

In a Competition of Ideas, a Block Grant is the Worst Option: A Response to Lanhee Chen

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In “Republicans Get One Last Chance on ObamaCare Reform: Graham-Cassidy is not perfect, but it creates a competition of ideas and gives power back to states,” Lanhee Chen, a research fellow at the Hoover Institution and director of domestic policy studies in Stanford’s Public Policy Program, suggests that the Graham-Cassidy health care bill would spur “a competition of ideas” that would allow states to “emulate” the best programs and “discard” those that don’t work. He argues that this “is how policy making should work in a federalist system.”²

The Graham-Cassidy bill is modeled after the 1996 welfare reform law, which replaced the Aid to Families with Dependent Children (AFDC), with the Temporary Assistance for Needy Families (TANF) block grant. Many conservatives contend that TANF was an “unprecedented success” and that it should be used as a model for reforming the rest of the safety net. While state flexibility can be a useful tool for identifying promising reforms, the TANF experience demonstrates that the block grant approach is *not* the panacea many conservatives believe it to be. Most states did not use their added flexibility 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.

If a goal of reform is to produce a process that identifies successful programs and weeds out unsuccessful ones, i.e., a real competition of ideas, then the block grant is the wrong approach. I favor an alternative, conservative approach based on a model developed in the Reagan Administration. In 1987, the President started an interagency waiver process for welfare reform that provided states considerable flexibility to test alternative approaches – 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). These waivers were conditioned on having a rigorous evaluation (generally based on a random assignment design³) to ensure that we would have credible findings about what works and what doesn’t.⁴ This approach provided real 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.⁵ These experiments provided models that could be “emulated.” In contrast, under the TANF block grant, there is virtually no credible evidence to highlight either successful states or effective policy reforms.

The preTANF model also had bipartisan support, as it 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.

For the past two years, I have been writing papers as a citizen to highlight TANF's many problems. My hope is that conservatives will adopt more "rigor" in their assessment of the 1996 law and use evidence rather than ideology in developing reform proposals. The lessons learned from the TANF block grant are important for understanding the potential impact of block grants for other programs. This response addresses a number of the claims made by Chen, particularly about the block grant model being one that promotes a "competition of ideas," followed by a "PC Response." ("PC" is short for "Peter the Citizen.")

Chen: "The Graham-Cassidy bill's biggest strength is the idea that states are uniquely equipped to design and implement health care programs that suit their residents. The bill would consolidate much of the federal funding given to states under ObamaCare's coverage provisions – including money for its Medicaid expansion and subsidies to help people buy private insurance – into a single block grant, which states could use for a wide variety of health reforms."

PC Response: State flexibility can be important, but the lesson from the 1996 welfare reform is that a block grant is NOT the way to reform a safety net program. 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.⁶ As Ron Haskins, considered the "architect" of the 1996 welfare reform law now acknowledges, "States did not uphold their end of the bargain, so why do something like this again?"⁷

I have written extensively about TANF's failure as a safety net and its dysfunctional work requirements,⁸ but the focus of this response will be on Chen's claim that a block grant is an effective approach for spurring a "competition of ideas."

Chen: "...what Graham-Cassidy creates is a competition of ideas. The best programs would be emulated and the worst discarded – which is how policy making should work in a federalist system."

PC Response: This was the argument that was used to support welfare reform, but in 21 years, we've learned very little about the impact of policy changes and to the extent states emulate each other, it is not about building a stronger safety net or work programs, but in ways to game federal work requirements and to divert funding to fill budget holes.

Question for Lanhee Chen: Can you name a single state that has one of the "best programs" and that is worth being "emulated" by other states?

I believe TANF is a failure everywhere, but for purposes of this response, it is worth examining three states: Wisconsin, a state many conservatives identify as a model; Louisiana, Senator Cassidy's home state; and Massachusetts, representing Governor Romney's state – selected because Chen served as Governor Romney's domestic policy advisor.

Was welfare reform a success in Wisconsin? Many conservatives consider Wisconsin a success, particularly under Governor Tommy Thompson. Welfare caseloads certainly did decline under Governor Thompson (1988-2000), but there is no credible evidence that the financial situation for families improved overall. In fact, a cursory examination of AFDC/TANF caseload statistics and poverty data suggest that it got much worse.

**Table 1:
AFDC/TANF Caseloads, # Poor Families with Children, & TANF-to-Poverty Ratio
(Wisconsin)**

	1988	1992	1996	2000	2004	2008	2012	2015
# TANF	91,070	81,172	63,053	18,092	22,122	18,079	26,028	23,725
# Poverty	73,476	87,369	77,505	67,784	95,659	83,739	114,395	100,267
TANF-to-poverty ratio	124	93	81	27	23	22	23	24

Source: See detailed state-by-state tables at: Iife Floyd, LaDonna Pavetti, and Liz Schott, "TANF Reaching Few Poor Families," Center on Budget and Policy Priorities, March 30, 2017, available at: <http://www.cbpp.org/research/family-income-support/tanf-reaching-few-poor-families>.

Table 1 compares changes in AFDC/TANF caseloads and the number of poor families with children in Wisconsin from 1988 to 2015. Between 1988 and 2000, the AFDC/TANF caseload fell by nearly 73,000 (80 percent). Meanwhile, the number of poor families with children fell by just 5,700 (8 percent). The TANF-to-poverty ratio declined from 124 to just 27 – the latter figure being lower than any state in the nation in the era before TANF. This disconnect was especially pronounced between 1996 and 2000, as Governor Thompson implemented TANF. Since 2000, the number of poor families has increased significantly, yet the caseload barely budged. A simple look at these trends suggests tens of thousands of families have been pushed deeper into poverty.

Wisconsin is a typical example of a block grant’s differential effects over time. Unlike Governor Thompson, who reaped a massive windfall from TANF (because Congress based the funding on spending levels years earlier when they were at historic highs), Governor Walker is getting far less when adjusted for inflation. Moreover, number of poor families with children has increased by 30 percent since 1997. In 1997 Governor Thompson had nearly twice the federal funding for each poor family with a child as Governor Walker did in 2015 (\$6,231 vs. \$3,172, in 2015\$). This problem is compounded by the fact that even some of these limited resources today are diverted to fill budget holes, as states have learned to use TANF as a form of revenue sharing. For example, 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

Despite the fact that Wisconsin undertook many experiments prior to TANF, the 1996 law ended the requirement for states to evaluate rigorously their welfare reforms. There are no credible evaluations of the impact of welfare reform in Wisconsin, particularly over the long run. And, there is no state that has copied Wisconsin’s particular model for welfare reform, which is distinct from all the other states in the nation.

Was welfare reform a success in Louisiana? TANF cash assistance has all but disappeared in Louisiana, even as poverty worsened. Between 1996 and 2015, the number of poor families with children grew from 151,600 to 157,200, as did the number of families with children in deep poverty – from 69,500 to 77,800. Meanwhile, the number of families receiving cash assistance fell by 92 percent, from 72,700 to 5,600. As a result, the TANF-to-poverty ratio declined from 48 to 4.¹⁰ Success is reducing caseloads by reducing the need for assistance; Louisiana did not do this.

Louisiana, perhaps more than any other state, illustrates that TANF is not welfare or “welfare reform” – it is just a fixed and flexible funding stream. In 2014, Louisiana spent 9 percent of its TANF and associated maintenance-of-effort (MOE) funds on basic assistance and just 3 percent on work activities.¹¹ Most goes to fill budget holes:

In 2014, Louisiana spent some \$145 million, or two-thirds of its state and federal TANF spending, in “other areas.” Most went for child welfare services, early education, and financial aid for college students. Louisiana used TANF funds to supplant state spending or to cover the cost of expansions that otherwise would have required state spending, freeing up the funds for other uses unrelated to the purposes of TANF, including tax cuts.¹²

As with Wisconsin, there are no credible evaluations of “welfare reform” in Louisiana, but even a cursory examination of these statistics suggests the block grant approach failed the state’s neediest families. Unfortunately, there are many states that have “emulated” this approach – the innovations copied were about how to game federal work requirements (a separate topic) and use TANF funds to supplant and fill budget holes. This kind of “competition of ideas” has not helped advance the “welfare reform” debate – indeed, it has set us back two decades.

Was welfare reform a success in Massachusetts? On July 12, 2012, the U.S. Department of Health and Human Services issued guidance that would grant states “waivers” to test changes to TANF’s work requirements. Less than a month later, Chen, then campaign policy director for Mitt Romney (former Governor of Massachusetts), issued a statement to reporters claiming President Obama was attempting “to unwind welfare reform.”¹³ Governor Romney’s team ran a TV ad claiming that these waivers 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.¹⁴

This raises several questions about what happened to TANF during Governor Romney’s tenure as governor. Did he implement strong work programs and did his policies reduce poverty? If elected President, would Massachusetts be the state others would “emulate”?

Between 2003 and 2007 (Governor Romney’s tenure), the number of poor families with children in Massachusetts grew 32 percent, from 84,466 to 111,703; meanwhile, the TANF caseload fell,

from 48,950 to 45,740.¹⁵ As a result, the TANF-to-poverty ratio declined from 58 to 41. This suggests a weakening of the cash assistance safety net – success would be if *both* caseloads and the number of poor families declined.

Governor Romney said he would “restore the work requirement because it works.” Did he impose work requirements that other states should “emulate”? In 2005, in the midst of his term as governor, Massachusetts had the lowest TANF 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 counted. Thus, the state’s work rate with the waivers was 59.9 percent. Ironically, even if one thought Governor Romney’s approach was successful, his objection to the HHS waiver proposal meant that no state could implement his specific model (one permitted only because of waivers) if he were elected as President.

A Competition of Ideas is not a Good Thing – if the Ideas are Bad Ideas. The fact of the matter is Massachusetts had a very weak welfare-to-work program. Once the waiver expired, the state began to look for ways to boost its work rate. Under TANF, “unsubsidized employment” counts as a work activity. In 2008, the state pioneered the use of a “gimmick” to “game” TANF’s work rate; specifically, it started making “token payments” (today, \$5 a month) to families receiving food stamps that had children and whose parents worked enough hours to count in TANF’s work rate. These families otherwise had no connection to TANF cash aid, but once they were given a “token payment,” they were considered “assistance cases” and included in the calculation of the work rate. The state’s regular TANF work rate that year was 13.8 percent, one of the lowest in the nation, but the rate for the families receiving these token payments was 98.3 percent, raising the state’s overall work rate to 44.7 percent. By manipulating the work rate this way, the state has been able to meet TANF’s work requirements and avoid a federal penalty. (This type of gimmickery, along with other gimmicks, is the real “gutting” of welfare reform; any waiver – if any had been granted – would pale in comparison to what states have done using the flexibility of the law itself.)

Other states have now “emulated” this idea, so today about 300,000 families representing about 20 percent of the TANF caseload are receiving such “token payments” just to “game” the work rate. The replication of this idea did nothing to help connect needy families to jobs and is an example of what happens when states are given a block grant with excessive flexibility.

NOTE: Given that TANF’s work requirements are based on conservative ideology rather than a careful reading of the empirical evidence, and the fact that many states have complained about the rigidity of these requirements, it is hard to see how someone like Chen who promotes a “competition of ideas” would oppose this strategy.¹⁶ Under TANF, there is virtually no evidence about the impact of work requirements or other policies, because states are not required to evaluate them and most have not – at least no rigorously.

Bottom Line. One of the arguments for the block-grant approach is that states would become laboratories for testing new approaches to promote self-sufficiency among welfare recipients. In fact, the opposite happened, as states were no longer required to rigorously evaluate their welfare reforms and we know little about the effects of most reform policies. Writing in 2015, Liz Schott, LaDonna Pavetti, and Ife Floyd of the Center on Budget and Policy Priorities observe:

The result is that, 19 years after TANF’s creation, we still have no rigorous evidence to inform debates about expanding work requirements to other programs. Similarly, because few states have implemented innovative employment strategies for families with substantial personal and family challenges, we still have very limited knowledge about how to significantly improve their employment outcomes. In short, states had an opportunity to innovate and rigorously evaluate new approaches to service delivery, but that is not the path they chose.¹⁷

The knowledge gap is not limited to work requirements. There is little evidence regarding the impact of time limits, sanctions, family caps, diversion programs, and an array of other provisions. Some policies have undoubtedly helped families move toward self-sufficiency, others have just as surely pushed them deeper into poverty.

Chen: Changes like the ones in Graham-Cassidy are needed to put the program on a fiscally responsible trajectory and ensure its survival.

PC Responses: There are many options that could be considered and some members were working on a bi-partisan plan to address some of the problems with the Graham-Cassidy bill. Rushing to pass a bill that doctors, hospitals, insurers, and most of the general public oppose is NOT what is needed. What is needed is a bi-partisan approach based on a careful assessment of evidence.

Chen: “Graham-Cassidy is not a perfect proposal. But Republicans no longer have the luxury of waiting for something better. The bill before them is the most thoughtful and, yes, conservative health-reform plan they have encountered in their years long effort to repeal and replace ObamaCare.”

PC Response: Thoughtful? There is nothing “thoughtful” about a block grant; it is simply passes the buck to states, turning a blind eye to what happened the last time block grants were used to repeal and replace a program (i.e., replacing AFDC with TANF). To the extent the politicians pushing this bill have given “thought” to anything, it seems it’s about how to adjust funding levels in an attempt to bribe reluctant colleagues into supporting the bill.

Chen: “They should act quickly to pass it and get the job done.”

PC Response: This is an incredibly irresponsible statement for someone who is the director of domestic policy studies at a prestigious university’s Public Policy Program. The first and foremost goal should be to get the policy right. Given the public’s disdain for the bill, the fact that few health care groups or health policy experts believe support it, the absence of an analysis

by the Congressional Budget Office, and the failure of the 1996 welfare reform (i.e., block grant approach), the more appropriate recommendation would be to take the time necessary to get it right.

Conclusion

There is a better conservative model of federalism – it is President Reagan’s waiver-based approach. It relied on a concept of cost neutrality (not a fixed block grant) and included a requirement for rigorous evaluation. The 1996 welfare reform should have built on this approach, expanding and refining the waiver process to other programs to promote evidence-based learning.¹⁸

If Chen really wants a “competition of ideas,” the “waiver model” is the best approach, particularly when making changes that affect some of the nation’s most vulnerable families.

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 Lanhee J. Chen, "Republicans Get One Last Chance on ObamaCare Reform: Graham-Cassidy is not perfect, but it creates a competition of ideas and gives power back to states," *The Wall Street Journal*, September 20, 2017, available at: <https://www.wsj.com/articles/republicans-get-one-last-chance-on-obamacare-reform-1505948601>.

³ The findings from random assignment experiments are considered the most credible, because the experimental and control groups are alike and subject to the same external conditions, with the only difference being the intervention itself. Thus, any difference in outcomes between the groups can be attributed to the intervention – welfare reform – itself.

⁴ 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.

⁵ 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.

⁶ For examples, see Peter Germanis, "Did a Flexible Block Grant for Welfare Spur State Innovation? Absolutely – But That 'Innovation' Didn't Help Poor Families," January 14, 2017, available at: <http://mlwiseman.com/wp-content/uploads/2016/05/Block-grants-and-innovation.pdf>.

⁷ 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>.

⁸ See papers by "Peter the Citizen" at: <http://mlwiseman.com/?portfolio=peter-the-citizen>.

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 All figures from, Center on Budget and Policy Priorities, "Louisiana's TANF Cash Assistance is Disappearing for Poor Families," March 30, 2017, available at: https://www.cbpp.org/sites/default/files/atoms/files/tanf_trends_la.pdf.

¹¹ Liz Schott, LaDonna Pavetti, and Ife Floyd, "How States Use Federal and State TANF Funds Under the TANF Block Grant," Center on Budget and Policy Priorities, October 15, 2015, Figures 2 and 3, available at: <http://www.cbpp.org/research/family-income-support/how-states-use-federal-and-state-funds-under-the-tanf-block-grant>.

¹² Liz Schott, LaDonna Pavetti, and Ife Floyd, "How States Use Federal and State TANF 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>.

¹³ Cited in Dylan Matthews, "Welfare reform's architect: You call that a gutting?," *The Washington Post Wonk Blog*, August 7, 2012, available at: https://www.washingtonpost.com/news/wonk/wp/2012/08/07/welfare-reforms-architect-you-call-that-a-gutting/?utm_term=.bca6abf33d9f.

¹⁴ Eugene Kiely, "Does Obama's Plan 'Gut Welfare Reform'?", FactCheck.Org, August 9, 2012, available at: <http://www.factcheck.org/2012/08/does-obamas-plan-gut-welfare-reform/>.

¹⁵ Between 1996 and 2015, the number of poor families with children in poverty increased from 113,500 to 118,100, meanwhile, the TANF caseload fell from 91,500 to 40,300. As a result, the state's TANF-to-poverty ratio fell from 81 to 34. See Center on Budget and Policy Priorities, "Massachusetts' TANF Cash Assistance is Disappearing for Poor Families," March 30, 2017, available at: https://www.cbpp.org/sites/default/files/atoms/files/tanf_trends_ma.pdf.

¹⁶ HHS has a history of requiring rigorous evaluations and the guidance specifically stated, "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." See: 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>.

¹⁷ 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>.

¹⁸ 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>.