

## **House Lacks Courage to Undertake Real Welfare Reform: A Response to Angela Rachidi**

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Arthur Brooks, president of the American Enterprise Institute (AEI), once said, “What is most important on the right is not to shut down the competition of ideas.”<sup>2</sup> I welcome that spirit, and that is why I offer an alternative conservative perspective to the conventional wisdom that the 1996 welfare reform law, and the creation of the Temporary Assistance for Needy Families (TANF) block grant, was an “unprecedented success.” In fact, I argue that TANF is a policy failure and should not be held out as an example of “conservatism.”

In “House introduces series of bills targeting program for poor families,” AEI’s Angela Rachidi examines recent legislation by the House Ways and Means Committee to “improve the Temporary Assistance for Needy Families (TANF) Program.”<sup>3</sup> She notes that Congress failed to deal with some significant policy issues, but concludes, “Tackling these larger issues may be too difficult in the current political environment. But the willingness to address these smaller issues is a step forward.”<sup>4</sup> I believe that the continued failure of conservatives in Congress to act is an abdication of their responsibility and a step backward.

Most of my “responses” to conservatives about the 1996 welfare reform law have been highly critical, but I want to commend Ms. Rachidi for acknowledging that TANF does have problems – including the diversion of funding from core welfare reform activities and the fact that TANF’s work requirements don’t function as intended. Nevertheless, Ms. Rachidi overstates the success of TANF and gives Congress a pass despite its failure to deal with glaring deficiencies in the “program.” (TANF is not really a program; it is a flexible funding stream.) In the response below, I highlight some of the statements by Ms. Rachidi and follow them with a “PC Response” (short for “Peter the Citizen”). This “response” is not intended to be a comprehensive assessment of either Ms. Rachidi’s statements or of TANF itself; it is intended to simply highlight the continued failure of Congress to act on an important public policy issue.

**Angela Rachidi:** “The House Committee’s markup comes at a time when critics of TANF have become increasingly vocal. Even before authors Kathryn Edin and Luke Shaefer argued that TANF is essential[ly] non-existent in their book *\$2 a Day: Living on Almost Nothing in America*, critics were sounding alarms about the shrinking caseloads and TANF’s apparent inability to respond to recessions.”

**PC Response:** The critics are right. It is a fact that TANF as cash assistance is virtually non-existent in many states. In 2013/14, over 10 percent of the nation’s poor families with children (764,920) lived in the state of Texas, home of Ways and Means Committee Chairman Brady and Republican Study Committee Chairman Bill Flores, yet the average monthly TANF caseload in Texas was just 34,334, representing less than 2 percent of the TANF caseload nationwide.<sup>5</sup> In 1994/95, for every 100 families with children in poverty in Texas, 47 received cash assistance; by 2013/2014, this “TANF-to-poverty ratio” was just 5. This has become all too common in states across the nation; consider the following.

- In 1996, the TANF-to-poverty ratio for the nation was 68; in 2014 it was 23.
- In 1994/95, Alabama had the lowest TANF-to-poverty ratio at 34.3; in 2014, 44 states had a TANF-to-poverty ratio lower than Alabama's 1994/95 ratio.
- 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.
- In 1996, 5.6 million families were eligible to receive TANF and 4.4 million did so, for a take-up rate of 78.9 percent; in 2012, 5.7 million families were eligible, but only 1.9 million received TANF, for a take-up rate of 32.4 percent.<sup>6</sup>

And, there can be no doubt that TANF is not responsive to recessions.<sup>7</sup> TANF's caseload has steadily declined since 1994, except for a small increase during the Great Recession. However, this increase was not an example of TANF's responsiveness, but rather the fact that Congress (barely) passed special legislation to increase federal funding for increased welfare caseloads to deal with the severity of the recession. This non-responsiveness should come as no surprise. TANF is a block grant that is not adjusted for inflation or demographic changes – this is the inevitable result.

And, criticism should not be limited to TANF's reach and responsiveness. Virtually every technical detail in the legislation is flawed in some way – nothing works as it should. As I describe in *TANF is Broken!*, the creation of the TANF block grant with *excessive* state flexibility set in motion changes that would: (1) initially provide large windfalls of federal funds for states, but also put in place a funding structure that in the longer-term would provide insufficient resources due to inflation and demographic changes; (2) allow states to use federal funds to supplant their own spending (by tens of billions of dollars since TANF was created); (3) permit 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.<sup>8</sup> TANF needs a major overhaul regardless of what one believes about its impact on caseloads and its responsiveness to recessions.

**Angela Rachidi:** “TANF largely achieved what it set out to do – it reduced dependence on cash welfare, increased work, and lowered poverty for those directly affected by it.”

**PC Response:** TANF definitely reduced caseloads. It may have increased work somewhat by removing a source of income for many families (the so-called “income effect” in economics jargon), but by removing families from welfare caseloads (even when financially eligible), it also removed them from a “program” that might offer education, training, and work experience and thus improve longer-term employment prospects. Indeed, in 1995 under TANF's predecessor program, the number of participants in an actual education, training, or job search activity was about four times what it is today. TANF was supposed to offer a hand-up; that's not what happened.

TANF most definitely increased poverty. As I explain in “Welfare Reform *Increased* Poverty and No One Can Contest It,”<sup>9</sup> conservative “analyses”: reflect little understanding of causal

inference; ignore rigorous research findings; use inappropriate time periods (often starting years before TANF was enacted and often stopping in 2001 – 15 years ago); use the wrong poverty measure, i.e., the poverty *rate* rather than a measure that also includes the *depth* of poverty; and confuse TANF with welfare reform – TANF is nothing more than revenue sharing, with a myriad of ineffective and even counterproductive federal requirements.

Table 1 shows the change in the average monthly number of families eligible for assistance compared to the average monthly number receiving assistance for selected years from 1996 through 2012. In 1996 (before TANF), about 5.6 million families were eligible to receive benefits, and about 4.4 million (79 percent) did so. By 2012 the number eligible for TANF was higher (5.7 million), but the number receiving benefits had dropped to 1.9 million (32 percent). Using the conventional conservative pre-post method for assessing impact, a reasonable question is: If TANF is such a success and if these families had really been “helped,” why are there more families with incomes below TANF’s eligibility thresholds?<sup>10</sup>

Year	TANF			
	Eligible (millions)	Participating (millions)	Eligible, Not Participating (millions)	Participation Rate (%)
1996	5.6	4.4	1.2	78.9
2000	4.4	2.3	2.1	51.8
2004	5.1	2.2	2.9	42.0
2008	5.2	1.7	3.5	33.0
2012	5.7	1.9	3.8	32.4

Source: U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, *Welfare Indicators and Risk Factors: Fourteenth Report to Congress*, September 22, 2015, available at: <https://aspe.hhs.gov/sites/default/files/pdf/116161/FINAL%20Fourteenth%20Report%20-%20FINAL%209%2022%2015.pdf>.

The more important statistic that can be derived from this table, however, is the increase in the number of families that were eligible to receive TANF, but that did not. This number grew from 1.2 million in 1996 to 3.8 million in 2012. This is an increase of 2.6 million very poor families that were eligible for assistance but did not receive it. For the affected families, this represents a loss in benefits of about \$200 to \$700 per month (the maximum grant for a family of three, depending on the state). Most of these families were poor before being pushed off TANF (or “discouraged” from coming on it) and are poor afterwards. The poverty *rate* would not pick this up, but certainly the fact that they are deeper in poverty should be a matter of concern.<sup>11</sup>

**Angela Rachidi:** “Some argue that something better could have been put in place instead of TANF, but that is mere speculation.”

**PC Response:** Speculation? I would call it “informed judgment.” In fact, virtually anything would have been better than TANF – even giving the states the money with no strings attached. Indeed, in many states this is what TANF has become. Twelve states already spend less than 10 percent of their TANF/MOE dollars on basic assistance, and because Congress wrote the law

giving states maximum flexibility, there is virtually no accountability for how the 90 percent or more of the remaining funds are used in these states.

There was something better – and it was an approach developed by conservatives and consistent with Speaker Ryan’s “Opportunity Grants” proposal. 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. 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. 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. As a result, it would be possible to know whether state reforms actually reduced welfare dependency 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. TANF replaced this approach with one that essentially gives states a blank check with no accountability.

**Angela Rachidi:** “The House legislation addresses the need to focus outcomes on employment and reducing poverty, a step that will likely impact how states operate their programs.”

**PC Response:** There are no accountability provisions for either of these measures. One simply expresses a “goal” and the other would require states to collect data and merely measure outcomes. It would be naïve to think that the states that have diverted TANF funds to fill budget holes would suddenly reprioritize their spending decisions based on a new TANF purpose. And, measuring outcomes in many states is largely a meaningless exercise because virtually no one receives assistance.

**Angela Rachidi:** “It also acknowledges that some states have abused the flexible-spending model of the TANF block grant. One bill attempted to prohibit third-party money (meaning not the federal or state government’s money) from being counted toward the state’s required spending. It passed, but only after an amendment to cap third-party spending at current levels rather than eliminate the practice entirely.”

**PC Response:** Ms. Rachidi points to a bill that would limit *non-governmental* third-party spending as MOE. Instead of banning the practice altogether, conservatives on the Ways and Means Committee caved to pressure from Representative Price of Georgia who argued in favor of this practice, allowing such spending to continue at “current levels.”

**Angela Rachidi:** “The legislation also authorizes new research and evaluation for TANF-related programs and creates a research clearinghouse. This effort is particularly essential given that the research that led to TANF’s work-first approach is now over 20 years old.”

**PC Response:** Until recently, AEI held to the position that the 20-year-old research justified the continuation of the TANF work-first model. In response to the Ways and Means proposal in July 2015 that would have permitted more education and training to count as participation, Ms. Rachidi and her colleagues stated:

We believe that the elimination of core and non-core activities shifts the focus of TANF away from a work-first model. The proposed change will make it easier for states to engage TANF recipients in education and job readiness training for longer periods of time. This concerns us mainly because an education-focused approach has been shown to be less effective than a work-first approach at increasing employment, earnings, and reducing welfare receipt.<sup>12</sup>

Ms. Rachidi's earlier statement suggests that TANF's work requirements were justified by research at one time. However, as Gordon Berlin, President of MDRC, explains:

None of the welfare-to-work programs evaluated by MDRC to date – even the most effective ones – would have met the standards currently in place (that is, had states received no credit for caseload reductions), primarily because too few people participated in them for at least the minimum number of hours per week.<sup>13</sup>

And, he explains the importance of a more flexible strategy:

The challenge for policymakers is to find ways to maintain the employment orientation that underlies reform's success, while opening the door to additional education and training. Results from carefully designed tests of job-search-first programs, education-first programs, and mixed-strategy programs provide strong support for the idea that education and training have an important, although probably subsidiary, role to play in the future of welfare reform. The evidence indicates that both job-search-first and education-first strategies are effective but that neither is as effective as a strategy that combines the two, particularly a strategy that maintains a strong employment orientation while emphasizing job search first for some and education first for others, as individual needs dictate. There is little evidence to support the idea that states should be pushed to one or the other extreme.<sup>14</sup>

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. Liz Schott, LaDonna Pavetti, and Iffe 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.

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.

If Congress is serious about research and program improvement, it should increase funding for research to \$150 million per year (still less than one percent of the block grant) and require states to evaluate TANF policies, particularly those that put children at risk.

**Angela Rachidi:** “States will still be able to take advantage of the TANF block grant to fund things that seem outside of its goals. The extent to which this occurs may be exaggerated, but it remains true that some states spend less than 10% of their TANF money on cash assistance for poor families.”

**PC Response:** Before TANF, states spent about 80 percent of their funds on basic assistance – and that was of a larger pie when adjusted for inflation. To suggest that the extent to which states have diverted funds may be “exaggerated” is an understatement. Ten states spend less than 10 percent of their funds on basic assistance, including Texas (home state to Ways and Means Chairman Brady) and Georgia (home state to Budget Committee Chairman Price). Twenty-four states spend less than 20 percent of their funds on basic assistance and forty states spend less than 30 percent of their funds on basic assistance.<sup>15</sup> And, this spending in most states hasn’t been diverted to work-related activities, as this accounted for just 8 percent of spending.<sup>16</sup> (Keep in mind that the size of the pie is shrinking.) Since TANF’s inception, states have used tens of billions of dollars to supplant existing spending; and have used tens of billions more to fill budget holes, yet the number of poor families is higher than when TANF was enacted, as is the number of families eligible for cash assistance.

Between 1996 and 2012, spending on cash assistance declined by nearly \$23 billion, from about \$31.2 billion to \$8.4 billion (in 2014 dollars).<sup>17</sup> It is true that total spending on means-tested programs has increased since the 1996 law, but these increases have generally not helped the neediest families – those with incomes low enough to qualify for TANF cash assistance. Robert Moffitt of Johns Hopkins University has documented a decades-long shift in spending on means-tested program away from the very poor (those with incomes below 50 percent of the federal poverty line) to those with incomes as much as 200 percent above the poverty line.<sup>18</sup> He observes, “You would think that the government would offer the most support to those who have the lowest incomes and provide less help to those with higher incomes. But that is not the case.”<sup>19</sup>

**Angela Rachidi:** “The work participation rate and ways to reduce the required rate also remain intact. States are required to engage 50% of their TANF adult recipients (with some exclusions) in work activities, but can reduce this rate through reductions in their overall caseload or through additional spending. For some states, this means they have essentially no work participation

requirements. For others, the participation rate is so onerous that they abandon their assistance and work programs all together.”

**PC Response:** The problems with TANF’s work requirements are not new; they have existed from the beginning. TANF’s work requirements are unreasonable, dysfunctional, and are not about work. For individuals to count in the work rate, they must participate 130 hours per month for a small grant (ranging from \$200 to \$700 for a family of three in most states). As such, their main function has been to impose barriers and cut caseloads through a process known as “bureaucratic disenfranchisement.” Even with sharply reduced caseloads, states have resorted to gimmicks to satisfy federal work rate targets that themselves are unreasonable, such as paying full-time workers token benefits to artificially inflate the numerator of the rate or creating solely state funded programs to artificially reduce the denominator (see “TANF Work Requirements: An Epic Fail,” in *TANF is Broken!*) Such gimmickry does nothing to help the poor get connected to work opportunities. Welfare reform should be about giving needy families a hand up, but instead, under TANF, it has abandoned them. Real welfare reform requires adequate funding, realistic requirements, and rigorous evaluation so that we can learn what works and what doesn’t and build on an evidence base.

## Conclusion

It should be obvious – it’s time for Congress to do its job. And, it’s time for conservatives to acknowledge that TANF is a failure. Instead, they should look to the Reagan-era, evidence-based approach to welfare reform. In the words of President Ronald Reagan: “If not us, who? And if not now, when?”<sup>20</sup>

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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 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>.

<sup>2</sup> See Jennifer Rubin, “Arthur Brooks: The battle of ideas,” *The Washington Post*, December 9, 2012, available at: <https://www.washingtonpost.com/blogs/right-turn/wp/2012/12/09/arthur-brooks-the-battle-of-ideas/>.

<sup>3</sup> Angela Rachidi, “House introduces series of bills targeting program for poor families,” May 18, 2016, available at: <http://www.aei.org/publication/house-introduces-series-of-bills-targeting-program-for-poor-families/>.

<sup>4</sup> *Ibid.*

<sup>5</sup> Unless otherwise noted, all data in this section is from 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>6</sup> U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, *Welfare Indicators and Risk Factors: Fourteenth Report to Congress*, September 22, 2015, available at:

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<https://aspe.hhs.gov/sites/default/files/pdf/116161/FINAL%20Fourteenth%20Report%20-%20FINAL%209%2022%2015.pdf>.

<sup>7</sup> Peter Germanis, “Which Safety-Net Programs Responded To the Recession? A Brief Response to Scott Winship,” January 17, 2016, available at: <http://mlwiseman.com/wp-content/uploads/2015/11/Germanis2016SafetyA.pdf>.

<sup>8</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>.

<sup>9</sup> 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>.

<sup>10</sup> It is true that the number of families with children grew by about 10 percent during this period, so one might expect a larger number of potentially eligible families, but TANF’s financial eligibility rules have become more restrictive over time, particularly since benefit levels and income eligibility limits have not kept pace with inflation.

<sup>11</sup> In addition, nearly half the states have not increased their benefit levels since 1996 and some have actually reduced them, representing a decline of 34.5 percent or more when adjusted for inflation. Whereas the participation rate of eligible families was about 80 percent for the 15 years preceding the 1996 law, the erosion in the real value of AFDC/TANF benefits started in the 1970s. So, even those families remaining on assistance have been pushed deeper into poverty. Ife Floyd and Liz Schott, “TANF Cash Benefits Have Fallen by More Than 20 Percent in Most States and Continue to Erode,” Center on Budget and Policy Priorities, October 15, 2015, available at:

<http://www.cbpp.org/research/family-income-support/tanf-cash-benefits-have-fallen-by-more-than-20-percent-in-most-states>.

<sup>12</sup> Robert Doar, Angela Rachidi, and Maura Corrigan, “Statement to the Subcommittee on Human Resources, House Committee on Ways and Means on Discussion Draft to Reauthorize TANF,” July 24, 2015, available at:

<https://www.aei.org/wp-content/uploads/2015/07/AEI-Comment-on-TANF-Reauthorization-Draft-FINAL.pdf>.

<sup>13</sup> Gordon L. Berlin, “What Works in Welfare Reform: Evidence and Lessons to Guide TANF Reauthorization,” MDRC, June 2002, available at: [http://www.mdrc.org/sites/default/files/TANFGuide\\_Full.pdf](http://www.mdrc.org/sites/default/files/TANFGuide_Full.pdf).

<sup>14</sup> *Ibid.*

<sup>15</sup> Liz Schott, LaDonna Pavetti, and Ife Floyd, “How States Use Federal and State Funds Under the TANF Block Grant,” Center on Budget and Policy Priorities, October 15, 2015, available at:

<http://www.cbpp.org/research/family-income-support/how-states-use-federal-and-state-funds-under-the-tanf-block-grant>.

<sup>16</sup> *Ibid.*

<sup>17</sup> U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, *Welfare Indicators and Risk Factors: Fourteenth Report to Congress*, September 22, 2015, available at:

<https://aspe.hhs.gov/sites/default/files/pdf/116161/FINAL%20Fourteenth%20Report%20-%20FINAL%209%2022%2015.pdf>.

<sup>18</sup> “U.S. Welfare Spending Up – But Help for the Neediest Down,” Press Release, May 6, 2014, available at: <http://releases.jhu.edu/2014/05/06/u-s-welfare-spending-up-but-help-for-the-neediest-down/>.

<sup>19</sup> *Ibid.*

<sup>20</sup> President Ronald Reagan, Second inaugural address, Jan. 21, 1985.