# $2 a Day – An *Even More* Complete Picture: TANF is "Welfare for States," Not for Needy Families[1]

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In "$2 a day: A more complete picture," Ron Haskins of the Brookings Institution reviews a new book by Kathryn Edin and H. Luke Shaefer, titled *$2.00 A Day: Living On Almost Nothing In America*. Edin and Shaefer conclude that the 1996 welfare reform law (particularly the creation of the Temporary Assistance for Needy Families or TANF program) effectively shredded the cash safety net. Haskins acknowledges that, "Calling attention to the plight of disconnected mothers is an appropriate and important task for researchers," but he concludes that overall welfare reform "worked."[3] When applying an "*even more* complete" assessment of welfare reform and the role of TANF, in particular, it turns out Edin and Shaefer are probably correct. Moreover, because they only focus on the safety net aspect of the welfare reform law, they understate the massive policy failure that is TANF.[4]

To support his conclusion that welfare reform "worked," Haskins states:

> The percentage of never-married mothers…with a job increased by about 35 percent between 1994 before welfare reform and 2000, the peak employment year before the recession of 2001 hit. In spite of the recessions of 2001 and 2007, single mothers continued working at much higher rates than before welfare reform. Based only on the earnings of single mothers, the poverty rate among these mothers and children in 2013 was about 48 percent, about 12 percent lower than the comparable poverty rate in 1994, in large part because more mothers worked in 2013 than in 1994. [5]

This assessment is too simplistic and it fails to reflect what "TANF" is and what it has become.

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[1] In an interview with Dylan Matthews, Kathryn Edin asserts that TANF is "welfare for states, and not for the families." See 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. Indeed, TANF is not a program, but a fixed and flexible funding stream that states can use as they wish; sadly, many do not target their funds on needy families for either basic assistance or to promote work-related activities, but instead use it as a slush fund to fill budget holes.

[2] 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. I welcome comments and suggestions; I can be reached at petergermanis1@gmail.com.

[3] While "welfare reform" could encompass changes to programs other than TANF, most notably the EITC, this paper focuses on TANF, as do Edin and Shaefer. And, it is clear from Haskins's publications that he believes TANF "worked."

[4] 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: https://petergermanis.com/wp-content/uploads/2020/09/TANF-is-Broken.072515.pdf.

[5] Ron Haskins, "$2 a day: A more complete picture," The Brookings Institution, September 14, 2015, available at: http://www.brookings.edu/blogs/social-mobility-memos/posts/2015/09/14-cash-welfare-sipp-complete-picture-haskins.

**TANF is not "welfare reform."** In the 1980s, President Reagan advanced real welfare reform by allowing states to experiment with changes to their AFDC programs by granting waivers (subject to rigorous evaluation – typically random assignment – and cost neutrality), an approach continued by President Bush and President Clinton. States tested changes to a wide variety of policies – work requirements, sanctions, time limits, earnings disregards, behavioral requirements, etc. This was real reform and states were held accountable for their results. When the 1996 law passed, many states simply continued these policies – they didn't need TANF to enact "welfare reform."[6]

<u>TANF is not welfare reform; TANF is a fixed and flexible funding stream</u>. While the 1996 law includes federal requirements, it also gives states the flexibility to avoid most of them. For example, supporters of TANF often boast of its work requirements, yet from the beginning states have taken advantage of the law's provisions and various loopholes to avoid federal work requirements altogether or substantially minimize their impact (see Germanis, 2015). To the extent states ran welfare-to-work programs, it was more due to state policy choices than to TANF's work requirements. And, most federal requirements apply mainly to the cash assistance portion of TANF, which now accounts for just 27 percent of federal and state spending.[7] There are few limits and little accountability on the more than $20 billion spent on non-cash assistance activities; something made possible by the excessive flexibility Congress provided states in the 1996 law.

In a nutshell, here is what TANF did. In the short-run, it gave states a large infusion of federal funds by basing the $16.5 billion block grant on historically high funding levels. In 1996 – a year before TANF was implemented – states spent less than $15.1 billion on the programs that went into TANF[8]; they would have spent even less in 1997 and the early years of the program because of caseload declines that had nothing to do with TANF. In the long-run, the windfall has disappeared and TANF has resulted in less federal support for needy families with children, because it does not adjust the block grant for inflation and demographic changes. Indeed, each year states pay a federal penalty of about $300 million – it is called inflation.

Perhaps more important – the flexible nature of the block grant meant states could use it to supplant existing state expenditures or otherwise fill state budget holes. Liz Schott and her colleagues at the Center on Budget and Policy Priorities explain:

> States use a large and growing share of the state and federal TANF funds that formerly were used to help poor families meet their basic needs for other state services. In some

[6] The pre-TANF waivers were time-limited and TANF did permit states to continue their policies, but it would have been possible to expand state flexibility within the waiver framework, with its accountability provisions. Indeed, the next logical step would have been to extend such flexibility to other programs, most notably food stamps (now the Supplemental Nutrition Assistance Program – SNAP). As I describe elsewhere (Germanis, 2015), however, the TANF experience – a block grant with excessive state flexibility – is not a model for other programs, as some policymakers propose for SNAP and Medicaid.

[7] U.S. Department of Health and Human Services, Office of Family Assistance, "TANF Financial Data – FY 2014," July 7, 2015, available at: http://www.acf.hhs.gov/programs/ofa/resource/tanf-financial-data-fy-2014.

[8] See Table B-1 in Gene Falk, "Temporary Assistance for Needy Families (TANF): Financing Issues," Congressional Research Service, September 8, 2015.

> cases, states have used TANF and MOE funds to expand programs, such as state Earned Income Tax Credits (EITCs) or pre-K, or to cover the growing costs of existing services, such as child welfare. In other cases, they have used TANF/MOE funds to *replace existing state funds*, thereby freeing those state funds for purposes unrelated to providing a safety net or work opportunities for low-income families.[9]

Because TANF is a fixed block grant, when states use TANF/MOE funds for programs beyond the core welfare reform areas, there is less funding to provide basic assistance and work-promoting activities for the poorest families. Before TANF, states spent over 70 percent of their funds on cash assistance – this has since dropped to 27 percent (despite an increase in the number of families eligible for cash assistance and the number of poor families with children[10]); and, states spend just 7 percent of their funds on work activities.[11] These are national averages – some states spend less than 10 percent on cash assistance and virtually nothing on work activities. <u>In many states, TANF has become welfare for states, not needy families.</u>

<u>TANF is not a "program"; it is a fixed and flexible funding stream, and it is that feature that drives its effects on employment, poverty, and other indicators of well-being.</u>

**The starting point for assessing the effects of TANF is not 1994; it should be the end of 1996 or sometime in 1997.** The Congress didn't pass the 1996 law until August 1996. The starting point for any analysis of TANF should be sometime between September 30, 1996, to July 1, 1997, when states transitioned to TANF. As noted above, TANF added little to the flexibility states had with cash assistance. Initially, it provided too much money, but over time inflation and other factors have sharply reduced its value as a funding source.

Even if one assumed welfare reform, and later TANF, is responsible for the full effects of the trends in employment rates and poverty described above, the 1996 law shouldn't be given credit for anything before 1997.[12] For example, Haskins states, "The percentage of never-married mothers…with a job increased by about 35 percent between 1994 before welfare reform and 2000, the peak employment year before the recession of 2001 hit." The employment rate for never-married mothers started to rise in 1992 and peaked in 1999/2000, after which it began a steady decline. About half or more of the increase occurred *before* states implemented TANF, and today the employment rate of never-married mothers is about the same as it was when states

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[9] Liz Schott, LaDonna Pavetti, and Ife Floyd, "How States Use Federal and State Funds Under the TANF Block Grant," Center of Budget and Policy Priorities, April 8, 2015, available at: http://www.cbpp.org/research/family-income-support/how-states-use-federal-and-state-funds-under-the-tanf-block-grant.

[10] TANF's target population is not and has never been all poor families, but the growth in need is reflected in a variety of statistics, including families in deep poverty, eligible for TANF cash assistance, receiving SNAP benefits, etc.

[11] U.S. Department of Health and Human Services, Office of Family Assistance, "TANF Financial Data – FY 2014," July 7, 2015, available at: http://www.acf.hhs.gov/programs/ofa/resource/tanf-financial-data-fy-2014.

[12] Some proponents of TANF argue that it should be credited with positive employment and related effects before enactment of the law due to an "announcement" effect, i.e., that the announcement of a new welfare reform policy emphasizing work would induce behavioral change before implementation of the law. However, the passage of the 1996 law was far from certain, as President Clinton had vetoed two versions and states were already implementing welfare reforms and strengthening work requirements under the waiver-based welfare reform. The more serious bias in most assessments of the 1996 law is to assume that TANF's flexibility in cash assistance programs would not have existed in the absence of the law when in fact most states initially just continued their existing waivers.

adopted TANF. Moreover, simplistic pre-post comparisons are hardly evidence of a causal effect. It would be overly simplistic to believe that the employment rate would have immediately plateaued had TANF not been implemented. And, to the extent that TANF had an effect, it would be due to a strong work message and the massive infusion of federal funds in the first 5 to 10 years of the program. The actual work requirements were so diluted by the caseload reduction credit and various loopholes that they are not a plausible explanation. Most states never mounted work programs on a large scale, something evident in the data on work participation levels. Instead most relied on the caseload reduction credit and the fact that they could count unsubsidized employment as an activity (which, in turn, is mainly a function of generous earnings disregards). While some states did operate serious work programs, it was because the states chose to do so as a matter of state policy, not federal work requirements. Indeed, throughout most of the 1998 to 2011 period, 20 to 30 states had a 0 percent work target!

Similarly, Haskins compares the poverty rate for single mothers from 1994 to 2013. Again, this is the wrong starting point. I'm not sure of the data source Haskins used, so I will compare the number of families with children in poverty. This number peaked in 1993 at 7.1 million and then began a steady decline.[13] By 1996/97, before TANF was implemented, it fell to about 6.3 million. This is the appropriate baseline, not 1994; the number of families with children in poverty fell further to 5.1 million by 2000, but then began a steady increase. It peaked again in 2011 at 7.4 million and was still 6.7 million in 2013. Using Haskins's pre-post approach, but with a more appropriate baseline, the number of poor families with children has increased, suggesting TANF did not "work." (As noted above, simplistic pre-post comparisons are generally not very credible, but when combined with other data and evidence on how TANF was implemented, I do believe TANF is a policy failure.)

The poverty rate is not a good measure of TANF's effects (even if one could account for external factors), because the poverty line is much higher than the eligibility thresholds for TANF cash assistance and measured on the basis of annual income. And, the $2 a day approach used by Edin and Shaefer is somewhat arbitrary. An alternative is the estimate of TANF families eligible for assistance. The federal poverty threshold in 2013 for a family of three was $19,530 or about $1,628 for a month. In contrast, the mean maximum income for initial eligibility for TANF cash assistance was just $829.[14] If TANF were effective, one would expect the number of families eligible for cash assistance to decline. In 1996/97, when TANF was implemented, there were 5.5 million families eligible for TANF.[15] In 2011 (the last year for which data are available), this was higher – 5.6 million. But, the number of cases receiving assistance fell from about 4.1 to 1.9

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[13] Table 2 in Ife, Floyd, LaDonna Pavetti, and Liz Schott, "TANF Continues to Weaken as a Safety Net," Center on Budget and Policy Priorities, June 16, 2015, available at: http://www.cbpp.org/research/family-income-support/tanf-continues-to-weaken-as-a-safety-net.

[14] See Table L3 in Erika Huber, David Kassabian, and Elissa Cohen, *Welfare Rules Databook: State TANF Policies as of July 2013*, The Urban Institute, September 2014, available at: http://anfdata.urban.org/databooks/Welfare%20Rules%20Databook%202013.pdf.

[15] The number of families eligible for AFDC/TANFis estimated by an Urban Institute model (TRIM3) that uses Census data from the Current Population Survey (CPS) to simulate program eligibility for an average month, by calendar year. For purposes of approximating TANF's starting point, I use the average of 1996 and 1997. See U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, *Welfare Indicators and Risk Factors: Thirteenth Report to Congress*, March 1, 2014, p. II-18, available at: http://aspe.hhs.gov/sites/default/files/pdf/76851/rpt_indicators.pdf.

million. So, the number of eligible families not receiving TANF rose nearly 165 percent, from 1.4 million families to 3.7 million families. Even with a simplistic pre-post approach, the magnitude of this increase is concerning. Edin and Shaefer are right:

> 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. There are only a million adults left on the TANF rolls in the United States, and half of them are in just two states: California and New York. Many other states barely have functioning TANF systems anymore.[16]

Even when families are aware of TANF, it is also the case that some apparently would prefer to live in "extreme poverty" and receive handouts from family and friends than to comply with the work requirements. This is an unfortunate result of the design of those work requirements. Anyone can cut the caseload, but the real challenge is to cut caseloads by increasing self-sufficiency. TANF has not done this.

**Apply the rules of evidence-based research to thinking about TANF.** TANF can't really be evaluated using conventional methods because it is not a program, but rather a funding stream. Nevertheless when reflecting on its successes and failures, one should acknowledge the importance of internal validity and external validity, as well as findings from implementation research, while maintaining the context of what TANF is and how it has changed over time.

*Internal validity.* The most common methodology used by proponents of the 1996 law is a pre-post analysis, such as the comparisons of 1994 to 2013 above. This type of analysis is generally not credible because it does not account for economic or demographic factors, changes in other policies (e.g., aid to the working poor), and other factors. Even when welfare reforms have been analyzed statistically or using random assignment experiments, they generally find modest effects[17] – nothing that would explain the full decline in caseloads and poverty and increases in employment that occurred in the early years.[18]

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[16] 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.

[17] Researchers at RAND prepared a comprehensive synthesis of the impact of welfare reform on welfare caseloads, child poverty, and a range of other outcomes. While most state welfare 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 during the early years of TANF. This is because the control group also benefitted from a strong economy and increased aid to the working poor. See Jeffrey Grogger, Lynn A. Karoly,

*External validity.* An important factor in assessing TANF today is the generalizability of findings over time (intertemporal validity). Claims of TANF's success are generally based on the caseload/poverty declines in the early years, a time when there was a massive infusion of federal resources and the economy was strong. Today, the value of TANF has declined sharply, even as the number of needy families eligible for cash assistance and the number of poor families with children is higher. Table 1 shows the change in basic federal funding (adjusted for inflation) per family eligible for cash assistance and per poor family with children for selected years between 1997 and 2013. For 1996, similar computations are made using actual federal expenditures for TANF's predecessor programs (AFDC, Emergency Assistance, and JOBS) to show the initial windfall states received by basing the TANF block grant on historic funding levels.

**Table 1:**
**Basic TANF Funding Compared to the Number of Families Eligible for Assistance And the Number of Poor Families with Children, Selected Years (2013 $)***

| Year | Per Family Eligible for Cash Assistance | Per Poor Family with Children |
|---|---|---|
| 1996 | $4,080 | $3,570 |
| 1997 | $4,502 | $4,073 |
| 2000 | $5,115 | $4,609 |
| 2013 | $2,910 | $2,544 |

*Sources: For 1997, 2000, and 2013, see Figure 7 in Gene Falk, "Temporary Assistance for Needy Families (TANF): Financing Issues," Congressional Research Service, September 8, 2015. For 1996, for eligible families, see U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, Welfare Indicators and Risk Factors: Thirteenth Report to Congress, March 1, 2014, p. II-18, available at: http://aspe.hhs.gov/sites/default/files/pdf/76851/rpt_indicators.pdf; for the number of poor families with children see Table 2 in Ife, Floyd, LaDonna Pavetti, and Liz Schott, "TANF Continues to Weaken as a Safety Net," Center on Budget and Policy Priorities, June 16, 2015, available at: http://www.cbpp.org/research/family-income-support/tanf-continues-to-weaken-as-a-safety-net.

Comparing TANF in 1997 to 2013, shows that states on average have 35 percent less in federal funding per family eligible for cash assistance and 38 percent less in federal funding per poor family than when TANF was first implemented (mostly due to inflation). And, the 2013 figure is somewhat misleading, because a significant portion of the federal funding is no longer available to *state TANF agencies* for core welfare reform purposes, but has been used by states to supplant existing state expenditures and fill budget holes. So, here is perhaps the most important question for those who believe TANF is a success:

> ***Even if you believe TANF was once a success, how can you possibly think TANF can be a success today when the number of needy[19] families with children is greater and states have far fewer resources?***

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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.

[18] Random assignment studies are not perfect either; they may miss entry and general equilibrium effects. And, the control group may be influenced by the "atmospherics" surrounding welfare reform, thus muting its effects.

[19] The reference to "needy" refers to those eligible for TANF cash assistance. This is a conservative measure, given that most states have restricted eligibility, either by adopting restrictive policies or simply by letting income

This calculus is even worse for those states (like Rep. Paul Ryan's Wisconsin) that have had large increases in poverty due to broader changes in economic and demographic conditions. Because the block grant is fixed, the states with increases in poverty are further handicapped by TANF.

*Implementation/policy research.* To understand TANF, it is important to examine how states have implemented the "program" and what the policy actually is. I elaborate on this in my longer paper (Germanis, 2015), noting that it is rapidly becoming a giant slush fund with billions of dollars spent for activities never envisioned by Congress. Less than half of TANF/MOE funds are now spent on core welfare reform activities (basic assistance, work activities, and child care). Indeed, when TANF was first implemented, states spent over 70 percent of their funds on basic assistance before TANF; it is now less than 27 percent, despite an increase in the number of families eligible for cash assistance. And, the percentages are based on dollars unadjusted for inflation. In inflation adjusted terms, spending on cash assistance between TANF's enactment and 2014 fell from about $28.5 billion to about $8.5 billion, even though the number of poor families with children rose. Conservatives who use terms like "opportunity society" when referring to welfare programs would do well to read the Edin and Shaefer book and think carefully about what TANF really is – a fixed and overly flexible funding stream that has exacerbated the depth of poverty and done little to provide the work habits and skills needed to lift families out of poverty.

**Bottom-line.** Rep. Paul Ryan, Chairman of the House Ways and Means Committee, recently stated, "opportunity and upward mobility are bedrock principles of this country, and that's why we must continue to work until they are within reach of all Americans."[20] For nearly two decades, many in Congress have worked under the false premise that TANF provides such opportunities and that it is an "unprecedented success." By any objective, non-political measure, TANF is a massive policy failure. Even if one believes welfare reform "worked" in the past, it is definitely not "working" now, either for poor families or for taxpayers. Congress would do well to heed the advice of Milton Friedman, who once observed, "One of the great mistakes is to judge policies and programs by their intention rather than their results."[21] It time to reform "welfare reform" – it's time to start over!

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eligibility thresholds erode due to inflation. The increase in need is also reflected in increases in families with children in poverty or deep poverty or any variety of measures.

[20] Quoted in Committee on Ways and Means, "Inside the Numbers on Poverty and Income in America," September 17, 2015, available at: http://waysandmeans.house.gov/inside-the-numbers-on-poverty-and-income-in-america/.

[21] Interview with Richard Heffner on *The Open Mind*, December 7, 1975.