Reform* (Arlington, VA: George Mason Univerity, Mercatus Center, July 2016), p. 45, available at: https://www.mercatus.org/system/files/Mercatus-deRugy-Anti-Poverty-Policy-v1.pdf.

[4] Daniel Sutter, *Welfare Block Grants as a Guide for Medicaid Reform* (Arlington, VA, George Mason University, Mercatus Center, March 2013), pp. 3-4, available at: https://www.mercatus.org/system/files/Sutter_WelfareBlockGrants_v3.pdf.

[5] 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.

[6] Executive Office of the President, *Up from Dependency: A New National Public Assistance Strategy. Report to the President*, December 1986, available at: https://archive.org/details/ERIC_ED316587.

[7] 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.

[8] 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_systhesis/reports/consequences_of_wr/rand_report.pdf.

[9] Jon Peacock, Wisconsin Budget Project, "Funding for Low-Income Families Siphoned off for Other Uses," April 29, 2013, available at: http://www.wisconsinbudgetproject.org/.

[10] Thom Reilly and Keiran Vitek, "TANF cuts: Is Arizona shortsighted in its dwindling support for poor families?", June 3, 2015, p. 1, available at: https://morrisoninstitute.asu.edu/sites/default/files/content/products/TANF.doc_0.pdf.

[11] Center on Budget and Policy Priorities, "State Fact Sheets: How States Have Spent Funds Under the TANF Block Grant," January 5, 2016, available at: http://www.cbpp.org/research/family-income-support/state-fact-sheets-how-states-have-spent-funds-under-the-tanf-block.

[12] Cited in Jason DeParle, "Welfare Limits Left Poor Adrift as Recession Hit," *The New York Times*, April 7, 2012.

[13] TANF has no ban on supplantation with federal TANF funds, but it does prohibit supplantation with MOE dollars. However, the ban is not particularly effective and can be administratively burdensome and is part of what is known as the "new spending test." State and local governmental expenditures on programs that existed in 1995 and were not part of the state's AFDC and related programs can be claimed only to the extent that they are higher than the spending in 1995. In other words, only new spending counts. Of course, since that level is not adjusted for inflation, over time states can count preexisting spending that rises simply because of inflation. In effect, this permits supplantation with MOE funds as well.

[14] Liz Schott and Ife Floyd, "How States Use Funds Under the TANF Block Grant," Center on Budget and Policy Priorities, January 5, 2017, available at: http://www.cbpp.org/research/family-income-support/how-states-use-funds-under-the-tanf-block-grant.

[15] Center on Budget and Policy Priorities, "State Fact Sheets: How States Have Spent Funds Under the TANF Block Grant," January 5, 2016, available at: http://www.cbpp.org/research/family-income-support/state-fact-sheets-how-states-have-spent-funds-under-the-tanf-block.

[16] Center on Budget and Policy Priorities, "Georgia: TANF Spending Fact Sheet," available at: http://www.cbpp.org/sites/default/files/atoms/files/tanf_spending_ga.pdf.

[17] Center on Budget and Policy Priorities, "State Fact Sheets: How States Have Spent Funds Under the TANF Block Grant," January 5, 2016, available at: http://www.cbpp.org/research/family-income-support/state-fact-sheets-how-states-have-spent-funds-under-the-tanf-block.
[18] Krissy Clark, Caitlin Esch, and Gina Delvac, "Everything but the kitchen sink," June 9, 2016, available at: http://www.marketplace.org/2016/06/08/wealth-poverty/uncertain-hour/s1-04-everything-kitchen-sink.
[19] Peter Germanis, "The Failure of TANF Work Requirements in 2015: The Need for 'A *Much* Better Way,'" December 20, 2016, available at: http://mlwiseman.com/wp-content/uploads/2016/05/The-Failure-of-TANF-Work-Requirements.2015.pdf.
[20] Peter Germanis, "The Failure of TANF Work Requirements in 2015: The Need for 'A *Much* Better Way,'" December 20, 2016, available at: http://mlwiseman.com/wp-content/uploads/2016/05/The-Failure-of-TANF-Work-Requirements.2015.pdf.
[21] LaDonna Pavetti, "Arizona Experience Shows Risks of Further Expanding State Role in Helping Poor," CBPP, March 11, 2015.
[22] Center on Budget and Policy Priorities, "State Fact Sheets: How States Have Spent Funds Under the TANF Block Grant," January 5, 2016, available at: http://www.cbpp.org/research/family-income-support/state-fact-sheets-how-states-have-spent-funds-under-the-tanf-block.
[23] Neil DeMause, "Georgia's Hunger Games," *Slate*, December 26, 2012, available at: http://www.theinvestigativefund.org/investigations/economiccrisis/1732/georgia's_hunger_games?page=entire.
[24] Center on Budget and Policy Priorities, "State Fact Sheets: Trends in State Caseloads and TANF-to-Poverty Ratios," October 27, 2015, available at: http://www.cbpp.org/research/state-fact-sheets-trends-in-state-caseloads-and-tanf-to-poverty-ratios.
[25] Aleta Sparague, "What's the matter with Kansas's new TANF law? Almost everything," May 13, 2015, available at: https://qz.com/401564/whats-the-matter-with-kansass-new-tanf-law-almost-everything/.
[26] Center on Budget and Policy Priorities, "State Fact Sheets: How States Have Spent Funds Under the TANF Block Grant," January 5, 2016, available at: http://www.cbpp.org/research/family-income-support/state-fact-sheets-how-states-have-spent-funds-under-the-tanf-block.
[27] 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.
[28] Peter Germanis, "Making 'Opportunity Grants' Great Again: A Worthy but Challenging Prospect," December 18, 2016, available at: http://mlwiseman.com/wp-content/uploads/2016/05/Making-OG-Great-Again.pdf.