Speaker Ryan's "Poverty, Opportunity, and Upward Mobility Report": The Need for "A *Much* Better Way"

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A Personal Note from "Peter the Citizen"

Arthur Brooks, president of the American Enterprise Institute, once said, "What is most important on the right is not to shut down the competition of ideas." 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 massive policy failure and should not be held out as an example of "conservatism." I favor an alternative conservative approach based on a model developed in the Reagan Administration, which provided states flexibility, but had strong accountability provisions – most notably cost neutrality and rigorous evaluation – to ensure that states actually help needy families. For the past year, I have been writing critiques of TANF and "responses" to those who advocate welfare reform based on the "TANF model." The ancient Greek philosopher, Diogenes of Sinope, once said, "Other dogs bite only their enemies, whereas I bite also my friends in order to save them." I am trying to save conservatives and to help them not only "talk the talk," but also "walk the walk."

The American Enterprise Institute recently held an event discussing the Republican Study Committee's "Empowerment Initiative" report on strengthening the safety net. Harry Holzer, a professor of economics at Georgetown University, was a panelist commenting on the report. In his opening remarks, he said:

> I took a quick look at the report; I'm going to have to say a lot of critical things. …politeness is not always my strong suit. …To me, this is a very blunt report, and it merits a very blunt response. Anything less than that would be dishonest. I'm going to try to get the right balance of politeness and bluntness. If I fail to get that right balance, I apologize. My reaction to this report was really pretty negative. …I found the report to be extremely partisan, extremely ideological. It's nasty in tone… It's polarizing, it's polemical… There are many statements in the report that I believe are demonstrably false if you look carefully at the research evidence.[2]

I reviewed that report and came to the same conclusion.[3] This review is about the "Poverty, Opportunity, and Upward Mobility" report that was released as part of a series of reports under the rubric of *A Better Way*.[4] I will also be blunt; this report is seriously flawed.

What follows is a harsh critique, not of the concerns raised by the authors, but of the simplistic and misleading analysis of America's safety net programs, as well as the total absence of important policy details. I point to "a much better way" to conduct policy analysis, basing my recommendations on my experience in the Reagan Administration and President Reagan's 1986 welfare reform proposal.

Background

On May 26, 2016, Speaker Ryan's press office released a statement promising a bold, new anti-poverty plan:

> House Republicans are now just a couple of weeks away from rolling out our bold policy agenda for a Confident America. We disagree with the direction that the country is going in, so we owe the American people a clear choice—a better way. This will start in two weeks with our poverty agenda—a specific, conservative plan to help move people from welfare to work so they can make the most of their lives.

On June 7, 2016, the "Poverty, Opportunity, and Upward Mobility" report was released as part of a series of reports under the rubric of *A Better Way*.[5] Unfortunately, there were no bold new ideas or policy specifics; instead the report was nothing more than conservative talking points, with misleading information about the effects of welfare programs and vague policy recommendations. As a result, it has already been dismissed by many as a serious policy document. A *much* better way would be to provide a detailed, fact-based, and objective description of the welfare system and its effects and then to develop policy recommendations that can be supported by data and research evidence.

I am conservative with a long history in welfare policy. From 1986 to 1996, I was involved in the development and implementation of President Reagan's 1986 welfare reform proposal, described in *Up from Dependency: A New National Public Assistance Strategy*.[6] This critique draws parallels to that report and its various supplements, particularly with respect to the importance of providing complete and balanced information, and how to use that information to develop policy recommendations. It is not intended to be a full assessment of the report prepared by the House Poverty, Opportunity, and Upward Mobility Task Force; it is simply intended to identify some of the most egregious statements that reflect bias or misinformation, followed by an explanation called a "PC Response" (where PC refers to my pseudonym – "Peter the Citizen").

Speaker Ryan has said that we should not measure the success of welfare by how much we spend, but, in his words, "We should measure it by how many people we help. Those who protect the status quo must answer to the 46 million Americans living in poverty."[7] While the Task Force report does not support the *status quo*, it does not offer a serious conservative vision. We owe it to the nation's poor to do better.

President Reagan's 1986 Welfare Reform Report

Nearly 30 years ago, President Reagan announced a bold new strategy to reform the welfare system, described in *Up from Dependency: A New National Public Assistance Strategy*. In many ways, that report's description of the welfare system and policy options sound similar to what the Task Force proposed:

> This report, along with its supplemental volumes, assesses the welfare system and its successes and failures, describes the frustrations felt by the poor in the United States, and

> proposes a basic change in public assistance policy. America's state and federal governments spend more than $150 billion a year on programs to alleviate poverty, yet poverty continues to be a problem. Weaknesses within the centralized welfare system contribute significantly to the persistence of poverty in America. The following recommendations are offered: (1) the welfare system must be treated as a system; (2) no "national" welfare reforms should be proposed or supported without first being locally tested; (3) reform goals should be adopted that comprehensively define federal requirements for reform, allow maximum flexibility for state- and community-based reform efforts, and retain the current federal-state financing commitments; (4) the Federal Government should initiate a program of widespread, long-term experiments in welfare policy through state-sponsored and community-based demonstration projects; and (5) legislation should be proposed to implement the experimental program and ensure that its useful results are gradually incorporated into the national public assistance system. The report discusses findings, the potential for reform, and the proposal for a new national welfare strategy.[8]

Indeed, this report proposed a more comprehensive version of Speaker Ryan's "Opportunity Grants" proposal (discussed below). Although Congress did not pass President Reagan's legislation, the exercise ultimately resulted in an interagency waiver process for welfare reform (using existing waiver authority) that provided states considerable flexibility to test alternative approaches to their cash welfare programs (and to a lesser extent – food stamps and Medicaid). The similarities end here, however. The Reagan Administration's efforts were developed by the White House Domestic Policy Council's Low-Income Opportunity Working Group, led by Chuck Hobbs, an Assistant to the President. It differs from the Task Force report in three important ways.

The first important difference is in the scope of the effort. The Task Force report is a mere 35 pages. In contrast, *Up from Dependency* was and remains the most comprehensive description of the welfare system and its effects. It is nearly 2,000 pages long; consisting of a main report that is 75 pages and the following supplements:

- *Supplement 1: The National Public Assistance System. Volume 1: An Overview of the Current System* (105 pages); *Volume 2: A compendium of public assistance programs: major federal cash, food, and housing programs* (554 pages); and *Volume 3: A compendium of public assistance programs: major federal health, service, employment, and education programs, other federal and state programs* (451 pages).
- *Supplement 2: Experiments in Reform* (NA; see Supplement 5).
- *Supplement 3: A Self-Help Catalog* (520 pages).
- *Supplement 4: Research Studies and Bibliography* (186 pages)
- *Supplement 5: First Annual Report* (67 pages).

We did not prepare this report alone:

> The Working Group consulted think tanks and scholars, local political leaders and nearly half the nation's governors. Town meetings were conducted in seven cities. Twenty-two discussion groups of former and current welfare recipients were convened. Data were

> collected on almost 400 self-help anti-poverty projects. Moreover, hundreds of public assistance administrators from both federal and state agencies helped put together the most comprehensive description of the public assistance system ever completed.[9]

In contrast, the Task Force report was based on "listening sessions, hearings, and collaboration across the entire [House Republican] conference."

The second difference is balance. The Task Force report is replete with misleading and biased statements, reflecting conservative talking points, rather than a factual assessment of welfare's effects. In contrast, the *Up from Dependency* series of supplements described the welfare system in a factual and balanced way. For example, in describing the impact of benefit phase-out rates, the Task Force presents unrealistic examples of combinations of benefits and makes unsubstantiated claims about their effects. In contrast, the *Up from Dependency* reports presented a range of examples and provided an objective description of economic theory and empirical evidence.

The third and most important difference is in the policy recommendations. The Task Force offers vague statements and recommendations, none of which are supported by any *credible* empirical evidence. For example, the Task Force recommends that "federal safety-net programs expect work-capable welfare recipients to work or prepare for work in exchange for receiving benefits. That's the only way they can escape poverty, and states and local governments should help recipients realize their potential." While I am a supporter of work requirements, there is no credible evidence that they have reduced poverty *rates*. Careful evaluations suggest that mandatory work requirements have generally had modest, short-term impacts on employment and earnings, and that the earnings gains were largely offset by reductions in cash assistance and other benefits. Indeed, some evidence suggests that these requirements have increased the depth of poverty.

More important, conservatives have been unable to translate their support for work requirements into effective legislation. In enacting the 1996 welfare reform law, conservatives gutted the modest pre-TANF work requirements, creating loophole-after-loophole that states have regularly exploited to avoid federal penalties. Instead of helping the poor get connected to work opportunities, their main function has been to impose barriers and cut caseloads. Conservatives have no business expanding work requirements to other welfare programs until they acknowledge and fix TANF's work requirements.

In contrast to the Task Force, in the Reagan Administration we realized that we did not have all the answers and we did not overpromise. Instead, we established a *process* for developing evidence-based reforms. The Task Force should look at the Reagan approach – no more major national reforms until they have been tested. (The one exception – Congress should fix TANF so that it functions as intended – as a safety net and a welfare-to-work program.)

My Qualifications

I believe I am uniquely qualified to provide a critical assessment of *conservative* anti-poverty strategies, as I played a leading role in the development of President Reagan's 1986 welfare reform proposal and most of the reports supporting that effort. Here is how Ron Haskins, recently appointed by Speaker Ryan as the co-chair of the new Commission on Evidence-Based Policymaking, described my role during this period:

> Hobbs and his capable young assistant Peter Germanis were a formidable team. Hobbs was often out lobbying the states urging governors to conduct welfare reform demonstrations (or on Capitol Hill urging members of Congress to strengthen work requirements), while Germanis stayed at home in his office in the Old Executive Office Building writing reports on welfare reform.[10]

And, in deliberations about the importance of rigorous evaluation methods, I stood up for reliable evidence. The Low Income Opportunity Board (LIOB) was reestablished in the George H.W. Bush Administration. Governor Sununu, the chief of staff, directed the LIOB to reexamine the requirement for rigorous evaluation cost neutrality to give states more flexibility in implementing welfare reform. The directive was to "develop options for assessing cost neutrality other than random assignment" and that assignment was directed to "LIOB staff member Peter Germanis."[11] With input from career civil servants and researchers, I produced such a paper, which was distributed at the next board meeting. As Judy Gueron and Howard Rolston describe in *Fighting for Reliable Evidence*, "In both the paper and his presentation, Germanis was clear that other methods of controlling for external circumstances and selection bias were weaker than random assignment."[12] Neither I nor career civil servants committed to good social science backed down. Gueron and Rolston explain that in the end this "allowed Germanis (a mid-level political appointee) and a group of career civil servants to defeat the approved recommendations of the president's chief of staff…"[13] They further add:

> Was this a case of bureaucratic intransigence so frequently alluded to by politicians? Certainly, it was not insubordination. We operated in a totally open way, and nothing prevented board members all of whom were political appointees from carrying out the president's directive. Nor did we drag our feet. From our perspective we were unwilling to call approaches reliable when we did not think they were. Germanis recalls the motivation for his actions this way: "At the time I must've been convinced along with everyone else that there was no credible … alternative… I've always thought that my job was to give the best advice possible."[14]

I provide this background both to establish my credentials and the importance I place on providing "the best advice possible." When it comes to welfare reform and anti-poverty proposals, conservatives sound sincere, but their knowledge of the subject matter and policy ideas are lacking, as illustrated in the *A Better Way* report. This paper is intended to help fill some of those voids.

Overview of the Welfare System

Task Force Statement: "But even though the federal government has spent trillions of taxpayer dollars on these programs over the past five decades, the official poverty rate in 2014 (14.8%) was no better than it was in 1966 (14.7%), when many of these programs started."

PC Response: In a June 3, 2016, radio address, Speaker Ryan said:

> For years—decades now—Washington has spent trillions of dollars on dozens of programs to fight poverty. But we have barely moved the needle. The war on poverty is a stalemate at best.[15]

These statements are seriously misleading, because the data are based on the "official" poverty measure – one that most experts believe provides an inaccurate picture of contemporary poverty.

A full assessment of the poverty measure is beyond the scope of this response, but a few examples of the issues ignored by the Task Force illustrate the problem with a statement that suggests "we have barely moved the needle."[16] Perhaps the most significant shortcoming for purposes of assessing the effectiveness of the War on Poverty programs is that the official poverty measure is based on *pretax, cash* income. As Robert Greenstein of the Center on Budget and Policy Priorities explains:

> The official measure counts as income only those government benefits that are provided through spending programs which pay benefits in cash. It ignores SNAP, rental assistance, the EITC, the refundable part of the Child Tax Credit, and more. This means it ignores virtually all anti-poverty assistance created or expanded over the past half century, while counting the main form of assistance cut sharply over this period — cash assistance for poor families with children. You can't learn anything about the efficacy of most anti-poverty programs by using a measure that doesn't count them.[17]

Another problem is that the poverty thresholds have been adjusted for inflation by a price index – the CPI-U – which most economists believe has overstated the cost of maintaining a constant standard of living. An alternative preferred by many economists is the chain-price index for Personal Consumption Expenditures – the "PCE index." Christopher Jencks of Harvard recently examined the impact of these factors on the 2013 poverty rate and the impact over time. He concludes, "With these corrections the official poverty rate falls from 14.5 to 4.8 percent, making the 2013 rate roughly a quarter of the 1964 rate (19.0 percent)."[18]

Figure 2

APPROXIMATE REDUCTIONS IN THE OFFICIAL 2013 POVERTY RATE NEEDED TO MAKE IT COMPARABLE TO THE 1964 RATE

Official percent poor in 1964	19.0%
Official percent poor in 2013	14.5%
Reduction to correct for:	
Value of noncash benefits	-3.0%
Omission of refundable tax credits	-3.0%
Replacing CPI-U with PCE index	-3.7%
Adjusted percent poor in 2013	4.8%

Source: Christopher Jencks, "The War on Poverty: Was It Lost?," *The New York Review of Books*, April 2, 2015, available at: http://www.nybooks.com/articles/2015/04/02/war-poverty-was-it-lost/.

There are many other possible adjustments and approaches to measuring poverty, but most experts would agree that we have "moved the needle" and by a significant amount.

Task Force Statement: "Today, 13 federal agencies run more than 80 federal programs that provide food, housing, health care, job training, education, energy assistance, and cash to low-income Americans. …Meanwhile, the cost of our welfare system has grown enormously. Over the last decade, overall spending on programs for low-income people grew more than 7 percent per year. According to the Congressional Budget Office (CBO), spending increased from $369 billion in 2006 to a projected $744 billion in 2016. And these figures do not even include all relevant federal spending, nor the hundreds of billions of dollars that state and local governments spend fighting poverty as well. Altogether, as displayed in chart 1, total federal and state spending on programs for low-income people currently equals about $1 trillion per year."

PC Response: While putting means-tested spending into perspective is useful, the Task Force approach suffers from a number of weaknesses. First, there is no listing of the 80+ programs or their cost, just an illegible chart, presumably intended for dramatic effect.

Second, whereas the introductory paragraph to this section of the report compares the official poverty rate in 1966 to 2014, when describing the growth in "our welfare system," it uses a CBO report that is limited to federal spending for the "major mandatory spending programs and tax credits that are primarily means-tested" for the 2006 to 2016 period.[19] While there may be valid reasons to focus on recent trends for a subset of welfare programs, a document that is intended to describe the growth of the welfare system should take a broader view – one that includes all programs, federal and state expenditures, and dates back to the start of the War on Poverty. The later reference to a report by The Heritage Foundation does include a broader range of programs and state spending, but still does not list the programs and limits the comparisons to 1996, 2002, and 2011. (Note: The Heritage Foundation document had been updated through 2014, so why not use the latest data?[20] This is another reflection of the lack of effort members of the Task Force put into providing a current and comprehensive description of the welfare system.)

Third, the fastest growth in spending for means-tested programs in the CBO report was in health care programs, something this Task Force was not assigned to deal with but which instead is the purview of the Task Force on Health Care Reform. The Task Force should thus limit its focus to non-health means-tested programs. The CBO figures for the non-health programs, primarily "income security" programs, show a lower annual growth rate – 4.9 percent (vs. 7.3 percent when means-tested health care programs are included). Similarly, the Task Force's reference to annual federal means-tested spending in excess of $1 trillion by 2026 is inappropriate for this report, because over 70 percent of that spending in the CBO report is on health care spending, which again is not part of this Task Force's mandate. Indeed, federal spending on the main income security programs in the CBO analysis is $317 million in 2026, reflecting an annual growth rate of 1.6 percent between 2016 and 2026.

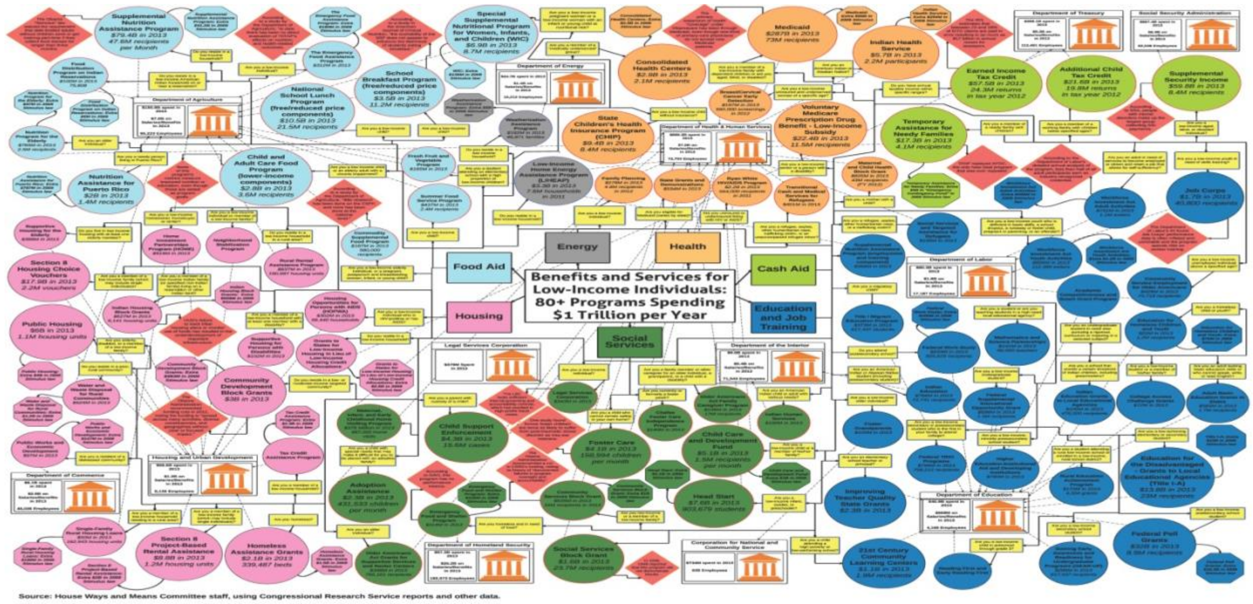
Fourth, the Task Force makes no attempt to put these numbers into perspective, with no adjustment for inflation, and no mention of other factors, such as population growth or the effects of the Great Recession. During the 2006 to 2016 period, inflation was about 19 percent and the number of people in poverty grew from 36.5 million poor to 46.7 million (in 2014) – both are factors that any objective analysis would mention.

Fifth, the use of two different data sources, with two time periods, with two different sets of programs, and two different expenditure concepts (federal vs. federal plus state) is confusing, particularly since very little other descriptive information is provided.

A Much Better Way: In *Up from Dependency*, we provided a comprehensive and detailed description of the welfare system and its growth over time. We provided a list of 59 means-tested programs, dividing them by key functional areas (cash, food, medical, housing, etc.), with total federal and state spending. We also showed the growth over time (1960-1985) in both current and constant dollars. The descriptive information in these reports goes well beyond these basics, but at a minimum, this is the type of information the Task Force should have included. And, this type of information was readily available to the Task Force, as it is regularly produced by the Congressional Research Service. Instead, the Task Force relied on a four page letter with two tables from the Director of the Congressional Budget Office to Representative Price as its primary source of information for the size and scope of the welfare system.

Task Force Statement: "And as chart 2 below shows, the federal welfare system is complex, disorganized maze of programs – many of which are duplicative, inefficient, and unnecessary." To support its position, the Task Force uses the following chart:

CHART 2: BENEFITS AND SERVICES FOR LOW-INCOME INDIVIDUALS: 80+ PROGRAMS



PC Response: Instead of providing hard data or any meaningful discussion of specific programs that are duplicative, inefficient, or unnecessary, the Task Force uses a chart that is impossible to read regardless of how much it is magnified – perhaps because it is a copy of a copy of a chart. One can find a similar chart produced by the Ways and Means Committee in 2015, but it too is illegible unless magnified by 200 percent.[21] The Task Force presumably relies on a chart like this for sensationalism, but it is very misleading and virtually useless as a policy tool.

First, the title of the chart suggests that each geometric shape is one of the 80+ programs for low-income individuals, but if one looks closely, there are in fact over 200 geometric shapes. Most of the shapes do not represent actual programs, but contain questions like, "Are you a low-income child?" or make a comment about a program. For example, for TANF, there is a comment: "TANF replaced AFDC, the only New Deal program that was ever repealed." These questions and comments have nothing to do with showing the complexity of the welfare system; they are added to simply clutter the chart to make the welfare system look more confusing than it really is. And, while most references point to spending in FY 2013, some refer back to one-time funding from Stimulus Act that no longer applies to FY 2013. For example, an octagon is added to refer back to the $5 billion Emergency Fund that was provided for in 2009, a funding source that is no longer available. Why? Presumably to add more shapes. As a result, instead of 80 boxes, circles, and other shapes, there appear to be over 200 shapes making the welfare system look even more confusing than it is.

Second, much of the substance within the boxes is misleading. Each Department is listed with what appears to be total spending and number of employees and staff costs. For example, HHS is said to have spent $886 billion in 2013. Most of this spending is presumably related to Medicare, not for programs for low-income individuals (although it is impossible to tell because the Task Force does not provide adequate citations for its sources). And, the staffing costs seem to include all employees and all staff, not just those who work on welfare programs. The arrows within the chart have no clear starting point and shed little light on the connection between programs. Last, the TANF box suggests the $17.3 billion in federal obligations is for cash assistance, when in fact only $6.3 billion in federal funds was used for this purpose. In FY 2014, just 27 percent of TANF/MOE expenditures were devoted to cash assistance; TANF is not a "program" or "welfare reform"; it is a flexible funding stream that many states use as a slush fund. The suggestion that it is "cash assistance" is misleading and obscures its failure as a safety net.[22] In short, the chart does nothing to advance the welfare reform debate.

Third, the Task Force chart cites the source as "Congressional Research Service (CRS), House Ways and Means Committee." An earlier press release for a hearing stated it was "House Ways and Means Staff using Congressional Research Service reports and other data." I have been reading CRS documents for over 35 years; no stand-alone CRS report has ever included such a misleading and erroneous depiction of the welfare system – this is undoubtedly the work of political staff on the Ways and Means Committee making a political point.

Finally, despite saying many of the programs "are duplicative, inefficient, and unnecessary," the Task Force does not define these terms or provide concrete examples of programs that fall into these categories. (There are some statements in the diamond shapes within the chart itself, but like most of the document the problems and documentation lack specificity.)

A Much Better Way: I agree that the welfare system is too complex, uncoordinated, and that we should be able to do better with the amount of money that we spend – we made this same point 30 years ago in *Up from Dependency*. We examined in great detail the effectiveness of these programs from a variety of perspectives, including topics such as:

- The effectiveness of means-tested programs (including noncash programs and tax credits) in reducing poverty using: a variety of measures such as the poverty rate, various fractions of the poverty level (e.g., 50%, 75%, etc.) and the poverty gap; both annual and monthly income; and a range of units of analysis, including families and individuals, and various subgroups thereof, such as families with children or families receiving various forms of public assistance.
- The tangle of federal administration, including the number of congressional committees and federal departments involved in their administration, including the amount of spending by functional area by committee/department.
- Complexity due to differences across programs in terms of assistance units (individuals, families, and households), income eligibility thresholds, and rules for counting income.
- Potential benefit packages and their possible incentive effects on work and marriage using both low and high AFDC benefit states and a range of assumptions about multiple program receipt.

The Task Force report has no such detail and where these issues are discussed they typically use extreme examples to make a political point, rather than an objective analysis of the issue (as described in more detail below). And, instead of just asserting that programs are "duplicative, inefficient, and unnecessary," the Task Force should give concrete examples and discuss its conclusions, not bury them in one sentence bullets in geometric shapes in an illegible chart.

Notably, many conservatives in Congress consider TANF to be "welfare reform" and an "unprecedented success." TANF is not "welfare reform"; it is just a flexible funding stream that many states use as a slush fund, often to supplant existing state expenditures or otherwise fill budget holes. TANF's main accountability measures are limited to "assistance" (less than $9 billion); leaving little accountability for the $20+ billion in "non-assistance" expenditures. There are hundreds of different state programs funded as "non-assistance," with little information on what they do, their cost, the number of families served, and their effectiveness. And, in terms of "efficiency," TANF's cash assistance program is perhaps the most dysfunctional program in the history of social programs – nothing works as intended, particularly not the work requirements (as described below).

Instead of creating colorful charts, conservatives should actually study the details of programs, the research surrounding such programs, and present the evidence in an objective and balanced manner.

Task Force Statement: "As Nick Lyon, the director of the Michigan Department of Health and Human Services, remarked in testimony before the Ways and Means Committee:

> Instead of working with the individual and determining that person's goals, we often are more concerned with programmatic requirements, leading to an overly complex system that is difficult for all of us, state government, policy makers, and our caseworkers to navigate. If it is difficult for us, imagine how it must seem to an individual or family seeking services.

If America is going to cure poverty and prevent it, then the federal government needs to start coordinating these antipoverty programs and measuring the results. It also must start measuring success in terms of how many people get out of poverty instead of how many people collect benefits from these programs."

PC Response: Coordination is important, but the Task Force presents no clear options on how it would accomplish this, with the exception of a vague recommendation about giving states greater flexibility.

Will Congress look to Michigan and its use of TANF as an example? The state certainly has simplified welfare for many poor families by shredding the cash assistance safety net and instead using the TANF block grant as a giant slush fund. Between 1996 and 2014, the number of poor families with children in Michigan grew from 208,200 to 213,000, as did the number of families with children in deep poverty – from 89,100 to 93,900. Meanwhile, the number of families receiving AFDC/TANF fell by nearly 80 percent, from 183,800 to 39,000. As a result, for every

100 poor families with children in 2014, only 18 received cash assistance, down from 88 before TANF was enacted.[23] In FY 2014, the state spent just 12 percent of its TANF/MOE funds on basic assistance, whereas before TANF it was 80 percent.[24] Is the state really "curing" poverty?

Some view this record as evidence of success. For example, Terry Jones, writing for *Investors.com*, states:

> Those looking for success in welfare reform might want to look at Michigan. According to the news site Michigan Capitol Confidential, the Great Lake State saw a 70% decline in its welfare population in just four years. That's right: 70%.
>
> …As the economy has improved, the state has begun doing what many states refuse to do: enforcing a 48-month lifetime limit for cash welfare assistance and a 60-month federal limit. As a result, the total number on welfare plummeted…[25]

According to a spokesman for the Michigan Department of Health and Human Services, "As the governor said at the time of the decision to enforce time limits, this was returning cash assistance to its original intent – a transitional program to help families as they work toward self-sufficiency while preserving the safety net for families most in need."[26] What he doesn't mention is that the enforcement of these time limits was immediate and retroactive – giving some families virtually no time to prepare for the cut-off in assistance. There was very little help moving families to self-sufficiency – the motivation was money, as aptly described in a recent headline, "Welfare time limits save Michigan millions, but cost 32,090 families."[27]

This is not "success." Success would be a caseload decline resulting from families leaving welfare for work and ensuring that the policy is having positive effects on the state's neediest families with children. Shortly after the state adopted its "reforms" in October 2011, Ron French observed, "The reform instituted in Michigan's welfare system in October was unprecedented nationally. No other state had kicked so many people off assistance in such a short amount of time, with such little notice… How the approximately 15,000 families cut off from cash assistance are surviving, though, isn't as clear. We may never know. The state isn't monitoring the impact on those families, and social service agencies don't have a way to do it themselves."[28]

If the Task Force is going to criticize those who measure success by "how many people collect benefits" it should also be willing to criticize those who measure it *solely* by caseload declines, as in the Terry Jones pronouncement about Michigan above. (Note: I know of no one who measures "success" by how many people collect benefits; the Task Force should cite specific examples of such statements. It is true, that to achieve success, one aspect may be the size of the caseload, but the measure of success is not an "output" (in logic model parlance), but an outcome or impact, such as a reduction in poverty.)

In addition, if the Task Force believes in "measuring results," it should describe an approach. Under the pre-TANF waiver process, started by President Reagan, and continued by President George H.W. Bush and President Clinton, states were given flexibility, but there was accountability. In particular, they had to evaluate their reforms using the "gold standard" of evaluation – random assignment. <u>Ironically, conservatives in Congress replaced this evidence-</u>

based approach centered on measuring results with TANF – a blank check with no accountability and no requirement for measuring results.

A Much Better Way: A central recommendation of President Reagan's *Up from Dependency* report was to: "Promote the development of widespread long-term experimentation in the restructuring of public assistance through demonstration projects." 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. When the 1996 law passed, many states simply continued these policies – they didn't need TANF to enact "welfare reform." 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.[29] 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 – itself. 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 provides states a blank check with no accountability. If the Task Force is serious about "measuring results", it should look to the "Reagan model" – build in accountability and evaluation to ensure that the reform actually succeeds in reducing dependency and poverty.

Repairing the Nation's Safety Net to Expand Opportunity

Expect work-capable adults to work or prepare for work in exchange for welfare benefits

Task Force Statement: "In the most comprehensive study of different approaches to moving welfare recipients into work, a nonpartisan research organization found that connecting recipients quickly with jobs yielded the most meaningful results – increasing employment and earnings, as well as incomes – instead of education-focused activities that delay moving into the workforce."

PC Response: The Task Force cites a 2001 study by MDRC, *How Effective Are Different Welfare-to-Work Approaches? Five-Year Adult and Child Impacts for Eleven Programs*.[30] This is an important study, but the Task Force ignores important caveats about generalizing those findings to TANF's work requirements.

Generalizability across populations, programmatic approaches, and time. The MDRC study examined programs that operated between 1991 and 1999 and that started *before* TANF was created under the AFDC/JOBS rules and there are important differences between these programs and the TANF legislation the Task Force endorses. Most of the of the programs in the MDRC study excluded single parents with a child under 3 years of age (about 40 percent of the caseload at the time), whereas TANF provides a time-limited "disregard" from the participation rate calculation in counting the participation of parents with a child under 1, but allows states to require participation regardless of the age of the youngest child. The MDRC studies operated under the AFDC/JOBS program which required an hourly *average* participation of 20 hours per week for participants to be counted toward the work rate; under TANF, this is a *minimum* average of 30 hours per week for a month (or, a *minimum* average of 20 hours per week for a month for a single parent with a child under 6). Under TANF's participation requirements, there are very rigid rules on counting participation in education-related activities, whereas under AFDC/JOBS there were none. Failure to participate in the MDRC-evaluated sites could result in a partial sanction – the removal of the adult's needs, whereas under TANF many states impose "full family sanctions." There are other differences that further limit the generalizability of the findings of this study to TANF or any other broader legislation. It is noteworthy that none of the many welfare-to-work programs that had been rigorously evaluated in the years preceding TANF would have met its 50 percent work participation requirement. As Gordon Berlin 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.[31]

These studies examined cash welfare programs as they existed about 20 years ago; since that time, there have been important economic, demographic, and programmatic changes that further limit the generalizability of findings. In particular, whereas about 80 percent of families eligible for AFDC received it, today only about 30 percent of families eligible for TANF cash assistance do so. In many states, TANF cash assistance is virtually non-existent, as is state investment in welfare-to-work activities. What difference does the research make when the programs don't exist because states instead use TANF as a giant slush fund to pay for a myriad of activities unrelated to welfare reform?

Mis-reading the research. Even ignoring these factors, if the Task Force is concerned about reducing poverty, the findings from the aforementioned MDRC report suggest these programs had little impact on total family income (and hence poverty):

> Measured combined income, however, was largely not affected: The programs led to individuals' replacing welfare and Food Stamp dollars with dollars from earnings and Earned Income Tax Credits (EITCs), but the programs did not increase income above the low levels of the control group.[32]

In terms of employment and earnings gains, the report notes:

> One program – the Portland (Oregon) one – by far outperformed the other 10 programs in terms of employment and earnings gains as well as providing a return on every dollar the government invested in the program.[33]

A state operating this program model could not meet TANF's work participation requirements, because of restrictions TANF imposes on counting education and training activities.

And, if the Task Force considered research beyond 2001, it might have reached a different conclusion. For example, a reexamination of one of the more successful welfare-to-work programs – The Riverside Miracle – suggests the early results were misleading, as summarized in a literature review by James Ziliak:

> Hotz, Imbens, and Klerman (2006) noted that the treatment effects across the GAIN sites could differ because of differences in populations served, how treatment was assigned, and in local economic conditions. They proposed a new method of how to evaluate differential effects of alternative treatments such as HCD and work first. Using these methods they then re-examined the results of GAIN by focusing on impacts nine years after random assignment, which should be a sufficiently long period for HCD to have an effect. They found that much of the "Riverside Miracle" was not due to the work-first strategies of the GAIN program in the county, rather it was an anomalous result of a very strong local economy three to five years post assignment. Moreover, by six years after assignment the longer-run gains in employment were more pronounced for those treated with an HCD approach than work-first, suggesting that HCD programs may impart long-term benefits for mothers leaving welfare.[34]

The Ziliak paper goes on to cite other studies that suggest other program models might be more effective than work-first programs. If research is to guide policymakers, it should be based on a comprehensive and objective view of the literature; instead, the Task Force selectively picks findings that support its viewpoint.

The real problem – the absence of research. 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 Ife 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.[35]

A Much Better Way: Rather than relying on congressional staff or conservative think tanks to interpret research findings, ask the researchers who actually conducted the research to interpret their research to describe what is known about the implementation and impact of welfare-to-work programs and the implications of their research for policymaking. In addition, it is long past time to invest more resources in testing welfare-to-work models, not just for TANF but for other programs as well. Speaker Ryan and the Task Force often mention the importance of "testing"; rigorous evaluations cost money so it is long past time for the Task Force to address this issue with specific proposals.

Task Force Statement: "The historical record confirms this finding. In 1996, Congress eliminated the failed New Deal-era Aid to Families with Dependent Children (AFDC) program and replaced it with the new Temporary Assistance for Needy Families program (TANF), which established strong requirements for states to help welfare recipients prepare for work and find jobs."

PC Response: Speaking to the Heritage Foundation in September 2012, Speaker Ryan said:

> [The 1996 welfare reform law] is the crown jewel and the centerpiece of some of the most successful social policy legislation we've passed. It lowered child poverty rates, it moved people from welfare to work – because of these work requirements.[36]

TANF's work requirements have never worked. The block grant structure has created a situation in which many states don't have the resources to run meaningful welfare-to-work programs, as the amount is not adjusted for inflation or demographic changes. And, the excessive state flexibility means that states can game the requirements to meet the federal work rate targets and, then divert the funds to uses unrelated to core welfare reform activities. TANF's work requirements are unreasonable, dysfunctional, and are not about work.

TANF Work Requirements: Unreasonable, Unrealistic, and Unhelpful. Real welfare reform requires adequate funding, realistic work requirements, and rigorous evaluation so that we can learn what works and what doesn't and build on an evidence base. Welfare reform should be about giving needy families a hand up, but instead, under TANF, it has abandoned them.

Unreasonable. The legislative history of TANF emphasizes the focus on caseload reduction. An early statement of congressional intent makes this clear:

> The intent of the Congress is to . . . provide States with the resources and authority necessary to help, cajole, lure, or force adults off welfare and into paid employment as quickly as possible, and to require adult welfare recipients, when necessary, to accept jobs that will help end welfare dependency.[37]

From TANF's inception, TANF's caseloads fell much faster than the number of poor families (or families eligible for cash assistance). So, while there may have been some "help," much of the decline seems to come from efforts to "cajole, lure, or force" families off welfare (or keep them from coming on it), whether they have jobs or not.

One of the primary drivers of this kind of "bureaucratic disentitlement" is TANF's hourly requirements. To count in TANF's overall work participation rate, states are required to engage a work-eligible individual in one or more of 12 specified work activities for a minimum average of 30 hours per week (or 20 hours per week in nine "core" activities for a single parent with a child under six years of age) each month. This translates into about 130 hours per month (or 87 hours for a single parent with a child under six). In 14 states, the maximum TANF benefit is under $300. The TANF expectation that families in these low-benefit states value their time at $2 per hour or less is unreasonable. In no state, does the maximum grant for a family of three divided by 130 hours per month result in an hourly valuation as high as the minimum wage. Is it any wonder that caseloads have plummeted, even when poverty (however defined) has risen?

Unrealistic. Under AFDC/JOBS, the work rate target in FY 1995 was 20 percent; TANF raised this to 50 percent and applied it to a larger non-exempt population.[38] From the beginning, the 50 percent requirement has been a myth. Instead of actually engaging families, most states relied on the caseload reduction credit and other loopholes created by Congress itself (see below). In many states, fewer than 10 percent of families have been involved in an actual work activity. Writing in 2004, Doug Besharov and I recommended "toughening TANF" by requiring a 10 percent target, but in more narrow, but real, work activities: "Establish a separate minimum participation rate for work experience, on-the-job training, and other designated forms of education and training of 10 percent—to add a needed focus on activities that build human capital."[39]

Unhelpful. TANF has 12 work activities that can count toward the work rates; nine are "core" activities that can count toward any hours of work participation for a work-eligible individual, while participation in the three "non-core" activities generally counts only after meeting an average of 20 hours per week in a core activity. Only one of the nine core activities is related to education and training – vocational educational training and states cannot count an individual in this activity for more than 12 months in a lifetime. In addition, no more than 30 percent of families that a state counts toward its work rate may be counted by virtue of participation in vocational educational training or, for parents under age 20, school attendance or education directly related to employment.

Most conservatives who support TANF's work-first orientation for work requirements rely on limited and outdated research studies to support their viewpoint. Much of the research on the relative merits of work first versus an education-based approach is based on programs that operated about 20 years ago, including periods before TANF's implementation. As Gordon Berlin of MDRC explains:

> 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.[40]

This sentiment is echoed by many state officials, such as Wisconsin's own Secretary of the Department of Children and Families. Testifying before the House Ways and Means Committee, Eloise Anderson argued that the "the participation requirements, as currently structured, must be revised to ensure that the standards align with the ultimate goal of the TANF program: moving recipients from welfare to work."[41] Based on her experience, she recommended a number of changes to the work requirements, including eliminating the distinction between core and non-core hours, recognizing the need for more flexibility in counting educational and training activities.

TANF work requirements: The most dysfunctional legislation ever? Robert Rector and Rachel Sheffield of the Heritage Foundation write:

> What was at the heart of the progress made by the TANF reform? Its carefully crafted federal work requirement. The 1996 reform focused on work and self-sufficiency, clearly specifying requirements for able-bodied adults to work, prepare for work, or look for work in exchange for receiving welfare assistance. This held the state bureaucracies administering welfare programs accountable for ensuring that assistance provided with federal dollars provided a hand up not a handout.[42]

"Carefully crafted"? "Robust"? Nothing could be further from the truth. The TANF statue is full of loopholes that weakened even the modest JOBS requirements that existed before TANF.

While the law sent a symbolic message about the importance of work requirements, Congress gutted the modest AFDC/JOBS work requirements in enacting the 1996 law. As described above, TANF's work requirements are unrealistic. Most states would be subject to federal penalties for failure to meet TANF's work rates, if not for the fact that conservatives themselves gutted these requirements by creating a myriad of loopholes. These were all made possible by the block grant structure and wording of the law. I describe these in detail in my July 2015 paper, *TANF is Broken! It's Time to Reform "Welfare Reform,"* in a section titled, "TANF Work Requirements: An Epic Fail." Congress attempted to close some of the loopholes in the Deficit Reduction Act of 2005, but in doing so opened the door to new ones because it failed to deal with TANF's structural problems stemming from the block grant structure and excessive state flexibility. Some of the main loopholes are described briefly here simply to illustrate how dysfunctional the requirements. (Some have been closed, but are listed to emphasize the importance of paying attention to wording and technical details.)

- **The caseload reduction credit.** The 1996 law changed the overall work participation rate for a state by requiring that at least 50 percent of TANF families with an adult engage in specified work activities. The caseload reduction credit reduced the work participation targets to the extent sates lowered caseloads below FY 1995 levels (changed to FY 2005 starting in FY 2007). For most years since TANF's inception through FY 2011, 20 to 30 states faced a 0 percent work target (meaning that in order to avoid a penalty, they had to engage 0 percent of their caseload a certain number of hours per week in the statutorily prescribed work activities). States already have an incentive to reduce the caseload because the number of cases they would have to place in work activities would decline; giving them further credit in reducing the target rate all the way to 0 percent was a massive conceptual error that totally gutted the work requirements in most states.

- **Limiting work requirements to TANF *adult recipients*.** TANF work requirements initially were applied to a family with an adult receiving assistance. In some states, sanction policies and time limits removed an adult's needs from the benefit calculation. Since no adult was receiving assistance, the family was no longer included in the work participation rate calculation, even though the adult was able-bodied and the children continued to receive assistance. After the Deficit Reduction Act of 2005, the work requirements included families with a "work-eligible individual" (including some non-recipient parents).

- **Excess MOE.** The Deficit Reduction Act of 2005 recalibrated the base year for caseload reduction credit from FY 1995 to FY 2005. In many states, caseload declines had stalled, but a regulatory provision allowed states to reduce their comparison year caseload by spending in excess of their MOE requirement. (Note: While this is a regulatory provision, it is only possible because Congress replaced the federal-state match with a block grant and a separate MOE requirement. The concept of "excess MOE" would not exist in a federal-state matching program.) The "excess MOE" provision allows a state that is investing state MOE funds in excess of its basic MOE amount to include only the pro rata share of caseloads receiving assistance that is required to meet basic MOE requirements. This led many states to simply find more third-party spending to count as MOE, including third-party nongovernmental expenditures, just so that they could artificially inflate the caseload reduction credit. And, reported MOE did rise sharply –

from $12 billion in FY 2006 to $13.7 billion in FY 2008 to over $15 billion in FY 2009 and most subsequent years.

- **Separate state programs.** Until FY 2007, families assisted through separate state programs were not subject to TANF's work requirements. Congress was either careless in writing the law or it intentionally created a massive loophole. By 2005, over half the states had such programs and their primary purpose was to remove families from the work rate calculation that would not help them meet the work rate targets, most notably two-parent families, because the 90 percent work participation rate target was considered unachievable. States also moved other families that were not likely to meet the work requirements to these separate state programs, including those applying for SSI, with employment barriers, or caring for a disabled family member. Although Congress included families in separate state programs in the work rate starting in FY 2007, this was too little, too late. It simply led to a new loophole – solely state funded programs.

- **Solely state funded programs.** Congress eliminated the separate state program loophole in the Deficit Reduction Act by requiring states to include such families in the work participation rate calculation. However, the TANF law has made it very easy for states to meet their basic MOE requirement without spending more money and most states report an "excess" amount of MOE. Indeed, states were only required to spend 75 or 80 percent of their previous spending (depending on whether they met their work rates), resulting in an immediate state savings. Inflation has further reduced the state requirement so that it is 50 percent of what it was before TANF. Add to this the fact that under TANF states can count virtually any state expenditure that meets a TANF purpose and even the value of third-party non-governmental "donations," it's easy for most states to generate a significant amount of "excess MOE." As noted above, this can be used to maximize the caseload reduction credit, but a state can also just fund part of its assistance caseload outside the TANF/MOE structure in solely state funded programs so those families are not subject to TANF's work requirements.

- **The failure to *define* work activities.** When Congress wrote the TANF statute, it "defined" work activities simply by listing 12 activities. Some states were defining work activities to include bed rest and personal care activities as part of recovery from a medical problem, physical rehabilitation including massage and exercise, personal journaling and motivational reading, participation in a smoking cessation program, and other activities typically not considered "work activities." (Note: Many of these activities could be found in <u>Wisconsin's</u> 2004 Annual Report on State TANF Programs.) Congress addressed this loophole in the Deficit Reduction Act of 2005 by requiring HHS to actually define work activities, instead of just listing them.

- **Waiver inconsistencies.** States with section 1115 welfare reform waivers when the 1996 welfare reform law was enacted were allowed to continue the waiver policy to the extent it was inconsistent with TANF through the end of the approved project period. While states still had to meet the new work participation rate targets, they could continue to operate under pre-TANF policies that often gave them a distinct advantage in the meeting these rates. Twenty states continued such waivers, which included provisions related to exemptions, countable work activities, and hours of participation. Aside from weakening TANF's work requirements, it is unclear why Congress thought it was fair to give some states such a huge advantage in meeting their work targets (and potentially avoiding a financial penalty) for as long as 5 to 10 years after enactment of TANF.

- **Counting "unsubsidized employment" as an activity.** Under TANF's predecessor program, AFDC/JOBS, a full-time worker was exempt from participation requirements; TANF made it a countable activity. This made it considerably easier for states to meet their work rates. The states that gained most from this decision are those with the highest breakeven levels (which are a function of the generosity of benefits and earnings disregards). This was basically a windfall for states in being able to count individuals as "participants" and combined with the caseload reduction credit meant that most states had to do little or nothing in terms of placing individuals in actual work or training activities. Indeed, participation in actual work activities has plummeted since TANF was created, falling even fast than the caseload – yet the number of needy families with incomes low enough to receive TANF has remained the same.

- **"Unsubsidized employment" as a "gimmick."** One of the gimmicks states employ to meet work rates is to pay a token benefit (e.g., $10 a month) to full-time working families just to be able to count them in the work rate calculation. In FY 2015, these cases account for nearly 20 percent of the TANF/SSP caseload; they have nothing to do with "welfare reform," yet they will dominate the countable participants in the work participation rate. This gimmick is possible because Congress made unsubsidized employment an activity; it would not have been available if it had remained an exemption as under JOBS.

The most disappointing way some states have met work requirements is by slashing TANF caseloads even as the number of families in deep poverty has risen. Current Ways and Means Chairman (and Task Force member) Kevin Brady from Texas recently said: "…we will focus on modern anti-poverty solutions proven to help move Americans from government benefit checks to real paychecks and the unlimited opportunity our people deserve."[43] The search for "modern anti-poverty solutions" should begin with the rejection of the TANF model. In Texas, between 1994/95 and 2013/14 the number of poor families with children rose from 552,200 to 707,100, while the TANF caseload plummeted, from 257,800 to 34,300. As a result, the TANF-to-poverty ratio in Texas fell from 47 to 5.[44] In FY 2014 it spent just 7 percent of its TANF/MOE funds on basic assistance.[45] <u>TANF's work requirements in Texas are largely irrelevant – virtually no one receives cash assistance!</u>

A Much Better Way: For TANF's work requirements, start over. Establish reasonable work rate targets that reflect state capacity and resources; establish reasonable hourly participation expectations; broaden the range of allowable activities and fund new research to better determine what works and what doesn't before imposing a rigid model. In addition, close loopholes. The goal should be to encourage states to run meaningful welfare-to-work programs; not to game federal work requirements. At a minimum, this requires getting rid of the block grant structure with excessive state flexibility and limiting the allowable spending to core welfare reform purposes – primarily cash assistance and welfare-to-work activities.

For <u>other means-tested programs</u>, fund experimental research to study a variety of welfare-to-work approaches to identify implementation lessons and determine program impacts. After the debacle of TANF's work requirements, conservatives have no business extending work requirements to other programs without an evidence base.

Task Force Statement: "As a result of these and other reforms, employment rates of single mothers with children increased by 15 percent through 2007 compared with 1995. Even though their work rates declined as a result of the 2007–09 recession, they have risen again since 2011 and remain 10 percent higher. As displayed in chart 4, child poverty also declined dramatically during this period as more people went to work and earnings increased. Poverty among African American households with children reached record lows. Poverty among female-headed households with children remains lower today than before the 1996 reforms – despite two intervening recessions."

PC Response: Instead of presenting rigorous evidence of the impact of the 1996 law, the Task Force relies on simplistic methods to reach erroneous conclusions.

First, the Task Force's claims of TANF's putative success are based on simplistic comparisons in employment and poverty rates over time. A pre-post assessment of "welfare reform" is an extremely weak approach to establishing causality. Obviously, there are many other economic, demographic, and policy-related changes that influence poverty rates. 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.

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.[46] The random assignment evaluations they reviewed examined programs in the very period when caseloads and poverty fell rapidly nationally. They could isolate the effect of welfare reform from these other factors. 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. This is because the control group also benefitted from a strong economy and increased aid to the working poor.

Second, the positive trends in employment and poverty started well before TANF was implemented by states in 1997 – whether due to the economy, increased aid to the working poor, or a variety of other factors. These trends would have continued whether TANF was enacted or not.

Third, Task Force equates TANF and "welfare reform." In fact, states were already experimenting with "welfare reform" through waivers; they didn't need the 1996 law to test new welfare policies. TANF is a flexible funding stream. In the first-half decade, TANF provided states with a massive influx of federal funding (because the block grant was based on historic funding levels years before TANF was enacted when welfare caseloads were at a historic high) and gave them added flexibility in determining how those funds could be spent.

Fourth, even if one believes TANF reduced poverty, what is the plausible causal mechanism? As noted above, states already had flexibility with cash assistance and TANF added little to this as most states simply continued their waiver policies. The issue the Task Force should consider is, what did TANF add to this existing flexibility that could reduce poverty? Could it be work requirements, more funding flexibility, or new federal rules and requirements? Not likely.

- TANF's work requirements are unreasonable, dysfunctional, and are not about work. As described above, many states had no real requirement throughout most of the TANF era and even when they did, they could game the work rates by taking advantage of congressionally-created loopholes.

- TANF gave states the flexibility to divert funding from basic assistance and work activities to fill budget holes. States now spend billions of dollars each year on college scholarships, preK, and child welfare among dozens of other activities. While these may be useful activities, each dollar spent in this way reduces the amount for needy families with children. This type of diversion is particularly problematic when it simply reflects supplantation – the practice of using federal funds to replace state funds. In many states, TANF has become welfare for the state, not needy families.

- The 1996 law took a simple, straightforward funding mechanism and replaced it with a myriad of flawed funding formulas and requirements that complicate the program and allow states to further game some aspect of the program (see "Funding and Flexibility: How Congress Shot Itself in the Foot" in *TANF is Broken!* [47]). Such "overcomplexification" does not reduce poverty.

This leaves the big increase in federal funding in TANF's early years and jaw-boning as potential factors in the early years. Over the long-term, all of the aforementioned problems have remained, but the initial windfall has disappeared and is now a large deficit (as inflation eroded the value of the block grant) and states have become far more adept at using TANF like a slush fund and in gaming its work requirements.

A Much Better Way: Replace simplistic pre-post assessments, with more rigorous thinking that factors in evaluation concepts like internal and external validity. And, examine the actual implementation of laws – don't assume that what is written on paper is what was actually implemented.

Task Force Report: "The American public agrees that reducing poverty should be a joint effort between the government and the individual."

PC Response: TANF – the "crown jewel" of conservative welfare reform – was premised on a "joint effort" or "mutual obligation" in which the state was to provide temporary assistance and work-related services, while individuals would work or participate in activities leading to work.

In many states, it has not worked out that way because the federal government turned funding and control over to the states with virtually no accountability. Many states do not use this flexibility to provide either assistance or welfare-to-work services, but instead use it as a giant slush fund to supplant existing state spending or fill budget holes.

Three of the five Task Force members are from Texas (Agriculture Committee Chairman Mike Conway, Financial Services Chairman Jeb Hensarling, and Ways and Means Committee Chairman Kevin Brady). As indicated in Table 1 below, between 1995/96 and 2013/14, the number of poor families with children in Texas grew by nearly 155,000 (28 percent), yet the TANF caseload plunged by 223,500 (87 percent). The federal TANF amount per poor child fell from $483 to $280 (in 2013 dollars), but even then the state diverted most of the funding to other purposes. Whereas in 1995, the state spent 72 percent of its AFDC/JOBS funds on basic assistance and work activities, this fell to just 18 percent in 2014. TANF has become welfare for the state, not poor families. How is this a "joint effort"?

One of the five Task Force members is from Georgia (Budget Committee Chairman Tom Price). As indicated in Table 1 below, between 1995/96 and 2013/14, the number of poor families with children in Georgia grew by over 96,000 (60 percent), yet the TANF caseload plunged by nearly 116,000 (88 percent). The federal TANF amount per poor child fell from $1,029 to $524 (in 2013 dollars), but even then the state diverted most of the funding to other purposes. Whereas in 1995, the state spent 86 percent of its AFDC/JOBS funds on basic assistance and work activities, this fell to just 12 percent in 2014. TANF has become welfare for the state, not poor families. How is this a "joint effort"?

Table 1: Truly a National Failure (TANF): A Special Table for Task Force Members Brady and Price

Measure	State	1995/1996	2013/2014	Change
# of poor families with children	Georgia	161,500	257,800	+96,300 (+60%)
	Texas	552,200	707,100	+154,900 (+28%)
	Nation	6,400,950	7,068,069	+667,119 (+10%)
TANF Cash Assistance Caseload	Georgia	131,900	16,000	-115,900 (-88%)
	Texas	257,800	34,300	-223,500 (-87%)
	Nation	4,380,430	1,643,160	-2,737,270 (-62%)
TANF-to-Poverty Ratio	Georgia	82	6	-76
	Texas	47	5	-42
	Nation	68	23	-45
Federal TANF $ per poor child (2013$)	Georgia	$1,029	$505	-$524
	Texas	$483	$280	-$203
	Nation	$402 - $3,867	$280-$2,555	-
% AFDC/TANF $ on Cash Assistance and Work Activities	Georgia	86%	12%	-74 % pts.
	Texas	72%	18%	-54 % pts.
	Nation	86%	34%	-52 % pts.

Sources: 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. Gene Falk, Temporary Assistance for Needy Families (TANF): Financing Issues," Congressional Research Service, September 8, 2015. The percent spending on cash assistance and work activities is for FY 1995 and comes from unpublished tables by the Congressional Research Service. Center on Budget and Policy Priorities, "State Fact Sheets: How States Have Spent Federal and State Funds Under the TANF Block Grant," October 2, 2015, available at: http://www.cbpp.org/research/family-income-support/state-fact-sheets-how-states-have-spent-federal-and-state-funds-under.

Task Force Statement: "According to a November 2015 poll, 89 percent of Americans agree that work-capable adults who receive welfare assistance from the government should be required to work or prepare for work in exchange for receiving benefits."

PC Response: The results of polls are sensitive to the wording of the questions. It is not surprising that many Americans support work requirements, but most probably believe that such requirements should be reasonable and helpful – unlike TANF's work requirements. For example, a single mother with two school-age children would be required to participate 130 hours in exchange for a maximum grant of $281 a month in Texas and $280 a month in Georgia (states represented by four of the five Task Force members). In these states, TANF effectively requires welfare families to value their time at $2 an hour. Would the American public really agree that work requirements in these states are reasonable? There is a huge difference between finding out what the American public believes in general and writing effective legislation to put those ideals into effect.

And, polls can be used in a variety of ways. A recent Gallup poll suggests that only 15 percent of adults approve of the way Congress is doing its job, compared to 49 percent who approve of President Obama's handling of his job.[48] Does this mean that Congress should defer to the Executive Branch?

Task Force Statement: "As welfare recipients testified before multiple Congressional committees, people currently receiving benefits want to earn their own success.

> For example, Chanel McCorkle, a welfare recipient who worked with America Works of Maryland, Inc., said before the Ways and Means and Agriculture Committees:
> I have recently accepted a job working 40 hours per week with excellent benefits. I am really excited to return to work. I know that after the Department of Social Services gets notified I will lose some – if not all – of my benefits, and that is scary. I am sure they will take my daycare vouchers from me or make the co-payment too high. My food stamps will be decreased or nonexistent and my medical benefits may end. I have tried to make provisions if those things should happen. I have just started to get back on track; I know I am well on my way no matter how much of an uphill battle it may be. I am fighting to get back to work, to support my family and become independent once again."

PC Response: It is unclear why this anecdote is in a section of the report dealing with work requirements; this is really more about "getting the incentives right" – the topic of the next section. And, instead of speculating about what would happen, the Task Force could easily have followed up with Ms. McCorkle to determine whether she actually did lose all her benefits and, if she did, it could have proposed a specific policy reform.

Another example of testimony that supports the Task Force's statement about "earned success" comes from Tianna Gaines-Turner who testified before Speaker Ryan when he was Chairman of the House Budget Committee, noting that "I know people like to say that people in poverty are lazy, but the majority of us, we work hard. Most of the time harder than other people."[49] She gave Speaker Ryan a hug so that she could personalize her plight and the plight of others who are poor and this incident is now the subject of a new mini-documentary called "A Hug from Paul Ryan." A year after this meeting, she reflected, "It was something for me, but I don't think, a year later, looking at everything that's happened, it was anything."[50] Indeed, subsequent budgets by the House Budget Committee and reports like this Task Force statement ignore the real problems and offer no meaningful solutions.

Task Force Statement: "This task force recommends that federal safety-net programs expect work-capable welfare recipients to work or prepare for work in exchange for receiving benefits. That's the only way they can escape poverty, and states and local governments should help recipients realize their potential."

PC Response: Conservatives have failed to implement meaningful work requirements for even *one* program and until they fix TANF so that it operates as both a safety net and a meaningful welfare-to-work program, the Task Force's recommendation is premature.

A Much Better Way: If Congress is serious about work requirements, it should limit all TANF/MOE spending to core purposes, most notably basic assistance and welfare-to-work programs. At least then there is a chance that TANF will reduce poverty, whether directly or through its welfare-to work activities. Only after fixing TANF should conservatives consider extending work requirements to other programs and even then they should evaluate them rigorously.

Task Force Statement: "*Require States to Engage TANF Recipients in Work.* Republicans led the effort to reform the welfare system in 1996 by creating the Temporary Assistance for Needy Families Program, or TANF. The program reduced poverty by supporting and encouraging work.

PC Response: As explained throughout this document, the idea that TANF's work requirements are a success is a myth. The 1996 work requirements are perhaps the single most dysfunctional reform in the history of social programs – unless, of course, the sole goal is to reduce welfare caseloads irrespective of their impact on individuals or the amount of time and resources states waste in employing gimmicks to avoid federal penalties.

Task Force Statement: "But recent evidence suggests that states are not fully engaging a majority of TANF recipients in these activities. Although states are technically required to help adults move into the workforce, a combination of factors has allowed them to avoid engaging large numbers of people. For example, according to the Department of Health and Human Services, states report that in fiscal year 2013 over half of all adults on TANF performed zero hours of work or other activity while collecting welfare checks, despite the program's general work-requirement rules."

PC Response: As a technical note, the Task Force report includes the following statement: "states report that in fiscal year 2013 over half of all adults on TANF performed zero hours of work or other activity while collecting welfare checks." The Task Force cites Table 8b of an HHS report on work participation rates. However, this table is not about "TANF adults," but rather of "families" in the denominator of the work participation rate. This includes families receiving assistance through a separate state program (SSP) and families in which the adult is *not* receiving assistance but is a "work-eligible individual." It excludes families that are disregarded because they have a child under one or have been sanctioned (but for no more than 3 months in the preceding 12-month period). The Task Force could have used Table 6b, which includes information on the percent of "work-eligible individuals" with hours of participation, which is closer to the "TANF adult" concept. (This would actually result in a higher percentage with zero hours – 56.7 percent.)

In terms of the analysis, it is wrong to conclude that the 57 percent were performing zero hours of work or work preparation. The hours of participation were limited to activities that are countable under TANF's work requirements, so they do not include hours spent in activities that cannot be counted or that have limits on how many hours can be counted, most notably in educational and training activities. They also do not include hours that have not been verified, hours that exceeded statutory time limits, or hours that states simply chose not to report. In particular, the 1996 law placed durational limits on counting job search and job readiness assistance and vocational educational training. Some individuals have exceeded these limits, but have continued to participate in these activities. However, states cannot count such hours toward their participation rates. These limits also discourage states from reporting such hours even when they can be counted. For example, vocational educational training can only be counted by a state for 12 months over an individual's lifetime. If a state can satisfy the work requirement without counting individuals in this activity, the incentive is not to include their hours of participation – instead, the incentive is to save those hours for the future, as they may be needed to meet a future work participation rate.

In addition, many individuals may also have legitimate reasons for not participating. Common reasons that a work-eligible individual has zero hours include he or she is: subject to a sanction or in the process of being sanctioned; the second parent in a two-parent family in which the other parent is participating in TANF's activities; ill or temporarily disabled; in the first month of assistance and no activity has been assigned or has been assigned to an activity that has not yet begun; the parent of a child under 6 and no child care is available; or a number of other factors.

The reasons for zero hours was discussed at great length in an HHS report mandated by Congress, *Claims Resolution Act - Engagement in Additional Work Activities and Expenditures for Other Benefits and Services, April-June 2011*[51] – any discussion of this subject should at least address some of these factors.

The Task Force suggests that this is a recent phenomenon, but it has been an issue from the beginning. As Table 2 indicates, the current percent of zero hours for work-eligible individuals is less than in TANF's early years; if the Task Force believes TANF was successful in its early years, why isn't it successful today?

Table 2: TANF Adults (pre-FY 2007)/Work Eligible Individuals (FY 2007 on) with Zero Hours of Countable Participation (FY 2000-FY 2014)															
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
% w/0 hrs.	60.3	56.8	58.3	58.8	57.5	56.6	55.3	62.1	60.5	58.2	59.0	58.0	55.1	56.7	54.7

The real problem: Zero benefits and zero hours. While the number with zero hours of participation in work activities has been stable throughout TANF's history, the number of families eligible for TANF but getting zero benefits has skyrocketed. Between 1996 and 2012, the percent of families eligible for cash assistance but NOT receiving it grew from 21.1 percent to 67.6 percent. Where is the concern for very poor families that have been hassled off the welfare rolls struggling in deep poverty? And, while still very poor, these families are now even further disconnected from work programs that might help them gain skills and work experience.

Task Force Statement: "So policymakers should reauthorize TANF to strengthen the focus on work and work preparation by requiring states to engage more recipients in activities that will help them advance up the economic ladder."

PC Response: 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. Rather than focusing on reforms to ensure a meaningful safety net with real work requirements, the Task Force would require states to "engage more recipient in activities that will help them advance up the economic ladder." This is problematic for several reasons.

First, this recommendation is largely irrelevant in many states because the TANF cash assistance is virtually non-existent; instead, it has become a slush fund. Consider the following statistics:

- In 1996, the TANF-to-poverty ratio for the nation was 68; in 2014 it was 23.[52] (The TANF-to-poverty ratio compares the average monthly AFDC/TANF cash assistance caseload per 100 poor families with children.)
- In 1995, Alabama had the lowest TANF-to-poverty ratio at 34; in 2014, 44 states had a TANF-to-poverty ratio lower than this.[53]
- 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.[54]

The spending figures tell the same story. In FY 2014, 10 states spent less than 10 percent of their funds on basic assistance, 24 states spent less than 20 percent of their funds on basic assistance, and 40 states spent less than 30 percent of their funds on basic assistance.[55] And, in most states, this spending hasn't been diverted to work-related activities, as this accounted for just 8 percent of spending.[56]

<u>Work requirements are irrelevant when virtually no one receives assistance!</u>

Sadly, the Task Force does not recognize this or do anything to change the fact that TANF has become nothing more than revenue sharing.

Second, conservatives have yet to write anything that shows any understanding of how the work requirements have been implemented or how they could be refocused to better promote work. The last time conservatives tried to close loopholes was in the Deficit Reduction Act of 2005. They recalibrated the base year of the caseload reduction credit, added separate state programs to the work rate calculation, and made other changes. What happened? States used the block grant structure and the excessive flexibility to apply new loopholes.

What *exactly* would the Task Force do? Absent any specifics, it might look to conservative think tanks. For example, a recent report by the American Enterprise Institute (AEI) says:

> Many states game the system by manipulating federal rules that allow states to lower their required WPR [work participation rate] by reducing the number of recipients or by claiming that state spending on related activities justifies a reduced WPR. Other states provide very small benefits to workers to boost their work-engagement numbers. These loopholes should be closed. [57]

Like the Task Force document, this too is vague, but it appears to point to three factors. "Reducing the number of recipients," depending on how it's done,[58] would provide a larger caseload reduction credit. Is AEI acknowledging that the caseload reduction credit is a misguided provision? If so, I would agree, but eliminating the credit without other changes would simply lead states to exploit other loopholes. "Claiming that state spending on related activities justifies a lower WPR" might be referring to the "excess MOE provision" of the caseload adjustment credit (which may lower a state's work rate target if it spends above its basic MOE level), but closing this loophole would only lead to greater exploitation of the solely state funded option – an option available to states with "excess MOE." Providing "small benefits" for the sake of boosting work engagement numbers might be an option, but what would be the criteria? For example, setting a minimum dollar amount, say $50, may simply lead states to set such payments at the new level. Or, they may redesign earnings disregards in a way that accomplished a similar result. As long as "unsubsidized employment" is an activity, rather than an exemption as before TANF, this will be a low-cost way of boosting work participation rates.

AEI has not presented real solutions. Nor, has any other conservative think tank. As long as TANF is a block grant with excessive state flexibility, loopholes remain. Again, as Douglas Besharov and I noted, *writing for AEI in 2004*, "the structure of the TANF block grant would enable states to avoid *all* additional participation requirements…"[59] If the Task Force is serious about ending loopholes, the first step would be to end the block grant structure; the second would be to limit spending to basic assistance and work activities – nothing else; and the third would be to focus on requirements that are reasonable and reflect operational realities.

A Much Better Way. Start over. TANF gutted work requirements. Congress should have simply built on the AFDC-JOBS structure instead of creating a block grant riddled with loopholes and incentives to simply hassle families off the rolls.

Task Force Statement: "*Better Connect Child-Support Enforcement Programs to Workforce Development Activities.* Engaging non-custodial parents in work and work-related activities increases their earnings and, as a result, child-support collections, which both help provide a more stable environment for children."

PC Response: Where is the detail? Which agency is responsible for connecting non-custodial parents with work activities, would additional funding be made available for workforce activities (or would non-custodial parents displace others who currently receive such services), what evidence is there that this recommendation would increase earnings, much less child support collections? These are just a few of the questions that come to mind.

Task Force Statement: "*Reform Supplemental Security Income to Focus on Needed Services*. One of the most concerning trends in the SSI program is the rising number of children coming onto the program. The average lifetime stay on SSI for people who come onto benefits as children is an incredible 26.7 years. Further, a disturbing 30 percent of older teens on SSI have dropped out of high school, which only adds to the barriers they face in going to work and leading productive lives as adults. Access to needed services in lieu of cash assistance, whether it be mental or physical therapies, or special-education services in school should be the focus of the SSI program."

PC Response: This paragraph exemplifies the problem with the report as a whole. There is no description of the SSI program; no real data are provided on the extent of the problem, only a statistic about the duration of receipt for those who come on as children; and there are no citations to empirical studies. The report notes that more children are coming on SSI and then pairs that with a statement that the average lifetime stay for children is 26.7 years. The problem is that the first statistic is recent; the second must be based on children who came on *at least* 30 to 40 years ago (or, how else would you get the average duration); it is not necessarily generalizable to children coming on today.

But, note the recommendation, "Access to needed services in lieu of cash assistance…" Aside from the lack of specifics, about the proposal, why wouldn't the recommendation be access to services *in addition to* cash assistance? And, what are the services that would be provided, how much would be made available to fund them, and what is the evidence of their success?

Task Force Statement: "*Insist on Work for Work-Capable Adults on Supplemental Nutrition Assistance Program*. The Supplemental Nutrition Assistance Program (SNAP) is the nation's largest food-assistance program, serving 46 million people in 2015. SNAP serves a very diverse population: Forty-four percent of all participants are children, 10 percent are over the age of 60, and 10 percent are non-elderly adults with disabilities. But there is an increasing number of recipients who are work-capable adults without dependents. Unfortunately, recent data suggests many of them are not working or preparing for work. Part of our effort to reform the welfare system includes identifying policies that prevent or discourage working-age people from obtaining work or preparing for work."

PC Response: A few minor technical notes – the 46 million refers to the *average monthly* SNAP recipients, not the number of unduplicated recipients during the year. The report cites an increase in "work-capable adults without dependents" and notes that many are not working or preparing for work. Here the report should list a citation for this data and define the term "work-capable adult."

The more serious problem is the total absence of any substantive detail about the proposal. The statement starts with a focus on "work-capable adults" then describes an increase in "work-capable adults without dependents" and then generalizes to "working-age people." With respect to policy, it starts with a statement that SNAP "insist on work" but ends by saying the reform effort will identify "policies that prevent or discourage working-age people from obtaining work or preparing for work." (Note: I'm not aware of any policy that would *prevent* someone on SNAP or any other government program to go to work, and the SNAP phase out rate for those with earnings is either 0 percent or 24 percent, depending on the amount of earnings and the disregards the household qualifies for.)

Where are the details? What would be the participation rate, how many hours would be required, would there be any exemptions or disregards in calculating a participation rate, what activities would be allowed and what (if any) limits would be placed on counting hours of participation, how would this requirement relate to the TANF requirement for those receiving cash assistance, what would be the penalty for states that fail to meet the standard, how would other SNAP rules be changed (e.g., those related to exemptions and sanctions)?

Most important, are any additional resources provided to fund these work programs? Notably, the current ABAWDS work requirement is quite limited in this regard. And, given the complete failure of TANF's work requirements, on what basis should the American public trust conservatives in creating a new work requirement? Fix TANF; then, maybe, conservatives will have credibility again.

***A Much Better Way*:** Instead of mandating untested reforms to be implemented on a national scale, a much better approach would be to fund and test well designed work requirements in a nationally representative set of sites to assess their feasibility, impacts, and costs and benefits. These experiments should examine variations in the types of work requirements and assess their effects on a range of subgroups.

Task Force Statement: "*Require Housing to Align with TANF Benefits*. The Department of Housing and Urban Development (HUD) today spends over $45 billion annually on at least 85 active programs. These include several rental housing assistance programs through which the federal government supplements the rent and utility costs of low-income households, such as: Section 8 Tenant-Based (vouchers) Rental Assistance, Section 8 Project-Based (housing unit) Rental Assistance, and the Public Housing program."

PC Response: Earlier in the report, the Task Force stated, "13 federal agencies run more than 80 federal programs that provide food, housing, health care, job training, education, energy assistance, and cash to low-income Americans." Now the Task Force says there are "85 active programs" providing housing assistance? If this were true, most would be undoubtedly small, but if true this would bear further investigation. The report should provide a citation.

Task Force Statement: "HUD's rental housing assistance programs lack requirements to encourage greater individual self-sufficiency, contributing to rental assistance becoming more expensive and waiting lists growing larger each year as current recipients stay longer."

PC Response: In suggesting that requirements be added, the Task Force is presumably referring to work requirements. Where are the policy details? How would such requirements be designed – how much funding (if any) would be provided, who would be required to participate, how many hours, what activities, what would be the consequences for failure to participate, and would Public Housing Authorities be subject to "participation rate requirements"? These are just a few of the questions that should be addressed.

While the intent may be to reduce costs and promote greater self-sufficiency, no evidence is presented to show that such requirements would achieve these objectives. In his assessment of *A Better Way,* the Manhattan Institute's Scott Winship points to the existence of a "handful of local experiments," noting that "One of those experiments has produced preliminary evidence that work requirements raised employment rates without increasing eviction rates."[60] In an earlier article he referred to a program in Charlotte, North Carolina, where he wrote:

> There are also signs that the very limited experimentation with work requirements in public housing are paying off. A new evaluation of a Charlotte, NC demonstration, which began imposing work requirements in five of its fifteen public housing developments at the start of 2014, finds that it raised employment rates and did not increase eviction rates.[61]

First, it is worth noting that there were plenty of evaluations of work requirements before TANF was enacted, but that didn't prevent Congress from gutting work requirements, as explained above. There is a huge difference between finding an evaluation of an intervention that works and then drafting legislation that encourages that kind of intervention.

Second, Winship points to a single evaluation in a single site. Is that all the evidence conservatives require to impose sweeping new requirements across all housing assistance programs?

Third, have conservatives actually examined the research base? The study Winship cited, "Work Requirements in Public Housing: Impacts on Tenant Employment and Evictions," is based on a comparison group methodology using a method called propensity score matching.[62] This approach tries to adjust for observable differences between treatment and comparison groups, selection bias remains a major concern, as unobserved differences can account for differences in outcomes. In the Reagan Administration, we had considered various quasi-experimental methods, but judged that they were too unreliable, so we insisted on random assignment. The authors of the study are responsible to point this out:

> While these findings clearly support the effectiveness of the CHA's work requirement in increasing employment, our research has several limitations. For one, this study is not based on a random-controlled experimental design. Although we utilized propensity score matching to control for observed differences between the Treatment and Comparison Groups, unobserved characteristics could bias the results. The range of outcome variables is also limited: future research might assess work requirement impacts on mental or physical health, children's behavior, or other outcomes. Another limitation is that this study has only looked at the short-term outcomes, and we hope that future research tracks work requirement impacts over a longer time period.[63]

It is also noteworthy that the authors of the study Winship uses to justify an expansion of work requirements caution against such a policy:

> <u>Given these limitations, we caution against drawing more general conclusions and believe it is premature to implement work requirements across the public housing program.</u>[64] [emphasis added]

The authors raise a number of caveats related to the potential effectiveness of work requirements in public housing and conclude that there are "potentially large obstacles to bringing work requirements to scale."[65] They go on to discuss uncertainties surrounding the mix of services and costs, which they note were "substantial" and caution, "These and other questions should be addressed before work requirements are expanded to the entire public housing program."[66]

Task Force Statement: "To address these challenges, housing benefits should be aligned with TANF benefits for all work-capable recipients in the Section 8 voucher, Section 8 unit, and Public Housing programs. …Those work-capable recipients should be expected to work or prepare for work by meeting with TANF case workers who collaborate with them to develop self-sufficiency plans and assist in making arrangements to prepare for work, such as child care, transportation, work clothes, and other necessities to transition to regular employment. Additionally, local jurisdictions that administer housing benefits should have the same program guidance that states mandate for TANF beneficiaries, such as the ability to institute work requirements, educational training, and time limits beyond which benefits are discontinued to encourage non-working work-capable recipients to move toward jobs, careers, and economic independence."

PC Response: In most states, TANF cash assistance is virtually non-existent; and even where it does exist, most states do little to provide meaningful services to more than a small minority of recipients. Instead, they meet TANF's dysfunctional work requirements by counting people who combined work and welfare or through gimmicks. Again, the policy details are missing from the Task Force report. Why would TANF case workers want to meet with recipients of housing assistance? How much would funding would be provided for such case management, work activities, and support services like child care? And, given Congress' reluctance to spend more, where would such funding come from? And, does the Task Force contemplate replicating TANF's work requirements? How would non-compliance be dealt with – in TANF, the grant can be reduced or terminated; does the Task Force contemplate evicting families for a failure to comply? The list of questions is endless.

***A Much Better Way*:** Instead of mandating untested reforms to be implemented on a national scale, a much better approach would be to fund and test well designed work requirements in a nationally representative set of sites to assess their feasibility, impacts, and costs and benefits. These experiments should examine variations in the types of work requirements and assess their effects on a range of subgroups.

Get incentives right so everyone benefits when someone moves from welfare to work

Task Force Statement: "Under our current system, states and other service providers often lose money when someone leaves welfare for work. In other words, they're better off if the recipient fails rather than succeeds."

PC Response: This statement is unsupported by any evidence. As it relates to states, states are better off if families leave welfare for work with respect to the major assistance programs. For TANF, they can keep the entire savings and use it for a wide range of activities. For Medicaid, they save the state share of the state share of the match. For housing assistance, there are no savings, because if a family leaves subsidized housing as a result of a job, the unit/voucher is replaced by someone on a waiting list. For SNAP, a state may lose SNAP funds that would be spent in stores in the state; but if the family went from welfare to work, it would receive tax credits like the EITC and the child tax credit. And, if welfare recipient are working, they are paying state taxes. How are states better off if recipients fail? What kinds of service providers are better off if recipients fail? Is that really likely to be good for business?

Task Force Statement: "…it may not even make financial sense for someone on welfare to work more because they end up losing so many benefits."

"For low-income families, it may not always pay to work. Low-income families often receive many types of welfare and tax benefits, such as assistance with food, housing, and day-care costs; help with medical costs; or cash payments to supplement earnings from work. …because these benefits phase out as you move up in the income ladder – and people are often on multiple programs at the same time – many households end up losing almost as much money in expired benefits as they make in higher pay."

PC Response: <u>This entire section is misleading, presenting uncommon examples of benefit packages and phase out rates; and it is overly simplistic, ignoring both economic theory, programmatic features that might influence a behavioral response (e.g., the EITC is provided once a year obscuring the phase-out rate to the recipient), and empirical evidence. Worst, it presumes that Congress has the knowledge to "fix" this problem</u>.

Economic theory suggests that income transfer programs can create a disincentive to work in two ways. First, the provision of a payment decreases the need to work (the "income effect"): the higher the payment, the greater the effect. Second, the benefits of income-tested transfer programs are generally phased out (reduced) as earnings rise. By reducing the reward for increased work, further work effort is discouraged as individuals substitute leisure for work (the "substitution effect"). While it is clear that welfare programs contain work disincentives, the actual magnitude of these effects can only be estimated by empirical studies. <u>The impact cannot be determined by simply looking at hypothetical benefit packages and phase out rates.</u>

The Task Force suggests that a high phase out rate discourages work, but it focuses mainly on the phase out rate, assuming that the higher the phase-out rate, the greater the work disincentive. This oversimplifies the analysis. I will use four oversimplified examples to show the challenges in estimating the labor supply effects of benefit packages and phase-out rates, as well as highlight some of the other trade-offs, most notably effects on costs and anti-poverty effectiveness. Suppose the status quo is a benefit package of $1,000, a phase out rate of 50 percent, and a "breakeven level" of $2,000. The breakeven level is the level of earnings at which benefits fall to $0. For simplicity, I will assume only earned income affects the benefit package.

Example 1. The Task Force suggests that a high phase out rate is what causes the work disincentive. One solution would be to eliminate the phase out rate altogether, so there is no penalty for additional earnings (e.g., create a universal basic income). Would this encourage work? To assess the overall impact on work effort requires separating the impact on two groups.

- For those with incomes below the original breakeven level of $2,000, the effect on work effort is mixed. By not phasing out benefits as earnings rise, this group has more income, thus reducing the incentive to work through the "income effect." But it would also face a lower phase-out rate (0 percent vs. 50 percent), which would increase the incentive to work (the "substitution effect"). The net effect is an empirical question.
- For those with incomes above the original breakeven level of $2,000, the effect would be to reduce work effort, because everyone would be entitled to $1,000 in added benefits (the "income effect").

The overall effect on work effort is an empirical question, but it certainly is not obvious that reducing the phase-out rate would spur more work effort overall. This option would cost more by making more families eligible for benefits and further affect labor supply if taxes were raised to finance the benefit expansion. It also would not be a particularly effective anti-poverty option, as a significant share of the benefit expansion would go to non-poor families.

Example 2. An alternative would be to phase out benefits more slowly, for example, reducing the phase out rate from 50 percent to 25 percent. This would raise the breakeven level from $2,000 to $4,000. To assess the overall impact on work effort requires separating the impact on two groups.

- For those with incomes below the original breakeven level of $2,000, the effect on work effort is mixed. By phasing benefits out more slowly, this group has more income, thus reducing the incentive to work through the "income effect." But, it would also face a lower phase-out rate, which would increase the incentive to work (the "substitution effect"). The net effect is an empirical question.
- For those with incomes between the original breakeven and the new breakeven level (i.e., between $2,000 and $4,000), the effect would be to reduce work effort, both because this group has more income from benefits (the "income effect") and it faces a higher phase-out rate (25 percent vs. 0 percent) than it otherwise would (the "substitution effect").

The overall effect on work effort is an empirical question, but it certainly is not obvious that reducing the phase-out rate would spur more work effort overall. And, like example 1, this option would cost more by making more families eligible for benefits.

Example 3. Another possibility would be to increase the phase-out rate from 50 percent to 100 percent. The Task Force analysis suggests this would disincentivize work, but would it? This option would lower the breakeven level from $2,000 to $1,000. In other words, it would make ineligible all those with incomes between $1,000 and $2,000. To assess the overall impact on work effort requires separating the impact on two groups.

- For those with incomes below the new breakeven level of $1,000, the effect on work effort is mixed. By phasing benefits out more rapidly, this group has less income, thus increasing the incentive to work (the "income effect"). But, it would also face a higher phase-out rate (100 percent vs. 50 percent), which would reduce the incentive to work (the "substitution effect"). The net effect is an empirical question.
- For those with incomes between the new breakeven and the original breakeven (i.e., between $1,000 and $2,000), the effect would be to increase work effort, both because this group has less income from benefits (the "income effect") and faces a lower phase-out rate (0 percent vs. 50 percent) than it otherwise would have (the "substitution effect").

The overall effect on work effort is an empirical question. This option would save money by phasing out benefits faster and if the savings were used to cut taxes, it would have positive labor supply effects. However, this option would reduce the anti-poverty effectiveness of benefits by reducing benefits for the working poor.

Example 4. Another option would be to cut the benefit package, e.g., from $1,000 to $500, which with a phase-out rate of 50 percent would reduce the breakeven level from $2,000 to $1,000. This would increase work effort.

- For those with incomes below the new breakeven level of $1,000, the effect would be to increase work effort. This group would have less income from benefits (the "income effect") and the phase-out rate didn't change (so no "substitution effect").
- For those with incomes between the new breakeven level and the original breakeven level (i.e., between $1,000 and $2,000), the effect would be to increase work effort, both because this group has less income from benefits, as it would be $0 (the "income effect") and the phase-out rate would be lowered from 50 percent to 0 percent because it would no longer receive benefits (the "substitution effect").

This option would increase work effort and reduce costs, but it would also weaken the safety net.

Bottom-line. These oversimplified examples are intended to show that assessing the labor supply effects of benefits and phase-out rates is complicated and also involve trade-offs in terms of cost and anti-poverty effectiveness. There is no obvious "fix" to this problem. The best way to move forward is to experiment and rigorously evaluate different approaches.

This "PC Response" barely touches on the vast theoretical and empirical work on this subject. In *Up from Dependency*, we summarized the academic research on the subject.[67] For example, Johns Hopkins University professor Robert Moffitt has written extensively about the work incentive effects of welfare reform. In our report, we quoted his explanation of the theoretical effects of how reducing the phase-out rate might affect labor supply:

> ...while a tax rate reduction may induce some initial recipients to increase their hours of work or to join the labor force, it draws some individuals into the program who had not participated initially. Some of these individuals may be made newly eligible automatically, while others may be induced by the increased generosity of the program and the higher break-even level to reduce their hours of work so as to become eligible. The new recipients will reduce their labor supply when joining the program. The net effect of the tax rate reduction on overall labor supply thus depends on the sizes of the reductions of the two groups -- those initially on the program and those newly drawn into it -- and their relative numbers.[68]

We summarized the literature at the time on the effects or AFDC, food stamps, and Medicaid. The "cliff" or "notch" as we referred to it was well-known and a concern more than three decades ago. We noted, "Whether the Medicaid 'notch' provides a disincentive to work is not clear and can only be resolved with further research." We also examined the findings of the Negative Income Tax experiments. We looked at effects by different subgroups. And, there has been considerable research since the 1980s. The waiver experiments examined the effects of financial incentives[69] and many researchers have studied the labor supply effects of a range of programs.[70]

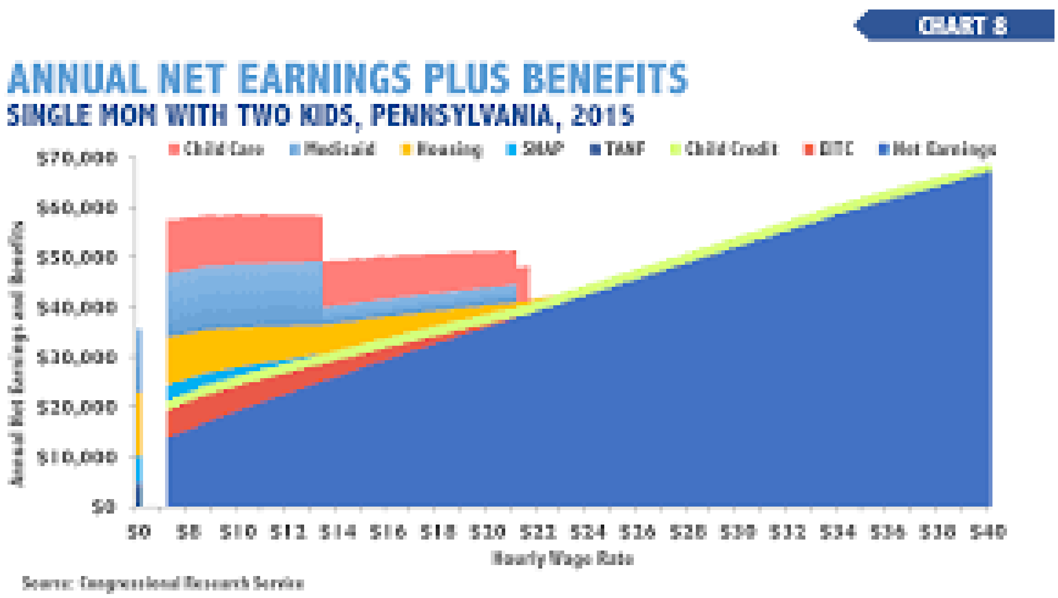
The Task Force does none of this. It presents absolutely no evidence from empirical studies, which suggest work disincentives are not as serious in influencing behavior as portrayed in the Task Force report.

A Much Better Way: The Task Force should do its homework; it should look at the empirical literature and, if it does, the conclusion should be the same as the one we reached in *Up from Dependency* – more research is needed. The Task Force should fund more experiments testing the impacts of changes to phase-out rates in individual programs and the package of benefits.

Task Force Statement: "The Congressional Research Service illustrates this dilemma with a hypothetical example based on real data: Take a single mother with two children who is earning the minimum wage ($7.25) in Pennsylvania as displayed in chart 8. She would be worse off if she took a raise to $10.35 per hour. Under this scenario, the mother's taxes would increase as her welfare benefits decreased, leaving her with only 10 cents for each additional dollar she's earning. And, if she continued to earn a higher wage, she might end up worse off than when she started.

The chart represents the potential package of earnings and welfare benefits a single mother with two children (infant and school-age child) could receive in Pennsylvania at different hourly wage levels. The horizontal axis shows her possible hourly wage rates, and the vertical axis shows the total value of her potential annual earnings plus welfare benefits. This chart is specific to Pennsylvania because it takes into account the interactions among welfare programs and with earnings. Most programs have a phase-out, or glide path, that allows benefits to slowly decline as earnings increase. Medicaid, shaded in light blue, is the exception because it functions as all or nothing.

There is a "welfare cliff" because recipients don't move up slowly, one dollar at time. Also, recipients are rarely on just one program, creating odd interactions from the stacking of programs on top of one another because they have never been coordinated."



PC Response: What a disingenuous way to start the discussion, suggesting that this is an example the Congressional Research Service (CRS) came up with! The CRS may have done the calculations for the Task Force, but the package used by the Task Force is one that very few low-income families receive – certainly less than 2 percent of low-income families. This is another example of congressional staff politicizing the work of the CRS.

Indeed, for many years the CRS did a similar example of a benefit package in Pennsylvania. For example, in the 1996 *Green Book* issued by the House Ways and Means Committee, there was a table showing the interaction of earnings and benefits (in increments of earnings from $0 to $50,000) and their effect on disposable income.[71] The analysis included dollar values for AFDC, the EITC, and food stamps, as well as adjustments for taxes (federal, state, and Social Security) and work expenses. Notably, for Medicaid, the table just says "yes" or "no," noting "the benefits from Medicaid could be added, but are not, since the extent to which they increase disposable income is uncertain." And, it didn't pile on housing assistance or day care subsidies, because only a minority of eligible low-income families actually received those benefits.

The Task Force uses a chart to make its points – a table would have been more informative. The horizontal axis shows the hourly earnings and the vertical axis shows "annual net earnings and benefits." Presumably, it focuses on a single mother working full-time, full-year (i.e., 2,000 hours, but it doesn't say). Then, the Task Force compares the net income of a mother making $7.25 an hour and then has the chance to make $10.35 an hour and concludes, "She would be worse off if she took a raise to $10.35 per hour. Under this scenario, the mother's taxes would increase as her welfare benefits decreased, leaving her with only 10 cents for each additional dollar she's earning. And, if she continued to earn a higher wage, she might end up worse off than when she started." It also mentions possible "cliffs." This is the entire "analysis" – a colorful chart and a few sentences about what happens to a single mother that gets an unrealistic package of benefits. (Note: the mother is not worse off for taking a raise of $10.35 an hour; she is better off; the Task Force could have used one of the points where there is a "cliff" to make this point, but it didn't.)

Even though there is virtually no substance to this section of the report, one can analyze some of the choices used in picking programs and in assessing potential work incentive effects. First, it is notable that the limited discussion in the Task Force report focuses on phase-out rates, suggesting that "…it may not even make financial sense for someone on welfare to work more because they end up losing so many benefits." The problem with phase-out rates is a consideration for those with earnings, generally above $15,000, but, there is virtually no discussion of the enormous financial incentive for non-working welfare recipients to go to work. In particular, the EITC and the Child Tax Credit create financial incentives to work, as they are only available for families with earnings. As Sharon Parrott and Robert Greenstein of the Center on Budget and Policy Priorities writing in 2014 explain, "Families with earnings below $13,650 face a *negative* marginal tax rate as earnings rise because their combined EITC and CTC grow *faster* than their SNAP benefits fall and their payroll taxes rise."[72]

The main problem in the Task Force "analysis" is the package of benefits. For those with $0 in earnings, it appears the benefits package includes TANF (about $5,000), SNAP (about $5,000), housing assistance (about $12,500), and Medicaid (about $12,500), for a total benefit package of $35,000. These are approximations because there is no table. There is no discussion of how the non-cash benefits are valued. Once the mother goes to work, if she works full-time, year-round at the minimum wage, she appears to have net earnings of about $14,000. She no longer receives TANF, but receives SNAP (about $3,000), housing assistance (about $10,000), Medicaid (about $12,500), and now also the EITC (about $4,500), the CTC (about $2,000) and a child care subsidy (about $12,000), for a total earnings and benefit package of $58,000.

First, some comments on the appropriateness of including the Task Force's benefit programs:

- In 1996, 80 percent of eligible families received TANF; by 2012, this percentage had dropped to 32 percent. The TANF-to-poverty ratio (the average monthly number of TANF cases divided by the number of families with poor children) was just 23. The more realistic approach would be to exclude TANF from the example (or to show it both with and without TANF).

- Most poor families with children receive SNAP and it is reasonable to value their benefits at the cost of the full SNAP benefit amount.

- Housing assistance is received by a minority of poor households with children. In 2015, there were about 4.5 million occupied subsidized housing units and about one-third were female-headed families with children.[73] This represents about 20 percent of poor families with children. And, in 2014, less than 200,000 TANF families were in subsidized housing – less than 3 percent of poor families with children. The more realistic approach would be to exclude housing assistance (or to show it both with and without housing assistance).

- Medicaid is an important benefit for low-income families, but placing a value of $12,500 can give the misleading impression that this increases disposable income by that amount. More important, for an analysis of work incentive effects, the analysis here suggests that there are large "cliffs" when the parent and children lose eligibility at about $26,000 and $42,000, respectively (but it is hard to tell from the chart alone). Regardless of where the "cliffs" occur, the impact on work incentives is not likely to be anywhere near as large as suggested by the chart. The loss of Medicaid doesn't actually result in an immediate and visible loss of income. A family would only notice the loss if it had high medical expenses. In this regard, the Task Force ignores the fact that an array of public programs may compensate for the loss of Medicaid. For example, many states have "medically needy" programs that allow families with incomes above the Medicaid income eligibility thresholds but high medical expenses to qualify. The Affordable Care Act provided for Medicaid expansions and health care exchanges. Families (or individuals) losing Medicaid eligibility due to earnings can receive marketplace coverage and a Premium Tax Credit to reduce out of pocket premiums. The Premium Tax Credits phase out slowly, so the cliff effect is not as large as it appears.

- The EITC and the CTC provide refundable tax credits and are valued appropriately in the chart in terms of dollar amounts, but not necessarily in terms of timing. A single mother who takes a job in January and works the full year won't receive these tax benefits until about 16 months later. At that time her circumstances may be very different – she may have no job, she may have had an increase in earnings, or she may be married. If she takes a job that pays more it is unlikely that she will connect that to any change in the EITC and that that would have a significant discouragement effect. (The more likely behavioral response would be a positive one when the single mother goes from no work to taking a job.)

- The Task Force includes child care, but only 15 percent of eligible children are subsidized through the Child Care and Development Fund or related federal funding streams.[74] And, even for those who receive such subsidies, the benefits simply offset a cost, resulting in no increase in disposable income. Of course, the loss of subsidies would create a cliff effect that could affect work behavior. Part of the cliff would be offset by Child and Dependent Care Tax Credit.

In other work CRS has explicitly chosen a very different package, excluding both TANF and housing assistance:

> This report does not address all potential taxes and benefits for which a minimum wage worker might be eligible. For example, housing assistance and assistance funded through the Temporary Assistance for Needy Families (TANF) were not considered. <u>These programs are not entitlements to individuals and affect a relatively small population.</u>[75] [Emphasis added.]

Similarly, a report by the Congressional Budget Office – "Effective Marginal Tax Rates for Low- and Moderate-Income Workers in 2016" – provides a more realistic assessment of the impact of phase out rates and tax rates, showing a range of circumstances.[76] The CBO analysis suggests a much smaller effect:

> CBO finds that low- and moderate-income workers—those with income below 450 percent of federal poverty guidelines (commonly known as the federal poverty level, or FPL)—will face, on average, a marginal tax rate of 31 percent in 2016. That estimate takes into account federal and state individual income taxes, federal payroll taxes, and the phase-out of two transfer programs—benefits from the Supplemental Nutrition Assistance Program (SNAP, formerly the Food Stamp program) and the cost-sharing subsidies for health insurance provided under the Affordable Care Act.

Beyond exaggerating the benefit package and thus the likely impact of phase-out rates, the Task Force ignores other considerations. Jennifer Romich and her colleagues explain, even relatively high marginal tax rates may have only modest work disincentive effects:

> One explanation is that low-income workers have little discretion reducing their work hours. If workers cannot select the amount of time they work (hours, shifts, etc.), their only choice may be between working or not working at a given job. A larger issue is imperfect information or understanding. Marginal tax rates are difficult to calculate. When faced with intersecting programs in the welfare system, two knowledgeable observers note that "even economists have a hard time computing marginal tax rates."… Evidence suggests that front-line caseworkers generally do not explain them … and peers are not a good source of information because individual situations are dependent on a large set of parameters which vary widely even among superficially similar families.[77]

The fact that the Task Force would use an example of a benefit package that only a small minority of poor families with children actually receives, and one that exaggerates the work-welfare trade off, suggests either that the Task Force is ill-informed or that it is playing politics with the lives of poor families. Regardless, *A Better Way* is not a serious policy document.

A Much Better Way: In *Up from Dependency*, we showed the work-welfare trade off using a range of assumptions about what is included in the benefit package and on the size of the AFDC benefit. Given state variation, we used a high and low benefit state. The examples were fairly basic, but we did not pick extreme examples and we combined our charts with evidence from research. The Task Force should rely on the CRS and the CBO to do the analytic work without interference and politicization.

Task Force Statement: "The complicated interaction between wages, tax benefits, and welfare benefits is something that has been consistently raised as issue. If states had more flexibility to design customized packages of benefits, that could help make sure anyone who works more ends up better off."

PC Response: The optimal combination of benefits and phase out rates is an empirical question and should factor into account effects on poverty, work effort, and a range of other considerations. The Task Force's recommendation would give states more flexibility in the design of the package of benefits. Where are the policy details? Which programs would be included in the "flexibility" package? How would tax provisions like the EITC and Child Tax Credit be considered? Most important, what accountability provisions would be built into such devolution of control particularly as they relate to cost and evaluation? The TANF experience in giving states a blank check suggests that this is not a good idea.

A Much Better Way: It is noteworthy that the pre-TANF waiver process was building knowledge about the impact of phase out rates for some welfare programs through random assignment experiments. Congress should have looked to this approach to build on. Instead, it replaced this evidence-based approach with giving states a blank check with no accountability. If the goal is to learn about ways to improve financial incentives with welfare programs, then we should return to the waiver approach. In addition to giving states some flexibility, the federal government should design and test variations of models that *federal* policymakers might be interested in assessing. This could include child allowances, variations of the negative income tax, and other proposals. Conservatives so often like to claim the welfare system costs $1 trillion a year – let's spend 1 percent of that, or $10 billion, to really find out what works and what doesn't to evaluate it. (This would include money for evaluation, as well as benefits and services). Even one-tenth of one percent – or $1 billion would be a start. In the long-run, this approach may well save more than it costs.

Task Force Statement: "The Earned Income Tax Credit is another potential solution. The EITC is a refundable credit available to low-income workers with dependent children as well as certain low-income workers without children. It can help with the transition because it increases the financial rewards of work. Increasing the EITC would help smooth the glide path from welfare to work."

PC Response: The Task Force does not document a problem in going from welfare to work, so the reference to "smoothing" the "glide path from welfare to work" doesn't make any sense. The chart shows a substantial jump in total income when the family goes from welfare to work, i.e., from $0 in earnings to about $14,500 in earnings. At this point, the family is already receiving the maximum EITC. The problem the Task Force is trying to demonstrate has to do with increasing earnings above this level – that's not a "welfare to work" problem. Again, there are no policy specifics, so it is impossible to evaluate this option.

Task Force Statement: "One key factor often overlooked in discussions of poverty and the economy is the substantial change in household and family structure that has occurred across the U.S. in recent decades. Researchers have documented how these changes affect employment and poverty levels, as well as how federal policies may influence a person's employment, marriage, and childbearing decisions."

PC Response: The Task Force goes on to talk about the non-marital birth rate, the importance of marriage, and penalties in the welfare system. Nowhere does it present empirical evidence on the subject, despite the fact that it says "researchers have documented" how changes in family structure have affected various outcomes. And, nowhere in the discussion is a policy recommendation.

Task Force Statement: "Unfortunately, our current welfare system may be exacerbating this problem, as many means-tested welfare programs penalize marriage—because when low-income fathers and mothers marry, their combined income from welfare and wages will almost certainly be lower than the amount they had separately."

PC Response: Again, no policy recommendations. Determining the effect of such penalties is difficult and policy solutions are not obvious. One approach may be a child allowance. That way the family gets a fixed amount per child regardless of its marital status. Is that what the Task Force recommends?

Task Force Statement: "Additionally, 1 in 5 Americans live with disabilities, and regrettably poverty and disability go hand-in-hand. As of 2014, the Census Bureau estimates that nearly 29 percent of people with disabilities live in poverty compared to 12 percent of individuals without disabilities. That's more than double. Additionally, workers with disabilities are twice as likely to be unemployed as their nondisabled colleagues. We have made considerable progress in recent years, but there's still more work that needs to be done."

PC Response: This section is about "getting incentives right," so it is unclear how this paragraph fits. Obviously, individuals with disabilities may have greater challenges in going to work. Is the Task Force making a statement about the incentives of programs? If so, it should be clear. What kind of progress has been made? How has it been achieved? What work should be done? Where are the specifics?

Task Force Statement: *Incentives for Taxpayers*. Taxpayers are often forgotten when it comes to reforming our welfare system. Many propose solutions to improve incentives by spending additional taxpayer dollars to reduce the welfare cliff or by paying states and other stakeholders additional money so they do what they should have been doing in the first place. This "spend more" approach invests taxpayer dollars in bureaucratic programs without addressing the root cause of poverty. Instead, we should target limited resources toward those most in need in the most effective ways possible. The incentive should be for government, on behalf of the taxpayer, to identify and reduce duplication, to find solutions that are cost-effective, to ensure individuals escape poverty, and to reduce waste, fraud, and abuse."

PC Response: The Task Force states that "many propose" addressing the "welfare cliff" by spending more, but gives no citations. Whatever one may think of these alternative solutions, unlike the Task Force report, it at least sounds like there are some policy specifics.

The Task Force doesn't identify the "root cause of poverty." What is this "root cause" – I didn't realize there was only one? And, what would the Task Force do? Instead of simply complaining about the problems with the "spend more" approach and "bureaucratic programs," the Task Force should offer an alternative beyond vague conservative talking points.

Members of Congress often complain about duplication and lack of accountability, as reflected in the House Budget Committee's FY 2017 budget recommendation to terminate the Social Services Block Grant (SSBG):

> The Social Services Block Grant is an annual payment sent to States – without any matching, accountability, or evaluation requirements – intended to help achieve a range of social goals, including by providing child care, health, and employment services. …States are given wide discretion to determine how to spend this money and are not required to demonstrate the outcomes of this spending, so there is no evidence of its effectiveness.[78]

The House Budget Committee's concerns about the SSBG, particularly the lack of matching, accountability, and evaluation, pale in comparison to those of TANF, yet the Committee (and this Task Force) believe TANF is a huge success.

TANF has no meaningful matching requirement – its MOE requirement has been eroded by inflation and the broad flexibility states have in what counts as an allowable expenditure minimizes its usefulness in maintaining a serious state commitment. TANF's main accountability measures are limited to "assistance" (less than $9 billion); leaving little accountability for the $20+ billion in "non-assistance" expenditures. There are hundreds of different state programs funded as "non-assistance," with little information on what they do, their cost, the number of families served, and their effectiveness. And, as noted above, TANF replaced an evidence-based, evaluation driven approach to welfare reform with a blank check to states with no accountability.

What is particularly concerning is that the Task Force suggests that it knows how to target resources to "those most in need in the most effective way possible." This is the same Task Force that believes TANF is a success!

Task Force Statement: "*Policy Recommendations*. For the last several decades, federal policies to combat poverty have been based on more programs, increased spending, and bigger benefits—not on a shared responsibility to move from welfare to work. The task force recommends reviewing the incentives to work, marry, and escape poverty, as well as making changes to ensure all stakeholders are better off when someone moves up the economic ladder."

PC Response: First, the Task Force has shown no aptitude for "reviewing" the incentive effects of welfare programs in an objective or comprehensive manner, instead relying on colorful charts. Second, simply saying that changes would be made to ensure "all stakeholders are better off when someone moves up the economic ladder" <u>is not a meaningful policy recommendation</u>. Where is the policy detail?

Task Force Statement: "*Increase Local Control and Flexibility, with Accountability.* State and local governments should be allowed to develop new ways of addressing incentives for all stakeholders. Instead of the federal government continuing to develop policies separately for each of the more than 80 welfare programs, states should be allowed to link these programs in a way that provides a more holistic approach for families they serve. When someone faces disincentives to work or marry, states should test ways of repackaging welfare benefits to reward desired outcomes. In exchange for more flexibility, states must also be held accountable, and each demonstration should be paired with an evaluation to determine whether state policies are achieving real results for those in need."

PC Response: I was initially encouraged by this paragraph, but after reading the full report, I have no confidence that the Task Force has the ability to draft legislation that would effectively implement this recommendation.

Perhaps the best place to start is to examine how past congressional proposals would implement this approach, most notably Speaker Ryan's "Opportunity Grants" and Senator Rubio's "Flex Fund." Both raise serious red flags, both because they contain obvious flaws and lack substantive detail.

Cost neutrality. Both proposals would allow states to combine the funding from a number of anti-poverty programs into a single fund for a state to spend on anti-poverty initiatives. The proposals use terms like "deficit-neutral relative to current law" or "revenue neutral" suggesting that they are somehow different than a block grant. Indeed, both proposals include adjustments for some economic or demographic factors, but the adjustment mechanisms are seriously flawed.

Opportunity Grants. In July 2014 remarks Speaker Ryan stated that states would get "not a penny less" and that they would be required to "spend this money on people in need."[79] The proposal also suggests that this state flexibility could be used to "test a variety of approaches." Initially, the proposal is described as a pilot project. The House Budget Committee report explaining the "Opportunity Grants" concept noted that if the approach were expanded beyond a pilot project, "it would benefit from increasing assistance during recessions."[80]

The report then describes several options:

> Currently, the TANF program includes a contingency fund, which allows states to supplement their block grant during recessions and other periods of poor economic growth. During the recent recession, Congress authorized an additional amount of money for the TANF contingency fund.
>
> There are a number of possible options for designing a block grant that would be counter-cyclical. First, the block grant could vary based on the level of unemployment in a state. If unemployment rose beyond 6.5 percent, there could be an automatic increase in the level of the Opportunity Grant funding, which would automatically fall with unemployment.

> A second option would be to require states to set aside a certain percentage of their OG funds and to save them for future expenditures. That way they could vary the amount spent each year depending on where they were in the business cycle – decreasing the amount of the OG during good times, and increasing the amount of the OG during times of economic distress.
>
> Finally, the OG grant could create a contingency fund similar to TANF's, but one more responsive to economic conditions. The TANF contingency fund has placed very complex rules on states. Rather than creating a complicated rule, use of the contingency funds could be contingent solely upon the unemployment rate in a specific state.[81]

In essence, the report describes a block grant like TANF, with various *ad hoc* adjustments in the event of an economic downturn. But the options described above are very crude and inconsistent with Speaker Ryan's statements that states would not get "not a penny less."

Under the *first option*, the trigger is an unemployment rate of 6.5 percent. The unemployment rate is now less than 5 percent. If unemployment started to rise, there would surely be increases in costs, particularly in a program like SNAP, but under this option, there would be no adjustment. And, what would happen once the unemployment rate exceeded 6.5 percent – how would funding be adjusted. TANF does have a Contingency Fund, but that is regularly depleted before the year is up. And, it makes no adjustment for differences in the degree of unemployment; once a state hits the trigger, it can receive the full amount. Where are the details?

The *second option* would have a state set aside a certain percentage. But, if the state is getting exactly what it was spending, how will it set anything aside without cutting benefits? Or, will Congress overpay states in the early years, as it did with TANF? Of course, in the long-run, without any adjustment, all states have received less than they would have under TANF's predecessor program because the amount was not adjusted for inflation or demographic factors. And, this option does not guarantee that states get the same amount they would have received and it seems naïve to think a state will save money for the future – most politicians care more about the present than worrying about how their successors will fund programs.

And, this approach was tried once and didn't work too well. In TANF's early years, Congress provided states huge windfalls; states had large amounts of unspent TANF dollars, so Congress threatened to take their funds away unless they spent them. On March 16, 1999, former Rep. Nancy Johnson, then chair of the House Ways and Means Subcommittee on Human Resources, wrote individually to all 50 governors warning that more TANF funds needed to be spent or they risked having Congress take back some of the unspent funds or would have future grants reduced:

> According to our budget analysts, states have about $6 billion in unspent funds left over from fiscal years 1997 and 1998. My colleagues and I on the Committee on Ways and Means are fighting to save this money from those who would like to spend it on other priorities, but I want you and all the other governors to understand that unless states begin

> spending more of this money, we will eventually lose the battle to protect it here in Washington.[82]

Is it a surprise that states would have unspent funds when the creation of TANF itself gave them a huge federal windfall? And, isn't saving the money for a future contingency the responsible thing to do? Here again, congressional interference led to a further undermining of the program. This threat led states to divert funds away from core welfare activities and in many cases just supplanted existing state spending. Then, when Congress began to learn about supplantation, Rep. Johnson wrote a second letter to all 50 governors a year later (March 2000):

> In reviewing these and similar investments for your own state, I hope you will be careful to avoid supplanting TANF funds. By supplantation, I mean replacing state dollars with TANF dollars on activities that are legal uses of TANF funding. Supplantation, of course, is perfectly legal under the TANF statute. However, if the savings from supplanted federal funds are used for purposes other than those specified in the TANF legislation, Congress will react by assuming that we have provided states with too much money. As the reauthorization of the TANF legislation in 2002 approaches, it would be a shame if a few states followed the suggestions of their budget officials and replaced state dollars with TANF dollars in order to provide tax cuts, build roads or bridges, or in general use funds for no-TANF purposes. It has become increasingly clear that the media, child advocates, Congressional committees, and, at my request, the General Accounting Office, are watching to see if states supplant TANF funds. Thus, it is likely that jurisdictions that do so will become widely known and criticized. Equally important, these jurisdictions could provoke Congress to take actions that would hold serious consequences for every state.[83]

A cursory examination of state practices in this area suggests that states have supplanted tens of billions of dollars since TANF was enacted and except for a warning letter, Congress has done nothing.

The *third option* is just a variation of the first option. It says it would improve upon TANF's Contingency Fund. One would hope so, as the Contingency Fund doesn't work at all as intended. The triggers used to establish eligibility are flawed – the unemployment rate trigger might not qualify states with very high unemployment rates in many years because the rates have to be rising, while the food stamp trigger has made virtually all states eligible for the past seven years and for the foreseeable future because it is based on food stamp caseloads over 20 years ago. For example, North Dakota has an unemployment rate of 2.7 percent, yet it is eligible for Contingency Funds. The Fund also has a higher MOE requirement, which has simply encouraged states to seek out and report more existing third-party spending, rather than actually increase spending. There is no requirement that the state actually spend the Contingency Fund award on basic assistance or welfare-to-work activities, which is what it was intended for. In many states, like the basic block grant, it just adds to the slush fund aspects of the program. And, states don't even have to spend it at all – they can substitute TANF Contingency Funds for block grant funds and build up their unspent reserve. Finally, the Contingency Fund is not fully funded. It is typically depleted half way through the fiscal year. It is not enough to say a proposal will adjust for economic downturns – it is important to have specifics to avoid repeating the mistakes of the past.

Again, there are no specifics, but this third option suggests the adjustment factor would be the unemployment rate. The problem with this, besides the lack of any detail, is that an adjustment formula for just unemployment ignores other factors that may be more significant, such as the extent and depth of poverty. Notably the proposal says nothing about inflation. In the last 20 years, TANF funding has declined in real terms from about $25 billion to $16.5 billion.

Under a comprehensive reform proposal, the challenge of devising an adjustment formula would be even greater, as multiple programs with diverse populations are combined. If there is an adjustment for demographic factors, it shouldn't be based on TANF's Supplemental Grants (population growth) or Contingency Fund (economic downturn). Congress has already failed once – on what basis should we believe that it can create an adjustment factor for "Opportunity Grants"?

The Flex Fund. Senator Rubio suggests that his revenue-neutral "Flex Fund" is different from a block grant:

> Our anti-poverty programs should be replaced with a revenue-neutral Flex Fund. We would streamline most of our existing federal anti-poverty funding into one single agency. Then each year, these Flex Funds would be transferred to the states so they can design and fund creative initiatives that address the factors behind inequality of opportunity.
>
> This worked in the 1990s with welfare reform. In that case, Congress gave the states the ability to design their own programs, and in turn the states enacted policies that promoted work rather than dependence. In the years that followed, this led to a decline in poverty rates and welfare expenses.[84]

Oren Cass of the Manhattan Institute Cass elaborates a bit more on how the "Flex Fund" would work and distinguishes it from a block grant:

> The Flex Fund sounds like a block grant, but it is not the type of program-by-program block grant typically proposed as a pretext for capping the growth of costs. To the contrary, the funding formula would be pegged to the size of the population in need and would grow at the same rate as the poverty threshold itself — a figure that already factors in growth in cost of living for the relevant household.[85]

Cass recognizes that the fixed funding associated with a block grant is a flawed approach. However, what he describes is not revenue neutral in terms of providing funding at the level it would have been with a true counterfactual. He doesn't define what he means by the "population in need" and many of the programs included in the "Flex Fund" have eligibility criteria that are not linked to the poverty thresholds, e.g., TANF and housing assistance. Cass refers to the poverty thresholds when discussing an adjustment for inflation, so maybe he means the number of poor families or people (which is based on inflation-adjusted thresholds). But, that is an imperfect proxy, because the number that fall below a particular poverty threshold says nothing about the degree or depth of poverty – a crucial factor in determining the amount of spending. For example, if a state has 100,000 poor families that fall an average of $10,000 below the poverty thresholds and a state can reduce the gap to $5,000, but doesn't change the number of poor families, would the amount of funding remain the same? Conversely, there are many families that have short spells of poverty, but are not poor for the year. Poverty is measured using annual income – most means-tested programs base eligibility and benefit amounts on monthly income. How would the formula adjust for such short-term spells?

And, if Cass is suggesting an adjustment for the number of poor families, will he use state data on poverty? This comes with a fairly significant lag. The Census Bureau only publishes the national poverty figures more than nine months after the end of a calendar year. And, at the state level, there is considerable year-to-year variation due to sampling error. This would be particularly problematic in states with small populations (though one possibility would be to increase state sample sizes). But, there is also significant measurement error in our poverty statistics (e.g., underreporting or misreporting of income) and the official poverty statistics do not include non-cash income. So, if a state chose to convert its cash welfare programs (which are included in the measurement of poverty) to targeted in-kind benefits (which are excluded in the measurement of "official" poverty) and the number of poor rose, would the state receive more Flex Fund dollars? And, what if a state wanted to implement the proposal at the sub-state level – where will the data come from then? The devil is in the details, none of which are provided in the description of the Flex Fund.

Accountability. The Task Force states, "In exchange for more flexibility, states must also be held accountable, and each demonstration should be paired with an evaluation to determine whether state policies are achieving real results for those in need."

Both proposals would give states more flexibility. TANF provides wide flexibility that allows states to count virtually any activity that is "reasonably calculated" to advance a TANF purpose. For example, states spend billions of TANF dollars on college scholarships (for young childless adults), preK, and child welfare. Would states continue to have such wide flexibility? Would they be able to use funds intended for food assistance for needy families with children and divert them to college scholarships or other activities that don't support basic needs or welfare-to-work activities? Would states be able to supplant existing state expenditures? If not, what protections would be built in to prevent that? Supplantation within TANF is prohibited with state maintenance-of-effort (MOE) dollars, but such protections can be complicated, ineffective, and administratively burdensome.

TANF eliminated the entitlement for assistance. Would states be able to eliminate benefits entirely from programs developed using the consolidated funding? If families are terminated from TANF, they generally have SNAP to fall back on. Would there be any protections or would states be trusted to make decisions?

How would results be measured? No detail is provided in either the Task Force recommendation or either Opportunity Grants or the Flex Fund. In the waiver era started by President Reagan, we measured success by examining results from a random assignment experiment. Under TANF, this evidence-based approach was replaced by largely useless outcome measurement approaches mandated in the law. For example, the high performance bonus and the "illegitimacy bonus" were designed reward states for meeting benchmarks, but largely provided windfalls unrelated to any actual performance (see *TANF is Broken!*).

It is easy to say there will be "an evaluation to determine whether state policies are achieving real results for those in need," but the challenge is to come up with a counterfactual that captures what would have happened in the absence of the proposal. A simplistic pre-post assessment like the one Task Force members use for TANF would be a seriously flawed approach. If the Task Force adopts random assignment, the gold standard, what would be the point of random assignment and how would it manage this across multiple programs? What would happen if states failed to produce positive impacts or had mixed impacts? Would there be financial penalties? If so, how large would they be? Would there be opportunities to request corrective compliance, reasonable cause, or some other remedy? Would the demonstrations be cancelled?

These are all difficult issues; the Task Force has nothing that resembles a thought-out proposal in this regard.

A Much Better Way: President Reagan's 1986 welfare reform proposal, *Up from Dependency*, we advanced a more comprehensive version of Speaker Ryan's "Opportunity Grants" proposal.[86] Although Congress did not pass President Reagan's legislation, the exercise ultimately resulted in an interagency waiver process for welfare reform (using existing waiver authority) – a limited version of "Opportunity Grants." Starting in 1987, the Administration began encouraging states to use this authority to experiment in how they provided welfare—through waivers from AFDC's rigid rules (and, to a lesser extent, from Food Stamp and Medicaid rules due to more limited waiver authorities for those programs). The idea was that states and communities were best positioned to find solutions to welfare dependency.[87] By August 1996, 43 states had received welfare waivers from the U.S. Department of Health and Human Services (HHS).

This process did not provide a fixed level of funding, like a block grant. Instead, it was an approach that provided a real counterfactual using the "gold standard" of evaluation – random assignment – for both cost neutrality and evidence-based learning. [88] The findings from random assignment experiments are considered the most credible, because the experimental and control groups are alike and subject to the same external conditions, with the only difference being the intervention itself. Any difference in outcomes between the groups can be attributed to the intervention – welfare reform – itself. Thus, policymakers could have confidence in whether the state reforms actually reduced welfare dependency and poverty by increasing self-sufficiency. And, the experience of the control group could be used to ensure cost-neutrality, as the budgetary effects of any programmatic changes would be measured by examining the experimental-control group differences in costs, just as one would in a formal cost-benefit analysis. This approach provided rigorous evidence, including many examples of state experiments that increased employment and earnings, and also reduced welfare dependency and poverty.[89] TANF ended this approach to welfare reform.

C. Measure the results

Task Force Statement: "The federal government often defines success by the number of people enrolled or the amount of money spent. Yet very few, if any, programs are assessed by whether they are making a difference in people's lives."

PC Response: Which programs define "success" this way?

Conservatives often define success by how much they can reduce welfare rolls. But, shouldn't it make a difference how those rolls are reduced? Does the Task Force really think Arizona's one-year time limit, which will reduce caseloads, is a real measure of success without doing more to ascertain how those families are doing.

Task Force Statement: "The success of our welfare system should be defined by whether or not these programs are getting results that move people off of welfare and into the workforce for the long-term."

PC Response: In describing his vision of welfare reform, Speaker Ryan has emphasized the importance of building an evidence base:

> …let states try different ways of providing aid and then to test the results – in short, more flexibility in exchange for more accountability. …Put the emphasis on results. …[w]e would not expand the program until all the evidence was in. The point is, don't just pass a law and hope for the best. If you've got an idea, let's try it. Test it. See what works. Don't make promise after promise. Let success build on success.[90]

This approach is exactly right; sadly, TANF – the model many conservatives use to reform the safety net – did just the opposite.

TANF replaced an evidence-based welfare reform model, which had strict accountability measures, with a blank check with virtually no meaningful accountability. As noted above, 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 relied on an approach that would provide a real counterfactual using the "gold standard" of evaluation – random assignment.[91] 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 – itself. As a result, it would be possible to know whether state reforms actually reduced welfare dependency by increasing self-sufficiency. TANF replaced this approach with one that essentially provides states a blank check with no accountability.

A Much Better Way. In reforming any safety net program, look to the "Reagan model" – build in accountability and evaluation to ensure that the reform actually succeeds in reducing dependency and poverty.

Task Force Statement: "Federal policymakers don't have access to the data they need to make the best decisions. Agencies also cannot show the benefits of the programs they administer and cannot determine what, if any, unintended consequences are created."

PC Response: Data alone cannot address questions about the full range of benefits and costs of a program, particularly any unintended consequences. For this, rigorous evaluations are needed, generally using random assignment as the preferred method. It would then be possible to determine the *impacts* of programs on a range of outcome measures, as well as capture information about costs and unintended effects. Indeed, many evaluations include a formal cost-benefit analysis. Policymakers would benefit greatly from this type of information, but good evaluations cost money – where is the Task Force's recommendation to fund evaluation? It's easy to say "measure the results" – it is long past time for conservatives to explain what they mean by "testing" and "measuring results," and how they would pay for this.

Task Force Statement: "Most programs cannot demonstrate they achieve better outcomes for poor families. According to two former White House officials, "based on our rough calculations, less than $1 out of every $100 of government spending is backed by even the most basic evidence that the money is being spent wisely."

PC Response: According to the same two White House officials, "less than $1 out of every $1,000 that the government spends on health care this year will go toward evaluating whether the other $999-plus actually works."[92] The same is true of most social programs. If conservatives want evaluation results, then describe an evaluation plan and show willingness to invest the resources to accomplish this. Indeed, the same article cited by the Task Force, quotes Harvard economist Jeffrey Liebman as saying, "spending a few hundred million dollars more a year on evaluations could save tens of billions of dollars by teaching us which programs work and generating lessons to improve programs that don't."[93] The authors add, "Who wouldn't want a 100-fold return on investment?"[94]

Why didn't the Task Force add funding for such an evaluation agenda?

A Much Better Way. Commit $10 billion per year for evaluation – or 1 percent of total spending on means-tested programs. This funding could be used to strengthen dozens of existing national surveys that capture information on income, program participation, health, education, and many more topics. Funding could be used to expand sample sizes, boost response rates, reduce measurement error by linking to administrative data sources, to mention only a few possibilities. And, administrative data can be improved and more could be done to link data across programs. Perhaps most important, the funding should also be used to constantly test alternative approaches to existing programs to see whether they can be improved or not. The preferred method –

random assignment – costs money, but the payoff can be enormous. (These evaluations should include both process and impact studies, including cost-benefit analyses.)

NOTE TO READER: I can't do this anymore. *A Better Way* is not a serious policy document.

Conclusion: The House is Broken!

Speaker Ryan was right when he said: "The House is broken. We are not solving problems. We are adding to them."[95] The Task Force's Report for reforming the safety net is a seriously flawed document – it would not solve problems; it would add to them.

[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 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: https://petergermanis.com/wp-content/uploads/2020/09/TANF-is-Broken.072515.pdf.
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chart and includes these token cases, it would be significantly overstating TANF's reach as a meaningful cash assistance program.

[23] All figures from, Center on Budget and Policy Priorities, "Michigan: TANF Caseload and TANF-to-Poverty Ratio Fact Sheet," October 27, 2015, available at: http://www.cbpp.org/research/state-fact-sheets-trends-in-state-caseloads-and-tanf-to-poverty-ratios.

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