

## INCREASING WORK OPPORTUNITIES AND REDUCING POVERTY TWO DECADES AFTER WELFARE REFORM

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Our opening piece and that of Ron Haskins reflect general agreement about the consequences of TANF and the strengths and weaknesses of the safety net. For example, we agree that TANF has significant and growing problems—many working single mothers remain poor and those disconnected from both work and TANF are worse off than they were before welfare reform. These problems are also greater in the postrecession labor market than during the economic boom of the 1990s.

We endorse his subtitle, “Work Still Works” and his concluding sentence, “The next round of reforms should be based on improving, not scrapping, the current system.” We accepted his challenge and proposed safety-net reforms including increased subsidies for work opportunities and for child care; changes in the block grant to make TANF benefits more accessible, particularly during recessions; and the provision of disability benefits for those with significant employment barriers.

In this counterpoint, we agree with Haskins regarding much of the evidence, but interpret TANF’s performance more negatively. We reframe his subtitle as “work still works, but TANF does not.” We offer suggestions for additional reforms that would make the safety net more effective for both the working and nonworking poor.

### INTERPRETING THE EVIDENCE

We agree that TANF failed those with significant barriers to work. Little research on barriers was available when TANF was enacted because AFDC offered the same monthly check to all applicants and did not screen for barriers. After welfare reform, researchers documented the extent of health, mental health, literacy, domestic abuse, and other problems among recipients failing the transition from welfare to work (Danziger et al., 2000) and showed that many, if provided with application assistance, qualified for Supplemental Security Income (SSI) (Pavetti & Kauff, 2006).

Haskins notes that between 20 and 25 percent of single mothers with incomes less than 200 percent of the official poverty line were disconnected from both work and TANF at any given time and cites an estimate that the annual income of disconnected TANF leavers was only \$6,200 in 2002. Loprest and Nichols (2011) report that economic circumstances of the disconnected declined further during the Great Recession. We endorse his conclusion that this is a “serious policy issue that its magnitude is increasing, and that in two decades the nation has not figured out how to address the problem.” We agree that a “temporary and partial work waiver program” would help and we endorsed a related disability reform in our piece.

We concur that TANF fails to serve many needy families because the structure of the block grant encourages states to restrict entry onto the caseload. We also endorse the analysis of Germanis (2015) who argues (in Haskins’s words) that “states have taken advantage of the spending flexibility offered by the block grant to game federal

rules and, in many cases, conduct small and ineffective TANF cash benefit programs while using block grant dollars for other purposes.”

We also cited the positive work-enhancing and poverty-reducing effects of the work-oriented safety net reforms that were implemented prior to and following TANF. Haskins’ chart documents declines in “earnings-only” poverty and even bigger gains in “earnings plus benefits minus taxes” poverty, from the 1987 to 1993 period through 2013. Earnings-only poverty fell by 13.5 percentage points to 40.8 percent in 2000, and posttransfer and tax poverty by almost 14 points to 26.8 percent in that year. As we noted, the safety net now does more to “make work pay” than it did in the early 1990s. We also emphasized that the increased labor supply that reduced earnings poverty is due to a combination of TANF’s work requirements and the increased work incentives of a higher minimum wage and a higher earned income tax credit.<sup>1</sup>

We interpret these results differently. According to Haskins, after welfare reform, in 2000, “the poverty rate based exclusively on earnings was only 40.8 percent.” We applaud this decline in earnings poverty, but emphasize that we fail to provide opportunities to all who want to work. It is a tragedy that with a 4.0 percent unemployment rate, 40.8 percent of single mothers earned too little to escape poverty. That is why we proposed enhanced policies to raise employment. Haskins continues, “after single mothers received the package of work-based benefits, the 2000 poverty rate fell to 26.8 percent, a decline of a whopping 34 percent.” Although this is welcome news, it suggests the need for larger tax credits and additional anti-poverty policies.<sup>2</sup>

Haskins acknowledges that some gains from work achieved by 2000 were lost during the Great Recession—the earnings only poverty rate increased from 40.8 to 47.6 percent by 2013. If TANF were effective in responding to increased economic need, this poverty increase should have led to increased caseloads. Yet, TANF caseloads hardly changed during the Great Recession while SNAP caseloads rose dramatically. We do not yet have data on changes in the number of disconnected families during the later years of the recession or an estimate of how many might have enrolled in TANF had states responded to economic hardship. However, we are confident that the policies we proposed would have provided more work opportunities, and done more to reduce disconnection and hardship than TANF did.

## SOME ADDITIONAL POLICY OPTIONS

We agree with Haskins regarding the pressing need for TANF reforms even if we disagree about the scope of the required changes. We want to make the work-based safety net more effective without returning to AFDC. Because of space constraints we mentioned only four reforms that would increase work opportunities and reduce poverty. They were:

1. Adoption of a public responsibility to provide work opportunities to those for whom employer demand is limited, especially when unemployment is high. This includes transitional jobs or public subsidies to private-sector firms, non-profit agencies or government agencies.
2. Expanded child care subsidies.

<sup>1</sup> Hoynes and Patel (2015) document that EITC expansions have contributed substantially to increased labor supply.

<sup>2</sup> Bollinger et al. (2009) note the heterogeneous effects of earnings gains. Among low-skilled single mothers, earnings gains and EITC expansions were more than offset by losses in transfer income.

3. Reducing barriers to TANF entry by requiring states to spend a larger fraction of block grant funds on cash assistance and raising the TANF block grant to reflect economic and demographic changes.
4. Modifying the SSI program by adding part-time or temporary disability benefits.

Here, we suggest additional reforms to both encourage work and reduce poverty. First, because the federal minimum wage has not increased since 2009, an increase would reduce earnings poverty for single mothers, who are disproportionately represented among minimum wage workers. The Congressional Budget Office (2014) estimated that a \$10.10 per hour wage would raise earnings for 16.5 million workers and reduce poverty by about 900,000, while reducing employment by about 0.3 percent (about 500,000 jobs).

Second, Hoynes (2014) proposes to raise the EITC for families with one child so that it is equivalent to that of two-child families, adjusted for family size. This would increase the maximum EITC for one-child families by about 40 percent for those in the bottom two quintiles. For example, the EITC for such a family with a full-time worker earning \$10.90 in 2014 (150 percent of the minimum wage) would increase from \$2,531 to \$3,621, about a 5 percent increase in disposable income.

Third, Ziliak (2014) proposes to convert the Child and Dependent Care Credit from a nonrefundable to a refundable credit. For example, for children under the age of five whose families have less than \$25,000 in adjusted gross income, the refundable credit would be \$4,000 for the first child in a licensed facility and half that for a child in an unlicensed facility. Low-income families do not benefit much from the current credit because they have little taxable income.

Fourth, families with incomes below \$3,000 do not benefit at all from the \$1,000 per child tax credit and other low-income families do not receive the full credit because their income tax liability is lower than \$1,000 per child. The Center for American Progress (2015) has proposed making the credit fully refundable. This would provide needed cash income for the disconnected and additional income for TANF recipients, particularly if the credit could be delivered on a monthly basis.

Taken together, the four proposals in our first contribution and the four mentioned here would lead to higher work, higher earnings, and lower poverty. Note that we have not taken on the difficult task of redesigning TANF. Haskins cites “TANF is Broken,” in which Germanis proposes a major reorganization of cash assistance that would make it more responsive to economic and demographic changes, make it harder for states to game the system, and would encourage more effective state policies. We agree that two decades after TANF’s passage, it is time for policymakers to reform welfare reform as well as to do more to make the work-based safety net more effective.

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