# TANF ***Deepened*** Poverty
# A Note to the National Academies of Sciences

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A newly released 600-page report from the National Academies of Sciences, Engineering, and Medicine (NAS) examines "evidence-based" policy options to "cut the child poverty rate by as much as 50 percent while at the same time increasing employment and earnings among adults living in low-income families."[2] The report was produced by a team of scholars – the Committee on Building an Agenda to Reduce the Number of Children in Poverty by Half in 10 Years. Its mission was to prepare "a nonpartisan, evidence-based report that would provide … the most effective means for reducing child poverty by half in the next 10 years."

The NAS report focused on what it considered to be evidence-based programs and policies, but it also included a chapter describing program and policy ideas that were considered, but not included because the research evidence was not strong or "it was not feasible to simulate the magnitude of the effect." One such "program" was the Temporary Assistance for Needy Families (TANF) block grant. In the case of TANF, the committee concluded that it did reduce poverty, but that its key features could not be simulated:

> …the evidence suggests that the TANF law did in fact reduce poverty in the short run, if not the long run, so it is unlikely that the poverty rate would decline if the pre-1996 system were reinstated. Furthermore, it would be impossible to simulate changes in work requirements or block grants… it is impossible to identify the relative contributions of those two components. (p. 7-16)

The suggestion that TANF reduced poverty flies in the face of reality and common sense – TANF has undoubtedly pushed *millions* of families deeper into poverty. The problem with the committee's conclusion is that it relies on the wrong measure – the poverty *rate* rather than an alternative measure that captures the depth of poverty such as the poverty gap – and places too much reliance on econometric evaluations that provide, at best, highly uncertain estimates of TANF's net effects. Unlike other means-tested programs that have relatively clear eligibility and benefit rules, TANF is really a form of revenue sharing and cannot be evaluated rigorously using conventional methods. Indeed, the committee itself concludes, "Based on the available evidence, it would be an impossible task to simulate changes in the many features of state TANF programs and the impacts of these changes on the U.S. child poverty rate." So, if it's *impossible* to simulate TANF's effects, on what basis did the committee conclude that the econometric evidence would be a valid approach for estimating TANF's impact on poverty?

This response is not a commentary on the committee's full report or its recommendations – only a statement explaining why the committee was wrong to conclude that: 1) TANF reduced poverty in both the short-run and the long-run; and 2) the poverty rate would not "decline if the pre-1996 system were reinstated." While policymakers *may* consider the committee's recommendations, they involve additional costs and are likely to be controversial. Meanwhile, policymakers *are* considering reforms to TANF and the suggestion that TANF reduced poverty might lead some to conclude that the “program” only needs minor changes; in fact, it has been a massive policy failure that cannot be fixed – it must be repealed and replaced.[3]

**Did TANF Reduce Poverty?**

The committee’s claim that TANF reduced poverty is based on a narrow poverty measure (and ignores other indicators that TANF increased the depth of poverty), ignores important details about how TANF has been implemented, and relies on a highly uncertain methodology.

***Relying on the Wrong Measure.*** The committee’s evidence about TANF’s “poverty-reducing impact” comes mainly from studies that focused on the poverty *rate*. The poverty rate is not a particularly useful measure for assessing the impact of TANF, because the eligibility levels for cash aid are well below the poverty thresholds.[4] TANF benefits range from about 10 percent to about 45 percent of the federal poverty level.[5] Most TANF families are poor whether they receive cash assistance or not – taking their benefits away won’t immediately change the poverty *rate*, but it will push them deeper in poverty. In a comprehensive synthesis of the consequences of welfare reform, Jeffrey Grogger, Lynn Karoly, and Jacob Klerman explain:

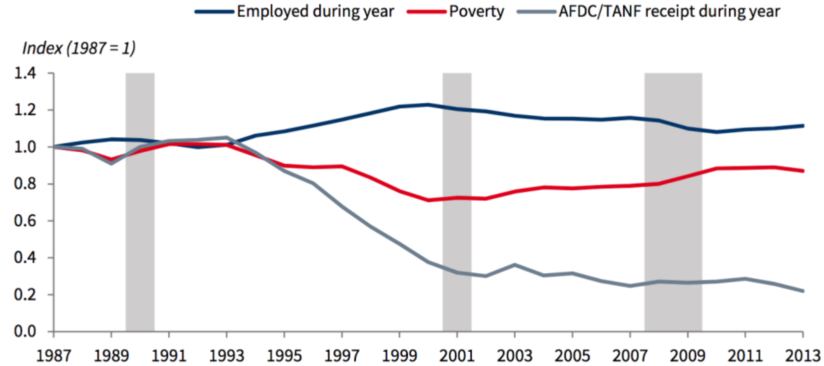
> Whether poverty rates change depends on where in the income distribution any income changes take place. If income changes are small or occur only among those already above or below the poverty line, then the poverty rate would remain unchanged. Alternatively, income changes may be small on average but still lead to changes in the proportion of families classified as poor. For example, small increases in income may be associated with reductions in poverty if the income gains occur among those with incomes near the poverty threshold.[6]

If a program or policy lifted a small group of people out of poverty, but pushed a much larger number deeper into poverty, that would be important to know. Rather than using a particular “poverty line” or percentage thereof, a better approach would have been to examine the poverty gap or a related measure that captures changes in the depth of poverty.

*Better Measure #1: Comparing the Decline in Poverty to the Decline in Caseloads.* A more comprehensive assessment of existing data suggests that the committee’s reliance on econometric studies was too narrow. While such a focus may give the appearance of having an “evidence basis,” it ignores simpler, but more obvious examples of TANF’s failure to serve poor families. For example, one might compare the magnitude of changes in employment and poverty among female-headed families to the decline in the TANF caseload. If the caseload decline were the result of more work, one would expect the number gaining employment to move in tandem with the caseload decline, and then the poverty-reducing impact of TANF becomes more plausible. This, however, was not the case.

Even if one believes ALL of the post-1996 employment gains for female-headed families and the decline in their poverty rates could be attributed to TANF, the number made better off is fraction of the number who lost assistance. This dynamic can be seen in a figure from a recent report by the President’s Council of Economic Advisers (CEA).[7] CEA Figure 12 shows the percent of female-headed families employed, in poverty, and receiving AFDC/TANF cash assistance indexed to 1987 levels.

**Figure 12. Index of Percent of Female-Headed Families Employed, in Poverty and Receiving AFDC/TANF, 1987–2013**




Sources: Gabe (2014) tabulations of administrative records, survey data; National Burea of Economic Research; CEA calculations.
Note: AFDC/TANF receipt, poverty, and employment are indexed to 1987 levels. Grey shaded regions denote a recession for at least four months of a given year.

Notably, the employment rate for female-headed families in 1996 and was about the same as in 2013 (the end-point of the CEA analysis). Moreover, it began to rise well before 1997 and reversed direction in 2000. What is particularly notable about the CEA figure, however, is the fact that the AFDC/TANF caseload shows a steady decline. In 2013, the employment and poverty of female headed families is roughly the same as in 1996, but the caseload is about 75 percent lower. This suggests that many families were pushed deeper into poverty. (Note: there was a substantial expansion in other means-tested programs, but these primarily benefited those who work and not poor.[8])

*Better Measure #2: Examining the Decline in the Take-Up Rate.* Another indication of TANF's *poverty-deepening* effects can be seen by comparing caseload changes to changes in the number of families *eligible* to receive assistance. For TANF, the eligibility estimates come from the TRIM model, which has been used for over 40 years by administrations of both parties to calculate eligibility for TANF and other programs – and it is the same data source used by the committee for its simulation estimates.[9] Program administrative data are used for the number of families receiving benefits.

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 to 2015. In 1996 (before TANF), about 5.6 million families were eligible to receive benefits and about 4.4 million (79 percent of those eligible) did so. By 2015, the number eligible for TANF had declined only slightly, to 5.0 million, but the number receiving benefits declined 70 percent to 1.3 million (26 percent of those eligible). As a result, the number of families that were eligible for TANF cash assistance but that did not receive it grew by 2.5 million, from 1.2

million to 3.7 million. Many of these families were pushed deeper into poverty because there were few programs to fill the loss of TANF. Even those that went to work might have to wait over a year to see the benefits from the Earned Income Tax Credit and the Child Tax Credit.

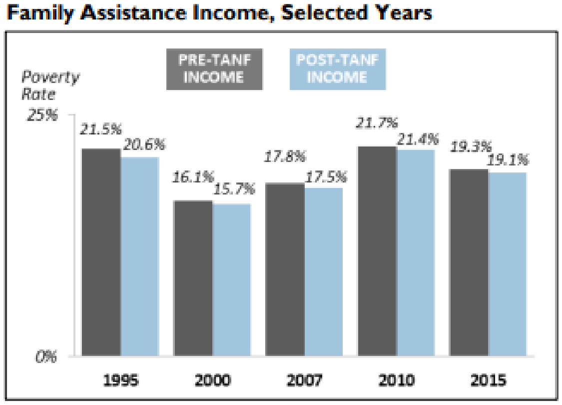
**Table 1: Number and Percentage of Eligible Families Participating in TANF (Average Monthly Data, Selected Years, 1996-2015)**

| 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 |
| 2015 | 5.0 | 1.3 | 3.7 | 26.3 |

Source: For 1996-2012, U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, *Welfare Indicators and Risk Factors: Seventeenth Report to Congress*, May 4, 2018, p. A-11, available at: https://aspe.hhs.gov/system/files/pdf/259196/WELFAREINDICATORS17THREPORT.pdf. For 2015, unpublished data from Gene Falk of the Congressional Research Service, run on November 21, 2017.

*Better Measure #3: The Declining Direct Effect of TANF Assistance.* Between 1996 and 2017, the TANF caseload fell about 75 percent (from about 4.4 million to about 1.2 million) and spending on cash assistance fell about 80 percent, from about $33 billion to about $7 billion (in 2018 dollars). The decline in caseloads and spending on cash assistance means TANF's direct effect in reducing poverty is much lower today, as indicated in a report by the Congressional Research Services (CRS). CRS Figure 3 below shows that in 1995, AFDC reduced the poverty rate by 0.9 percentage points (from 21.5 percent to 20.6 percent), but in 2015 TANF reduced it by just 0.2 percentage points (from 19.3 percent to 19.1 percent).

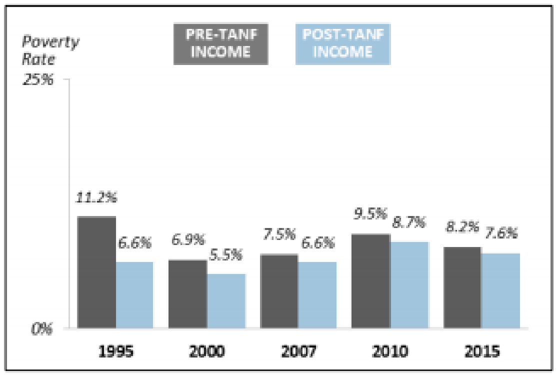
**Figure 3. Child Poverty Rates Based on Pre- and Post-Family Assistance Income, Selected Years**




**Source:** Congressional Research Service (CRS) analysis based on estimates from the TRIM3 microsimulation

As noted above, the poverty *rate* is not a useful measure for purposes of assessing TANF's impact because TANF benefits are so low. CRS Figure 4 also examines TANF's effect on the deep poverty rate (where poverty is based on income below 50 percent of the poverty thresholds). AFDC reduced the deep poverty rate by 4.6 percentage points in 1995, from 11.2 percent to 6.6 percent, but TANF reduced it just 0.6 percentage points in 2015, from 8.2 percent to 7.6 percent.

**Figure 4. Child Deep Poverty Rates Based on Pre-Assistance and Post-Assistance Income, Selected Years**




**Source:** Congressional Research Service (CRS) analysis based on estimates from the TRIM3 microsimulation

Notably, the largest decline in anti-poverty effectiveness occurred between 1995 and 2000 – the very period the committee suggests TANF was most effective in reducing poverty. And, these examples understate the degree to which TANF pushed families deeper into poverty because this measure bases TANF's anti-poverty effectiveness only on those who cross an arbitrary income threshold. Many of those who started below the deep poverty threshold and lost TANF would have been pushed even deeper into poverty and missed in these statistics, as would those whose incomes were between the deep poverty/poverty thresholds before and after losing TANF.

*Other Measures.* The committee could also have examined other data and research that suggests TANF has had a *poverty-deepening* effect, such as the decline in the TANF-to-poverty ratio (from 68 in 1996 to 23 in 2017) and the rise in the number of families that appear to get by on less than $2 a day in *cash* income.[10] Or, the committee could have examined individual states and then explain how reducing spending on cash assistance in a dozen states by 90 percent reduced poverty in those states.

***Confusing TANF with "Welfare Reform."*** The committee makes a judgment about TANF's effect on poverty in the short-run and the long-run based on a variety of studies of what they believe are "TANF-like" programs to TANF itself:

> A substantial research literature has attempted to distinguish the various contributions of these forces to poverty reduction. A review examining the short-run poverty impacts of well-evaluated pre-1996 programs resembling TANF, as well as studies of TANF itself, concluded that while evaluations of most of the pre-1996 programs showed no effect on

> poverty, some of the studies of TANF itself suggest that it did indeed reduce poverty (Grogger and Karoly, 2005). The review cautioned that after time limits became effective and block grants declined in real value, the program might after different effects.

The committee is right to recognize that TANF's effects may vary over time, but it fails to fully appreciate the differences between the pre-1996 TANF programs and how TANF itself has changed over time. TANF's predecessor – the Aid to Families with Dependent Children (AFDC) program – provided basic cash assistance and funded a welfare-to-work program (JOBS). The work requirements were modest, but real. And, states had flexibility to test innovative approaches by receiving waivers, subject to a rigorous evaluation (typically a randomized control trial). As the committee notes, evaluations of work programs and broader welfare reform demonstrations generally "showed no effect on poverty."

TANF itself is not "welfare reform," but a fixed and flexible funding stream. In many states, it has become a form of revenue sharing used to supplant existing state spending or otherwise fill budget holes. When states implemented TANF, many simply carried forward their AFDC waiver policies. The committee then finds that "some studies of TANF itself suggest it did indeed reduce poverty" – in the short run. What changed and what in the causal change could explain the sudden poverty-reducing impact? One possibility is related to evaluation method – TANF was no longer evaluated using random assignment, but econometric models that are subject to more uncertainty (as discussed below). Another possibility is that TANF's work and other requirements boosted work and reduced poverty. While TANF sent a strong work message, states did not implement large-scale work programs; instead, they relied on the caseload reduction credit and an array of loopholes and gimmicks to meet its work participation rate targets. *IF* TANF reduced poverty, the single biggest factor – in the short-run – would be a substantial windfall in federal funding, because the TANF block grant was based on AFDC spending when caseloads and costs were at historic highs.

The U.S. General Accounting Office (GAO, now the Government Accountability Office) estimated that if all states had received the full TANF block grant in 1997 (some didn't because they had until July 1, 1997, to implement TANF) they would have $4.7 billion more than they would have spent in 1997 under AFDC: "On average, given the actual caseload in 1997, we estimated that states would have had about 25 percent more budgetary resources under TANF than they would have had under AFDC funding rules."[11] (Caseloads were falling before TANF was enacted and would have continued to fall as long as the economy remained strong – through 2000 – so the windfall would have been even larger in subsequent years.) And, many states did use these funds initially to increase spending on child care and work supports. <u>*IF* TANF reduced poverty in the short run, the obvious policy implication should be that more money helps, yet this important fact is missing from the NAS report</u>.

Over time, the windfall disappeared. Inflation eroded the value of the block grant and the economy endured several recessions. Perhaps the most important factor, however, is that states discovered that they could treat TANF like a form of revenue sharing. As noted above, states received a huge windfall when TANF was enacted and many could not spend their block grant funds fast enough, so they began accumulating large reserve funds. In 1999, Congress took note and told states that if they don't spend their block grant funds, it might be seen as a sign that they don't need as much funding and would see their block grants reduced.[12] From that point on, states began spending TANF dollars on a wide array of activities, many that are not remotely related to core welfare reform purposes. As a result, spending on cash assistance declined from over 70 percent of all funds under AFDC (and related programs that went into the block grant calculation) to less than 25 percent in 2017 – and, the lower 2017 percentage is applied to a much lower funding total (in inflation-adjusted terms).

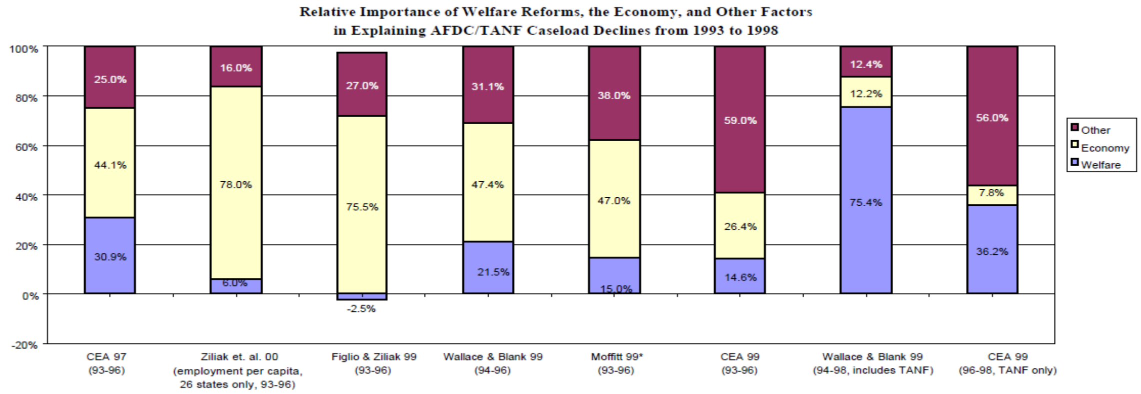
> **Note:** This part of the response focuses mainly on TANF funding; but TANF is a highly dysfunctional program. In particular, its work requirements are mainly characterized by loopholes and gimmicks, not the engagement families in work programs designed to give them a "hand up." For more detail, see: TANF is Broken! It's Time to Reform 'Welfare Reform,'" July 2015, available at: https://mlwiseman.com/wp-content/uploads/2013/09/TANF-is-Broken.072515.pdf.

If the committee believes reducing spending on cash assistance by 80 percent and using TANF as a slush fund somehow reduced poverty – particularly in the "long run" – it should explain how it arrived at this conclusion.

***The Uncertainty of Econometric Studies.*** There are many economic, demographic, and policy-related changes that influence poverty. In particular, TANF was enacted in the midst of a period of strong economic growth and increased aid to the working poor, most notably expansions in the Earned Income Tax Credit (EITC), child care subsidies, and Medicaid and related health care coverage. And, states were already experimenting with "welfare reform" through waivers; they didn't need the 1996 law to test new welfare policies.

A number of researchers have used statistical modeling in an attempt to isolate the effect of welfare reform on caseloads and other outcomes from the many other factors that can influence these outcomes. The findings are somewhat uncertain and even inconsistent due to different methods, data sets, time periods, and other differences. For example, Stephen Bell of the Urban Institute summarized the findings from eight research studies that examined the relative importance of welfare reform, the economy, and other factors in explaining the *caseload decline*.[13] As can be seen from the figure below, the estimated impact of welfare reform on caseload decline ranged from -2.5 percent to 75.4 percent.

These findings represent estimates from welfare reform under AFDC and TANF's early years, when there were many policy similarities. Even so, the vast disparity in estimated effects suggests that these studies might not be as strong an "evidence base" as the committee seems to believe. In the long-run, states have diverted TANF funds to other purposes unrelated to welfare reform, often supplanting existing state spending or filling budget holes. This makes it virtually impossible to model a credible counterfactual.




In addition, researchers at RAND prepared a comprehensive synthesis of the impact of dozens of state welfare reform programs on welfare caseloads, child poverty, and a range of other outcomes.[14] The *random assignment* evaluations they reviewed examined programs in the very period when caseloads and poverty fell rapidly nationally (i.e., the short run). While most reform programs showed declines in welfare receipt, and some showed reductions in poverty, the magnitude of the impacts was considerably smaller than suggested by the simple trends in national data or many of the econometric studies. This is because the control group also benefitted from a strong economy and increased aid to the working poor. With regard to mandatory work programs, the authors note (and as explained above), "With a few exceptions, most of the poverty impacts are insignificant and small in magnitude."[15] This same conclusion was true for welfare caseloads and is in stark contrast to the findings from some of the econometric studies.

**Would Reinstating the pre-1996 AFDC Program Reduce Poverty?**

The NAS report concludes that "it is unlikely that the poverty rate would decline if the pre-1996 system were reinstated." The committee's conclusion appears to be based on their belief that TANF reduced the poverty *rate*. As noted above, this ignores evidence that TANF's main impact would have been on the depth of poverty rather than the poverty rate. For a group that prides itself on making *evidence-based* policy assessments, it is astounding that it would make such a speculative claim.

If the preTANF AFDC program could magically be reinstated, the direct impact on poverty using a measure like the poverty gap would be significant, as it would likely increase funding for cash assistance by about $20 to $25 billion, much of which would go to those living in deep poverty. Indeed, it would likely be comparable to the impact of the recommendation to provide a $2,000 to $3,000 per year child allowance. It is unclear why the committee believes the child allowance would reduce poverty, but restoring the cash assistance safety net would not. (One advantage of the child allowance, particularly if targeted to low income families, would be that it is uniform across states.)

The preTANF AFDC program was far from perfect, but it also had many advantages over TANF:

- There was an entitlement to cash assistance for needy families; under TANF, states can adopt full family sanctions or time limits or otherwise push families off aid without regard to their well-being. Under AFDC, states could test these policies with waivers, but were required to evaluate them with a random assignment experiment to determine whether they reduced poverty or not.
- AFDC provided cash assistance and welfare-to work activities; in contrast, states can use TANF as a slush fund to supplant existing state spending and fill budget holes. In many states, it has become welfare for state politicians.
- AFDC was targeted to needy families with children; under TANF, states can set income limits wherever they want (and for some programs, there need not be any income limit). As a result, a considerable amount of TANF funds now go to those who are not poor and even to those who are not in families with a minor child.
- AFDC's work requirements were more reasonable and realistic than TANF's work requirements, which have not incentivized states to engage families in work activities, but to push them off assistance and to take advantage of an array of loopholes to avoid state penalties.

Perhaps most significant, for a committee that believes in evidence-based policymaking, the "pre-1996 system" approach to welfare reform was based on an actual program (vs. a form of revenue sharing) that gave states flexibility to test new policies, as long as they were evaluated using a random assignment experiment. This approach provided rigorous evidence, including many examples of state experiments that increased employment and earnings, and also reduced welfare dependency and poverty.[16] Instead of giving states a blank check with no meaningful accountability as TANF did, a better approach would have been to refine this model and extend it to other programs like SNAP. Indeed, this would have provided a vehicle to test many of the committee's other recommendations before implementing them on a national scale. This approach would be politically less controversial and would provide better evidence than a simulation model that is based on many assumptions.

[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.

[2] Committee on Building an Agenda to Reduce the Number of Children in Poverty by Half in 10 Years, *A Roadmap to Reducing Child Poverty* (Washington, D.C.: National Academies Press, 2019), available at: https://www.nap.edu/catalog/25246/a-roadmap-to-reducing-child-poverty.

[3] See Peter Germanis, *TANF is Broken! It's Time to Reform "Welfare Reform"*, Personal Statement of Peter Germanis. Working Draft, July 25, 2015, available at: https://mlwiseman.com/wp-content/uploads/2013/09/TANF-is-Broken.072515.pdf.

[4] I often point to poverty figures and changes over time in making my arguments, but I do so in a broader context. My entire argument about welfare reform's success or failure does not hinge what happens to the poverty rate or the number of poor families. Even if TANF somehow had a positive impact, it would still need a major restructuring to address flawed funding formulas, federal requirements that are ineffective and gamed, supplantation, and many other problems described in *TANF is Broken!*. These are lessons that are important for any comprehensive redesign.

[5] Ashley Burnside and Ife Floyd, "TANF Benefits Remain Low Despite Recent Increases in Some States," Center on Budget and Policy Priorities, October 12, 2018, available at: https://www.cbpp.org/research/family-income-support/tanf-benefits-remain-low-despite-recent-increases-in-some-states. New Hampshire is an exception with benefits equal to 60 percent of poverty.

[6] Jeffrey Grogger, Lynn A. Karoly, and Jacob Alex Klerman, *Consequences of Welfare Reform: A Research Synthesis* (Santa Monica, CA: July 2002), p. 149, available at: http://www.acf.hhs.gov/programs/opre/welfare_employ/res_systhesis/reports/consequences_of_wr/rand_report.pdf.

[7] Council of Economic Advisers, *Expanding Work Requirements in Non-Cash Welfare Programs*, (Washington, D.C.: The White House, July 2018), available at: https://www.whitehouse.gov/wp-content/uploads/2018/07/Expanding-Work-Requirements-in-Non-Cash-Welfare-Programs.pdf.

[8] Hilary Hoynes and Diane Whitmore Schanzenbach, "Safety Net Investments in Children," The Brookings Institution, BPEA Conference Drafts, March 8–9, 2018, available at: https://www.brookings.edu/wp-content/uploads/2018/03/2_hoynesschanz1.pdf.

[9] For more detail on the TRIM model, see: 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; and, The Urban Institute, "TRIM3: Transfer Income Model, Version 3," available at: http://trim.urban.org/T3Technical.php.

[10] Kathryn J. Edin and H. Luke Shaefer, *$2.00 a Day: Living on Almost Nothing in America* (Boston, MA: Houghton Mifflin Harcourt, 2015).

[11] U.S. General Accounting Office, *States are Restructuring Programs to Reduce Welfare Dependence*, June 1998, p. 78.

[12] For an example of the letter sent to each governor by Rep. Nancy Johnson, see: http://fiscalpolicy.org/text-of-march-161999-letter-from-nancy-l-johnson-sent-individually-to-all-50-governors.

[13] Stephen H. Bell, *Why are Welfare Caseloads Falling* (Washington, DC: The Urban Institute, March 2001), http://www.urban.org/uploadedPDF/discussion01-02.pdf.

[14] 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.

[15] *Ibid*, p. 166.

[16] 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.