

## **A “Super Block Grant” is a Super Bad Idea: A Response to Gary Alexander**

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In “Taming Public Welfare Can Fix Our Economy and Eliminate Poverty,” Gary Alexander outlines a plan to replace over 70 means-tested programs with a “simplified system” that consolidates federal funding streams into a single “super block grant.”<sup>2</sup> He argues:

As a former state official who spent nearly two decades managing public-welfare programs in Rhode Island and Pennsylvania, I can attest that these programs are broken and riddled with inefficiencies, abuse and fraud. The only way to reverse this is a new federal-state agreement that harnesses the proven power of the states as laboratories of democracy and downsizes and limits the top-down, heavy-handed, federal government approach to conduct the limitless war on poverty...

Alexander adds that there is a historical precedent, “A global fix like this is not untested. A block-grant model ensured the success of the bipartisan legislation that created the Temporary Assistance for Needy Families program in 1996.” A careful examination of the TANF experience, however, suggests the opposite.

TANF is not the “success” conservatives claim it to be. While the 1996 law sent a symbolic message about the importance of work requirements and time limits, in practice, neither of these elements has been implemented in the way Congress intended.<sup>3</sup> Many states did not use their 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.<sup>4</sup> Indeed, TANF is not “welfare reform” at all, but a form of revenue sharing. 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.”<sup>5</sup>

### **The Failure of TANF in Rhode Island (the Alexander era)**

Gary Alexander’s tenure as Secretary of Health and Human Services for Rhode Island from 2006 to 2011 stands out as a warning about the dangers of a block grant. During this period, the number of poor families with children in the state grew 22 percent, from 19,602 to 23,846. Meanwhile, the number of families receiving TANF cash assistance fell 45 percent, from 12,552 to 6,859. In just five years, the TANF-to-poverty ratio fell from 64 to 29.<sup>6</sup>

Why did the safety net collapse during Alexander’s time in Rhode Island? Alexander might respond that much of his tenure was after the start of the Great Recession, which would explain the increase in poverty. This response would only highlight one of the major limitations of the block grant – its inability to respond to economic downturns. Even with a fixed amount of

funding, however, the state should have been able to at least maintain its cash assistance caseloads, but it did not. Instead, the state used its flexibility to shorten its time limit on assistance and to terminate the entire family rather than just the adult, even as the state’s unemployment rate more than doubled, from about 5.0 percent in 2006 to about 11 percent over the entire 2009-2011 period.<sup>7</sup> Given the foregoing statistics, it is hard to see how this is a winning strategy in the war on poverty – it looks more like a war against the poor.

Conservatives like to emphasize work requirements. In this regard, the state’s overall work rate fell from 24.9 percent in fiscal year (FY) 2006 (already below the national average at the time) to 11.0 percent in FY 2011 – the second lowest in the nation. In FY 2011, in an average month, just over 100 families participated in a real work activity (other than “unsubsidized employment”) enough hours to count in the state’s work rate, with 59 in job search and job readiness assistance (typically a low-cost activity), 20 in work experience, and 53 in vocational educational training.<sup>8</sup> This represents less than 2 percent of families receiving cash assistance and less than 0.5 percent of poor families with children.

Instead of preserving the cash assistance safety net or investing in work activities, Rhode Island used TANF, as many states do today, as a slush fund to fill budget holes elsewhere. Between FY 2006 and FY 2011, the state reduced spending on basic assistance from 39 percent of total funds used to just 22 percent; meanwhile, spending on a nebulous category called “Other” rose from 16 percent to 34 percent (with an intermediate high of nearly 40 percent in FY 2010). This reveals a second problem with a block grant – the excessive flexibility to divert funds from core welfare reform purposes to simply fill budget holes.

<b>The TANF Block Grant in Rhode Island Under Gary Alexander: Is this Really a Success Story?</b>						
	<b>Year</b>					
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b># poor families w/kids</b>	19,602	17,357	20,431	23,989	24,050	23,846
<b>TANF caseload</b>	12,552	11,650	10,743	9,425	7,843	6,859
<b>TANF-to-Poverty Ratio</b>	64	67	53	39	33	29
<b>Work Rate Achieved</b>	24.9%	26.8%	17.5%	13.8%	12.0%	11.0%

*Source:* Poverty and caseload data from the Center on Budget and Policy Priorities; work participation rate data from the U.S. Department of Health and Human Services, Administration for Children and Families, Office of Family Assistance, various tables at: <https://www.acf.hhs.gov/ofa/programs/tanf/data-reports>.

Alexander had the chance to show us what a state could achieve under a block grant, but the Rhode Island experience is a cautionary tale about block grants.

### **Welfare’s Dysfunction Begins at the Top**

Alexander says, “The welfare dysfunction begins at the top. Most elected and non-elected government officials, including bureaucrats operating these programs, don’t understand the

system's complexities or care about the people trapped in it." I agree, and perhaps the most notable example of this problem is Speaker Ryan's "Poverty, Opportunity, and Upward Mobility" report, which was released as part of a series of reports under the rubric of *A Better Way*.<sup>9</sup> Unfortunately, there were no bold new ideas or policy specifics; instead the report was nothing more than conservative talking points, with misleading information about the effects of welfare programs and vague policy recommendations. A *much* better way would be to provide a detailed, fact-based, and objective description of the welfare system and its effects and then to develop policy recommendations that can be supported by data and research evidence.

Why does such dysfunction exist? One reason is the work of consultants like Alexander himself who use grossly misleading examples to make a point. For example, in making his case for the "super block grant," he writes:

Many single mothers with multiple children have told me that they choose welfare over work because, if they make over a certain amount of money, they end up losing benefits. This is what I have repeatedly called hitting "the welfare cliff," leading a recipient to choose roughly \$45,000 in benefits instead of taking a \$25,000-a-year job.

I understand welfare's complexities and I am familiar with much of the research surrounding the labor supply effects of welfare program. More than 30 years ago, President Reagan announced a bold new strategy to reform the welfare system, described in *Up from Dependency: A New National Public Assistance Strategy*. This report, along with its supplements, was and remains the most comprehensive description of the welfare system and its effects – nearly 2,000 pages long. I was one of the primary authors on many of these reports, but in particular, those describing the welfare system (including its dysfunction) and the research surrounding its effects (including "cliff" effects).

The implication that welfare recipients must choose between \$45,000 in benefits and a job paying \$25,000 a year is inaccurate, irresponsible, and should disqualify anyone making such a statement from being a serious player in the policymaking process. (Sadly, Speaker Ryan's report makes a similar claim, though even his report does not suggest a family with no earnings receives \$45,000 in benefits). It appears that Alexander's figure of \$45,000 is based on an assumption that a single mother with two children in Pennsylvania with no earnings would receive TANF, SNAP, energy assistance, housing assistance, child care, and Medicaid.<sup>10</sup> The problem with this example is that almost no family receives this package of benefits. The Congressional Research Service estimated the percentage of the eligible population served in 2012 by some of the major means-tested programs.<sup>11</sup> While SNAP provided benefits to 69.6 percent of eligible persons, TANF served just 28.4 percent of those eligible; for housing assistance and child care subsidies the reach was even lower – 18.2 percent and 16.9 percent, respectively.<sup>12</sup> Alexander's assumption that a family with no earnings would receive about \$16,000 as a child care subsidy is particularly odd, given that most child care is provided to working parents. A far more realistic package of benefits would be SNAP and Medicaid – leaving the family with an income well below the poverty line (even if one includes Medicaid as "income").

The issue of welfare's incentive effects is important and merits discussion, but neither Alexander nor Speaker Ryan provides a reasonable starting point for such a discussion. This requires a fair and comprehensive examination of multiple benefit receipt and the research surrounding welfare's labor supply effects. And, more importantly, it requires a process for generating evidence on an on-going basis.

### **States as Laboratories?**

One of the arguments for the block-grant approach, including one that Alexander makes, is that states would become laboratories for testing new approaches to promote self-sufficiency among welfare recipients. In fact, under TANF, 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 observed:

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.<sup>13</sup>

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 policies.

Determining the impact of social programs can be challenging; a good counterfactual is required. In *Show Me the Evidence: Obama's Fight for Rigor and Results in Social Policy*, Ron Haskins and Greg Margolis remind us of this important consideration:

...evidence-based strategy can work only if the field of social science has a method ready for widespread use that allows successful programs to be identified with high reliability. Fortunately, in what is social science's most important contribution to social policy, the field does have such a method: the random-assignment experiment or, more formally, the randomized control trial.<sup>14</sup>

To make progress, we need to look to the past. In 1987, President Reagan started encouraging states to use existing authority to conduct welfare reform experiments – 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). This approach was continued by President Bush and President Clinton. By August 1996, 43 states had received welfare waivers to test a wide variety of reforms. This process did not provide a fixed level of funding, like block grants. Instead, it relied on an approach that would provide a real counterfactual using the "gold standard" of evaluation – random assignment – for both cost neutrality and evidence-based learning.<sup>15</sup>

The findings from random assignment experiments are considered the most credible, because the experimental and control groups are alike and subject to the same external conditions, with the only difference being the intervention itself. Any difference in outcomes between the groups can be attributed to the intervention – welfare reform – itself. Thus, policymakers could have confidence in whether the state reforms actually reduced welfare dependency and poverty by increasing self-sufficiency. And, the experience of the control group could be used to ensure cost-neutrality, as the budgetary effects of any programmatic changes would be measured by examining the experimental-control group differences in costs.

This approach provided credible 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.<sup>16</sup> The next step would have been to refine this process and expand waiver authorities in other programs.<sup>17</sup> Now we have to start over, but one thing should be clear – a “super block grant” is a super bad idea.

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<sup>1</sup> The views in this document reflect my own as a citizen and do not reflect the views of any organization I am now or have ever been affiliated with. 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>.

<sup>2</sup> Gary D. Alexander, "Taming Public Welfare Can Fix Our Economy and Eliminate Poverty," *Forbes*, February 17, 2017, available at: <http://www.forbes.com/sites/realspin/2017/02/17/taming-public-welfare-can-fix-our-economy-and-eliminate-poverty/#7647e20a5bbc>.

<sup>3</sup> 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>. The report describes how the creation of the TANF block grant with *excessive* state flexibility set in motion changes that would: (1) provide large windfalls of federal funds for states initially, but also put in place a funding structure that in the longer-term would provide insufficient resources due to inflation and demographic changes; (2) permit states to use federal funds to supplant their own spending (by tens of billions of dollars since TANF was created), with no added value for federal taxpayers or needy families; (3) allow states to convert TANF (over time) to a giant slush fund with minimal reporting and accountability provisions; (4) impose a Rube Goldberg-like set of bureaucratic and ineffective funding formulas and requirements; and (5) give states excessive flexibility to avoid or evade virtually all of the federal requirements in the law, most notably work requirements and time limits. The result of this misguided effort is a safety net with massive holes – one that is not effective in providing either basic assistance to needy families or ensuring that low-income parents receive the work-related activities and services they need to become self-sufficient.

<sup>4</sup> 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>.

<sup>5</sup> Ron Haskins, "TANF at Age 20: Work Still Works," *Journal of Policy Analysis and Management*, Winter 2015, available at: <http://mlwiseman.com/wp-content/uploads/2015/11/Haskins2015Age.pdf>.

<sup>6</sup> See data tables at Ife Floyd, LaDonna Pavetti, and Liz Schott, "TANF Continues to Weaken as a Safety Net," Center on Budget and Policy Priorities, October 27, 2015, available at: <http://www.cbpp.org/research/family-income-support/tanf-continues-to-weaken-as-a-safety-net>.

<sup>7</sup> LaDonna Pavetti, Danilo Trisi, and Liz Schott, "TANF Responded Unevenly to Increase in Need During Downturn: Findings Suggest Needed Improvement When Program Reauthorized," January 25, 2011.

<sup>8</sup> U.S. Department of Health and Human Services, Administration for Children and Families, Office of Family Assistance, "Work Participation Rates – Fiscal Year 2011," April 15, 2014, available at: <https://www.acf.hhs.gov/ofa/resource/wpr2011>.

<sup>9</sup> "Poverty, Opportunity, and Upward Mobility," in *A Better Way: Our Vision for a Confident America*, June 7, 2016, available at: <http://abetterway.speaker.gov/assets/pdf/ABetterWay-Poverty-PolicyPaper.pdf>.

<sup>10</sup> Statement of Gary D. Alexander, Secretary of Public Welfare, Commonwealth of Pennsylvania, before the Senate Budget Committee, United States Senate, February 13, 2013, p. 8, available at: <file:///C:/Users/Peter/Documents/A%20PC/Short%20Testimony%2002-13-13.pdf>.

<sup>11</sup> Gene Falk, Alison Mitchell, Karen E. Lynch, Maggie McCarty, William R. Morton, and Margot L. Crandall-Hollick, "Need-Tested Benefits: Estimated Eligibility and Benefit Receipt by Families and Individuals," Congressional Research Services, December 30, 2015, available at: <https://fas.org/sgp/crs/misc/R44327.pdf>.

<sup>12</sup> *Ibid*, p. 14.

<sup>13</sup> Ife Floyd, LaDonna Pavetti, and Liz Schott, "TANF Continues to Weaken as a Safety Net," October 27, 2015, available at: <http://www.cbpp.org/research/family-income-support/tanf-continues-to-weaken-as-a-safety-net>.

<sup>14</sup> Ron Haskins and Greg Margolis, *Show Me the Evidence: Obama's Fight for Rigor and Results in Social Policy* (Washington, D.C.: Brookings Institution Press, 2015), p. 12.

<sup>15</sup> See Judith M. Gueron and Howard Rolston, *Fighting for Reliable Evidence* (New York, NY: Russell Sage Foundation, June 2013) and Michael E. Fishman and Daniel H. Weinberg, "The Role of Evaluation in State Welfare Reform Waiver Demonstrations," in *Evaluating Welfare and Training Programs*, edited by Charles Manski and Irv Garfinkel, (Harvard University Press, January 1992), pp. 115-142.

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<sup>16</sup> Jeffrey Grogger, Lynn A. Karoly, and Jacob Alex Klerman, *Consequences of Welfare Reform: A Research Synthesis* (Santa Monica, CA: July 2002),

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

<sup>17</sup> Today there are proposals to recreate this approach, most notably by Speaker Ryan and Senator Rubio. Their proposals, however, are vague and provide few details; as a result, they also risk repeating many of the mistakes of TANF. For more detail, see 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>.