Understanding "$2 a Day" Poverty:
An Explanation for Robert Doar

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Many conservatives view the 1996 welfare reform law (particularly the creation of the Temporary Assistance for Needy Families or TANF block grant) as an unprecedented success and a model for reforming other safety net programs. I offer an alternative conservative perspective, based on a model developed in the Reagan Administration, which provided states flexibility, but unlike TANF had strong accountability provisions – most notably cost neutrality and rigorous evaluation – to ensure that states actually helped needy families. This approach was continued by President George H.W. Bush and President Clinton. TANF replaced this evidence-based approach with a blank check and no meaningful accountability. For the past year, I have been writing critiques of TANF and "responses" to those who suggest TANF has been a "success."

Robert Doar of the American Enterprise Institute is a strong proponent of the 1996 law. He recently wrote an article, "TANF has been a success – Let's make it better," in which he contends, "Based on 20 years of program performance, we can say that TANF has been a success."[2] Unfortunately, this is not the case. As I explain in "TANF has been a massive policy failure – Let's start over," Doar's assessment relies on misleading data comparisons and outdated research findings.[3] More important, it fails to reflect the reality of what TANF has become. TANF is not "welfare reform" at all, but a flexible funding stream that has failed to provide an adequate safety net or an effective welfare-to-work program. Instead, in many states, it is a slush fund used to supplant state spending and fill budget holes – it is welfare for states, not poor families.

In "Are Americans Really Living on $2 a Day?," Doar criticizes findings of a recent book by Kathryn Edin and Luke Shaefer, *$2 a Day: Living on Almost Nothing in America*. Using national survey data, Edin and Shaefer report a sharp increase in the number households with children living on less than $2 in *cash income* per person, per day – or "extreme poverty" – between 1996 and 2011.[4] They highlight many other forms of data that yield the same conclusion. Then they supplement this with in-depth interview data collected over a number of years, in sites across the country: Chicago, Cleveland, a midsize city in the Appalachian region and small rural villages in the Mississippi-Delta. Their interviews focused on families who lived on cash incomes of no more than $2 per person, per day for parts of the year. Their research suggests a sharp increase in extreme poverty caused, at least in part, by the collapse of the cash assistance safety net as a result of the 1996 law.

Doar apparently finds their statistics inconvenient, as they raise questions about the putative success of the 1996 welfare law. Doar tries to buttress his position by invoking the work of Harvard's Christopher Jencks, who recently reviewed the Edin-Shaefer book.[5] While acknowledging ing that Jencks "has some very nice things to say about Edin and Shaefer's book" (indeed, note that the title of the Jencks review is "Why the Very Poor Have Become Poorer"), Doar also finds "caveats" that he believes are strong enough to undermine their case and indeed the suggestion that 1996 welfare law may not have been as harmful to the poor as some suggest. Doar cautions:

> Jencks concludes his review of Edin and Shaefer with a note of uncertainty about whether the 1996 changes really are to blame for the apparent increase in severe poverty, calling the assertion "the kind of speculation" that can neither be verified nor refuted.
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> In the coming weeks, as we approach the 20th anniversary of the signing of the legislation which replaced AFDC with TANF, you can be sure that voices from the progressive left are not going to be as careful about saying that the struggles of the poor today should be blamed on the 1996 change in federal policy. As Jencks helps us to see, their arguments may not add up.

What doesn't "add up" is Doar's analysis of the Edin and Shaefer book and the conventional conservative wisdom that TANF is an "unprecedented success."

TANF defies common sense. I am a conservative; I promote a welfare model developed in the Reagan Administration; and I contend that TANF is a massive policy failure. I have documented its failures in over a dozen papers written as a citizen over the past year, most notably in *TANF is Broken! The Need to Reform "Welfare Reform."*[6] In my view, the "progressive left" and other critics are far too soft in assessing TANF's epic failure, occasionally referring to the program's effects as "mixed,"[7] and developing policy options for incremental reforms that leave TANF's deep structural flaws in place.[8] TANF is a complete and total failure; conservatives should worry less about the progressive left and more about the competency of their own policies.

The *$2 a Day* Findings

Using the Survey of Income and Program Participation (SIPP), Kathryn Edin and Luke Shaefer find that 1.5 million households (with 3 million children) were living on less than $2 in cash per person, per day in 2011 – an increase of 130 percent since 1996. (Notably, the SIPP does a better job of capturing welfare receipt than other surveys, such as the Current Population Survey (CPS).) Finding that this effect is highly concentrated among the very groups that would have been most impacted by the 1996 reform they conclude, "We believe this is strong suggestive evidence that a decline in the reach of cash assistance was a major contributing factor to the growth in the extreme poor seen in the SIPP." They also look at the increase of households with children with zero cash income in the Supplemental Nutrition Assistance Program (SNAP) administrative data. The results are consistent with the survey data. Between 1996 and 2011, the number of such households increased over 300 percent, from 316,000 to 1.3 million. Notably, SNAP administrators would have access to TANF records and undertake other efforts to verify income. They also examine other possible indicators, such as the increase in the increase in the number of homeless students between 2004 and 2014.

Doar's caveats revolve around two points raised by Jencks and the authors themselves. First, Edin and Shaefer don't include noncash benefits and refundable tax credits, thus understating their total incomes. Second, they focus on spells as short as one month, which may be "an overly stringent standard, as people often have a month of no earnings after they lose or seek to change jobs. For such a short period of time, they are often able to rely on savings, or help from family and friends." Both points are valid, and Edin and Shaefer present their findings with these adjustments. As responsible researchers, they examine the problem of extreme poverty using a variety of assumptions and present all of their findings.

In particular, they are clear about their focus on cash income because families need cash to pay rent and buy other necessities. *This focus helps illustrate the collapse of the cash assistance safety net provided by TANF*. Speaker Ryan has my copy of *$2.00 a Day*, but even so, I remember that one must go no further than the book's introduction to understand this point. Did Mr. Doar review the book before writing his critique? SNAP benefits can only be used for food; most families eligible for housing assistance do not receive it; and the EITC is paid as a lump sum once a year and not necessarily when the family is most in need.

The growth in extreme poverty is just one of many indicators that researchers can and should look at. My own criticism of Edin and Shaefer is that their threshold is too low. Jencks compares the $2 per person, per day criterion to the official poverty threshold, noting:

> This cutoff was between 9 and 13 percent of the official poverty threshold for most American families. For a single mother of two, for example, Edin and Shaefer's "extreme" poverty threshold was $6 a day while the "official" 2011 threshold came to just under $50 a day.

Even if adding noncash benefits and refundable tax credits reduces "extreme poverty" by a significant amount, most families would remain poor – indeed very poor.

Edin and Shaefer also interviewed 18 families in four different cities. Their observations are consistent with their empirical findings:

> TANF is virtually dead in all of these places. It's absolutely striking that every one of our families is categorically eligible for TANF, and none of them are receiving it. For most, it doesn't even enter their minds to receive it. This was the most shocking thing of all, in a way. Prior to welfare reform, the large majority of poor people got something from the AFDC system [Aid to Families with Dependent Children, the old name of welfare] during the course of the year.
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> Now the fraction who get anything from TANF is very small, just over a quarter. It's really a shadow of itself. We argue that it's dead, and where it's really dead is in the imaginations and thought processes of the poor. This is not seen as a fallback. In most cases, it doesn't occur to people to apply. We saw this again and again in site after site.[9]

It is a fact that TANF as cash assistance is virtually non-existent in many states. Consider the following statistics:

- In 1996, the TANF-to-poverty ratio for the nation was 68; in 2014 it was 23.[10] (The TANF-to-poverty ratio compares the average monthly AFDC/TANF cash assistance caseload per 100 poor families with children.)

- In 1995, Alabama had the lowest TANF-to-poverty ratio at 34; in 2014, 44 states had a TANF-to-poverty ratio lower than this.[11]

- In 2014, 12 states had a TANF-to-poverty ratio of less than 10 – more than two-thirds lower than Alabama's pre-TANF level.[12]

TANF really is "dead" in many states.

What is Doar's evidence for TANF's poverty-reducing impact? Writing in 2015, he states:

> TANF is a bright spot: Few programs have generated such strong gains in poverty reduction and employment. The program's robust work requirement, accountability of state performance, and expanded administrative flexibility all helped raise the labor force participation of never-married mothers from 59.5 percent in 1995 to 73.8 percent in 2001 and reduce their poverty rate from 51 percent to 38.5 percent over the same time period.[13]

It is now 2016! The positive outcomes Doar is referring to largely disappeared in the years after 2001 (even if one believes they were due to TANF).[14] Doar picked a time period of strong economic growth and expanded aided to the working poor, particularly the expansion of the Earned Income Tax Credit. What happened in TANF's early years is largely irrelevant, particularly since the single most important policy change at that time was giving states a federal windfall of about 20 percent because Congress based the block grant amount on federal spending in the years *before* TANF when it was at a historical high.

Is the Rise in Extreme Poverty Speculation?

Doar ends by noting that Jencks is inconclusive about whether the 1996 law is responsible for the increase in severe poverty, quoting him as saying that it is "the kind of speculation that can neither be verified nor refuted." As an academic, Jencks is right to be cautious, as are Edin and Shaefer, who report their findings as "strong suggestive evidence." Unlike the AFDC waiver experiments that preceded TANF, which could be evaluated rigorously using random assignment to assess their impacts on welfare dependency and self-sufficiency, TANF cannot be evaluated in this manner. TANF replaced an evidence-based reform approach with a blank check to states with no accountability. There is no counterfactual that could be constructed in any rigorous way, thanks to the TANF policy design.

But Doar is quite disingenuous when he says, "As Jencks helps us to see, their [referring to critics of the law] arguments may not add up." With regard to the 1996 law, Jencks recently discussed the importance of distinguishing between "winners" and "losers":

> People who were able to find work, either because they live in places where work was available, or because they were better qualified than the average welfare recipient, have done pretty well. People who can't find work are where they were before they had welfare at all. That's a big problem. People have no means of support for themselves or their children.[15]

Notably, in 2004, Jencks co-authored an article with Scott Winship that declared, “Welfare reform is now widely viewed as one of the greatest successes of contemporary social policy.”[16] He now acknowledges, “I was wrong.”[17] Doar is wrong too.

TANF is Broken! (and that’s not speculation)

TANF is not a “bright spot” as Doar suggests – it is a policy disaster. The problem is TANF’s design – the block grant structure, excessive state flexibility, needless complexity, and ineffective (even counterproductive) federal requirements. Doar and other conservatives should explain how the following features of TANF help reduce poverty:

- The 1996 law gives states enormous flexibility to divert federal funds to fill budget holes. States have used TANF funds for college scholarships, child welfare, preK, and dozens of other purposes. In many cases, this has involved using tens of billions of dollars in federal funds to simply supplant existing state expenditures.

- The 1996 law expected states to maintain their own spending levels through its maintenance-of-effort (MOE requirement). However, this level was set at 75-80 percent of historic spending levels and it has not been adjusted for inflation. As a result, states need only spend about half of what they spent before TANF, despite the fact that the number of poor families with children has increased. Even so, some states have become creative in finding ways to count more pre-existing spending as MOE, so they can reduce their own level of effort.

    - Michigan hired a consultant to find additional pre-existing expenditures to count as MOE, as described in a memorandum by Maura Corrigan, then Director of the Michigan Department of Human Services:

        > In order to maximize TANF MOE spending and avoid these penalties [penalties for failing to meet TANF’s basic MOE requirement], DHS contracted with the Public Consulting Group (PCG) on a contingency fee basis to assist the state in meeting the basic Fiscal Year 2010 TANF MOE requirement. PCG employed numerous strategies in this effort including assisting with claims for refundable earned income credit payments, Early Childhood Investment Corporation expenditures, United Ways and 211 expenditures, independent foundation expenditures, and TANF eligible programs operated by the county of Wayne.[18]

    - Some states count the spending of third-party non-governmental sources toward their state MOE requirement, essentially rewarding states for spending outside groups would have undertaken in the absence of TANF. These expenditures must meet a TANF purpose, but otherwise can count as a donation that is considered MOE. Common examples of third-party non-governmental expenditures that states have claimed as MOE include expenditures by food banks and Boys/Girls Clubs for TANF-eligible families. For example, in 2014, 57 percent of Georgia’s

MOE contribution ($99 million) was from third-party non-governmental sources.[19]

- Doar believes TANF's success is due to its "robust work requirements." In fact, Congress gutted work requirements in 1996 in enacting TANF, creating a myriad of loopholes. (For a more comprehensive discussion of TANF's congressionally-created work requirement loopholes, see "TANF Work Requirements: An Epic Fail," in *TANF is Broken!*) Most states use gimmicks to meet these work requirements, rather than actually connecting needy families to welfare-to-work activities that might help.

    - In FY 2015, some states artificially inflated their work rates by paying token benefits (e.g., $10 a month) to low-income families that otherwise would not be on welfare to artificially boost their work rates. This accounted for about 15 percent of the national caseload – 250,000 families, all of whom were already working and who otherwise had no connection TANF cash assistance.[20]

    - In FY 2015, over 100,000 families were shifted to "solely state funded" programs because they did not have enough hours to count in the work rate; this is possible because TANF is a flexible and fungible funding stream.[21]

    - By way of comparison, in FY 2013 (the latest year for which data are available), relatively few of the TANF families that were counted as "participating" were in a real activity:
        - Vocational educational training: 39,000
        - Work experience: 26,000
        - Job search and job readiness assistance: 60,000

      Since some individuals may be in more than one activity, a rough approximation is that in an average month, 100,000 individuals participated in a real activity enough hours to count.[22] This represents just 6 percent of the cash assistance caseload and about 1-2 percent of poor families with children.

  States spent just 7 percent of their TANF/MOE funds on work activities.[23] How does creating a work requirement structure that encourages states to use gimmicks rather than engage families in a real activity help needy families? Indeed, TANF's work requirements are unreasonable and have done more to push families off welfare than help them achieve greater self-sufficiency.

- TANF replaced a simple and effective federal-state matching approach with an ineffective, Rube Goldberg-like financing scheme, one that is unresponsive to economic and demographic conditions and needlessly complex and has allowed states to manipulate funding streams to circumvent most federal requirements.

- TANF gives states the flexibility to duplicate the benefits and services of dozens of other low-income programs with virtually no accountability. When Congress makes this complaint about the Social Services Block Grant, it wants to terminate it. But when this occurs on a much larger scale in TANF, it is an "unprecedented success."

- Under TANF, states can create programs that have either no income limit or that permit states to set very high income limits. How does diverting funding from the poor to the non-poor help reduce poverty?

Conclusion

The foregoing is just a brief overview of some of TANF's problems. Instead of worrying about progressives, Doar and other conservatives should address TANF's very real design flaws.

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

[2] Robert Doar, "TANF has been a success – Let's make it better," American Enterprise Institute, September 29, 2015, available at: https://www.aei.org/publication/tanf-has-been-a-success-lets-make-it-better/.

[3] Peter Germanis, "TANF has been a massive policy failure – Let's start over: A Response to Robert Doar," October 22, 2015, available at: http://mlwiseman.com/wp-content/uploads/2015/11/TANF-has-been-a-massive-policy-failure.A-response-to-Robert-Doar.pdf.

[4] Doar is careless in his presentation of these findings. For instance, he writes, "…Edin and Shaefer argue that some single parent families are dramatically worse off than they were before the passage of the 1996 welfare reform legislation…" Actually, they don't make this argument; this would require a longitudinal study following the same families from before TANF following them for years after. While the survey they use, the Survey of Income and Program Participation (SIPP) is a longitudinal survey, their results are based on four separate panels. So, when they compare 1996 to 2011, they are not comparing the same families. Rather, they examine the change in the number of families with less than $2 in cash income per person, per day. Also, Edin and Shaefer do not limit their analysis to single-parent families. Doar later refers to "families living on $2 a day"; the authors are clear that they focus on the number of families living on $2.00 *per person*, per day. For a family of three, this would be $6.00 a day.

[5] Christopher Jencks, "Why the Very Poor Have Become Poorer," *The New York Review of Books*, June 9, 2016, available at: http://www.nybooks.com/articles/2016/06/09/why-the-very-poor-have-become-poorer/.

[6] 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.

[7] For example, Robert Greenstein says: "The child poverty rate fell in the years immediately following TANF's creation, when the economy was booming and major Earned Income Tax Credit (EITC) expansions took full effect, and TANF likely played a role here, though it's not possible to determine exactly how much it contributed to the decline and the evidence now suggests its contribution was likely modest." (See Robert Greenstein, "Welfare Reform and the Safety Net: Evidence Contradicts Likely Assumptions Behind Forthcoming GOP Poverty Plan," Center on Budget and Policy Priorities, June 6, 2016, available at: http://www.cbpp.org/research/family-income-support/welfare-reform-and-the-safety-net.) TANF is not welfare reform, but a funding stream. Initially, it provided states a large windfall in federal funds by basing the block grant on historic spending levels when caseloads had peaked, but this windfall has since become a deficit. It also sent a strong work message, but this same message could have been achieved by reforming the pre-existing Job Opportunities and Basic Skills Training (JOBS) program.

[8] For example, Marianne Bitler and Hilary Hoynes propose the following TANF reforms: require states to spend at least 25 percent of the TANF dollars on cash assistance and at least 50 percent on the core welfare reform activities; improve targeting by limiting spending to families with incomes below 150 percent of the poverty line; increase accountability by adding new data reporting requirements; and restore the block grant to its prior inflation-adjusted value and index it for inflation. (See Marianne Bitler and Hilary Hoynes, "Strengthening Temporary Assistance for Needy Families," The Hamilton Project, May 2016, available at: http://www.hamiltonproject.org/assets/files/bitler_hoynes_strengthening_tanf.pdf.) These reforms would strengthen the safety net aspects of TANF, but do not go far enough to address its core structural problems – the block grant with excessive state flexibility remains in place, the work requirements remain dysfunctional and subject to state gaming, a significant share of its funding can still be used to supplant existing state spending or otherwise fill budget holes, to name only a few problems.

[9] See Kathryn Edin in Dylan Matthews, "Selling plasma to survive: how over a million American families live on $2 per day," *Vox.com*, September 2, 2015, available at: http://www.vox.com/2015/9/2/9248801/extreme-poverty-2-dollars.

[10] Ife Floyd, LaDonna Pavetti, and Liz Schott, "TANF Continues to Weaken as a Safety Net," October 27, 2015, available at: http://www.cbpp.org/research/family-income-support/tanf-continues-to-weaken-as-a-safety-net.
[11] *Ibid*.
[12] *Ibid*.
[13] Robert Doar, "TANF has been a success – Let's make it better," American Enterprise Institute, September 29, 2015, available at: https://www.aei.org/publication/tanf-has-been-a-success-lets-make-it-better/.
[14] For a more detailed discussion of how TANF increased poverty, see Peter Germanis, "'Welfare Reform' Increased Poverty and No One Can Contest It: A Note to Conservatives," April 24, 2016, available at: http://mlwiseman.com/wp-content/uploads/2015/11/Welfare-Reform-Increased-Poverty.pdf.
[15] Max Ehrenfreund, "Bernie Sanders is right: Bill Clinton's welfare law doubled extreme poverty," *The Washington Post*, February 27, 2016, available from: *https://www.washingtonpost.com/news/wonk/wp/2016/02/27/bernie-sanders-is-right-bill-clintons-welfare-law-doubled-extreme-poverty/*.
[16] *Ibid.*
[17] *Ibid.* In fairness to professor Jencks, the weaknesses of the TANF model were masked in the early years by a strong economy and the federal funding windfall and many observers considered the reform a success. Clearly, today it is not.
[18] Letter from Maura Corrigan, Director, Michigan Department of Human Services, to the Honorable Bruce Caswell, Chair, Senate Appropriations Subcommittee on DHS and the Honorable David Agema, Chair, House Appropriations Committee on DHS, February 23, 2011, available at: https://www.michigan.gov/documents/dhs/TANF_MOE_sources_348466_7.pdf.
[19] 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.
[20] This figure is derived from a wide range of documents; readers interested in more detail on sources for this information should email me at petergermanis1@gmail.com. See also *TANF is Broken!*
[21] This figure is derived from a wide range of documents; readers interested in more detail on sources for this information should email me at petergermanis1@gmail.com. See also *TANF is Broken!*
[22] These figures are from U.S. Department of Health and Human Services, Administration for Children and Families, Office of Family Assistance, "Work Participation Rates – Fiscal Year 2013," January 12, 2016, available at: http://www.acf.hhs.gov/programs/ofa/resource/wpr2013. See Table 4A.
[23] U.S. Department of Health and Human Services, Administration for Children and Families, Office of Family Assistance, "TANF and MOE Spending and Transfers by Activity, FY 2014," November 16, 2015, available at: http://www.acf.hhs.gov/programs/ofa/resource/tanf-and-moe-spending-and-transfers-by-activity-fy-2014.