

“Welfare Reform” *Increased Poverty and No One Can Contest It:* A Note to Conservatives

Peter Germanis¹
April 24, 2016

Most conservatives believe that the 1996 welfare reform law and the creation of the Temporary Assistance for Needy Families (TANF) block grant in particular reduced poverty. For example, Scott Winship of the Manhattan Institute boldly claimed, “Welfare Reform Reduced Poverty and No One Can Contest It.”² Despite his confidence, Winship and others who claim TANF reduced poverty make a number of conceptual and analytical mistakes. A more comprehensive assessment suggests that TANF had little impact on the poverty rate, but increased the depth of poverty for our nation’s neediest families. Understanding this point is important, because many conservatives, most notably Speaker Ryan, see TANF as a model for reforming other safety net programs.³

The best way to evaluate the impact of any program or policy is through a rigorous evaluation. Unfortunately, the 1996 law replaced an evidence-based welfare reform approach, with TANF – a blank check with virtually no meaningful accountability. In the decade preceding TANF, states were encouraged to conduct welfare reform experiments through waivers of AFDC’s rigid rules (and, to a lesser extent, food stamp and Medicaid rules due to their more limited waiver authorities). The approval of waivers was contingent on rigorous evaluation and cost neutrality. By August 1996, 43 states had received welfare waivers from the U.S. Department of Health and Human Services (HHS).⁴ This process relied on an approach that would provide a real counterfactual using the “gold standard” of evaluation – random assignment. The findings from random assignment experiments are considered 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 poverty.

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. I am a conservative and have worked on welfare issues for the Heritage Foundation, the American Enterprise Institute, and the White House under both President Reagan and President George H.W. Bush. 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>.

² Scott Winship, “Welfare Reform Reduced Poverty and No One Can Contest It,” *Forbes*, January 11, 2016, available at: <http://www.forbes.com/sites/scottwinship/2016/01/11/welfare-reform-reduced-poverty-and-no-one-can-contest-it/>.

³ Paul Ryan, “The GOP Plan to Balance the Budget by 2023,” *The Wall Street Journal*, March 12, 2013, available at: <http://www.wsj.com/articles/SB10001424127887323826704578353902612840488>.

⁴ U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, *Setting the Baseline: A Report on State Welfare Waivers*, June 1997, available at: <http://aspe.hhs.gov/hsp/isp/waiver2/title.htm>.

The Problem with Conservative “Analyses” of Welfare Reform

Under TANF, there is no requirement to evaluate the impact of state policy changes, so assessing its impact on poverty is more challenging. Nevertheless, it is clear the claims by conservatives that TANF reduced poverty are based on weak empirical methods and a failure to pay attention to how it has been implemented. This critique uses Winship’s article as an example to highlight these mistakes, but he is by no means alone among conservatives – he just issued a challenge and I am happy to accept it.

Mistake #1: Faulty causal inference. Instead of looking for a credible counterfactual, virtually all conservative claims of TANF’s putative success in reducing poverty rely on simplistic comparisons in 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. And, states were already experimenting with “welfare reform” through waivers; they didn’t need the 1996 law to test new welfare policies. While some conservatives acknowledge that these factors may have had an influence, few try to disentangle the relative importance of each and are happy to leave the impression that reductions in poverty rates were *caused* by TANF.⁵

Mistake #2: Ignoring rigorous research. 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.⁶ The random assignment evaluations they reviewed examined programs in the very period when caseloads and poverty fell rapidly nationally. 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. With regard to mandatory work programs, the authors note, “With a few exceptions, most of the poverty impacts are insignificant and small in

⁵ A number of researchers have used statistical modeling in an attempt to isolate the effect of welfare reform on *caseloads* from these other factors. Stephen Bell of the Urban Institute summarized the findings from eight research studies on the relative importance of welfare reform, the economy, and other factors. Using a rough average across the studies, “welfare reform” explains about 15 to 30 percent of the decline in the caseload, while the economy explains about 30 to 40 percent, and other factors (most notably the increase in the aid to the working poor) explain the remainder. See Stephen H. Bell, *Why are Welfare Caseloads Falling* (Washington, DC: The Urban Institute, March 2001), <http://www.urban.org/uploadedPDF/discussion01-02.pdf>. Fewer econometric studies examined the impact of welfare reform on the poverty rate, but those also found relatively small effects, if any. See Jeffrey Grogger, Lynn A. Karoly, and Jacob Alex Klerman, *Consequences of Welfare Reform: A Research Synthesis* (Santa Monica, CA: July 2002), Table 8.3, available at: http://www.acf.hhs.gov/programs/opre/welfare_employ/res_synthesis/reports/consequences_of_wr/rand_report.pdf. These studies include the early years of TANF, when all states received a large federal windfall and before TANF completely fell apart as a safety net and welfare-to-work program.

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

magnitude.”⁷ The primary reason for the small impacts is that increases in earnings are often offset by reductions in welfare payments from various programs, even after taking into account the EITC. So, on the one hand, we have rigorous evidence from random assignment evaluations (costing well over \$100 million) suggesting modest impacts, at best, *versus* Winship and other conservatives looking at a trend line.

Mistake #3: The wrong measure. The main measure conservatives use to assess the impact of “welfare reform” is the poverty *rate* – either the official poverty rate or a more comprehensive measure such as the supplemental poverty measure, which incorporates tax payments, in-kind benefits, and work expenses. Regardless of which measure they use, the poverty rate is not a good measure for assessing the impact of welfare reform on those receiving cash assistance, because the eligibility levels for cash aid are well below the poverty thresholds and poverty is measured based on annual income.⁸ TANF benefits range from about 10 percent to about 45 percent of the federal poverty level.⁹ Most TANF families are poor whether they receive cash assistance or not – taking their benefits away won’t immediately change the poverty rate, but it will push them deeper in poverty. A simple comparison of poverty rates would miss important distributional effects. If a program lifted a small group of people out of poverty, but pushed a large number deeper into poverty, that would be important to know.¹⁰

Mistake #4: The wrong time period. In comparing changes in poverty rates over time, Winship notes, “The worst that can be said is that according to the official poverty measure, child poverty was about the same in 2012 as its 1993 peak, slightly higher than in 1996.” For a program conservatives call an “unprecedented success,” why isn’t the child poverty rate much lower? For this comparison, Winship uses 1993 as his base, even though the 1996 law wasn’t passed until August of that year, and TANF wasn’t implemented by most states until the start of 1997. Winship argues that “a majority of states were operating their welfare programs under federal waivers designed to encourage work and independence.” Before TANF, there was real welfare reform, with strict accountability requirements. As explained below, TANF is not welfare reform, just a flexible funding stream. In particular, TANF added little to flexibility of states to test reforms to their cash welfare cases; indeed, most states simply continued their waiver-based

⁷ *Ibid*, p. 166.

⁸ I often point to poverty figures and changes over time in making my arguments, but I do so in a broader context. My entire argument about welfare reform’s success or failure does not hinge what happens to the poverty rate or the number of poor families. Even if TANF somehow had a positive impact, it would still need a major restructuring to address flawed funding formulas, federal requirements that are ineffective and gamed, supplantation, and many other problems described in *TANF is Broken!*.

⁹ Ife Floyd and Liz Schott, “TANF Cash Benefits Have Fallen by More Than 20 Percent in Most States and Continue to Erode,” Center on Budget and Policy Priorities, October 15, 2015, available at: <http://www.cbpp.org/research/family-income-support/tanf-cash-benefits-have-fallen-by-more-than-20-percent-in-most-states>.

¹⁰ A better measure would be to examine changes in the deep poverty rate, which is based on 50 percent of the federal poverty thresholds. According to Arloc Sherman and Danilo Trisi, “The number of children that cash assistance (AFDC or TANF) kept above half the poverty line fell from 2.4 million (3.4 percent of all children) in 1995 to 609,000 (0.8 percent of all children) in 2005.” See Arloc Sherman and Danilo Trisi, “Safety Net for Poorest Weakened After Welfare Law But Regained Strength in Great Recession, at Least Temporarily: A Decade After Welfare Overhaul, More Children in Deep Poverty,” Center on Budget and Policy Priorities, May 11, 2015, available at: <http://www.cbpp.org/research/poverty-and-inequality/safety-net-for-poorest-weakened-after-welfare-law-but-regained>. While the deep poverty rate is more appropriate for assessing changes to AFDC/TANF, this approach would still miss potentially important distributional effects.

policies under TANF. These waivers and state welfare reforms form the baseline; states would have had this flexibility whether TANF was enacted or not. The key question is not what did “welfare reform” do, but rather, what did TANF do relative to this baseline?

Mistake #5: Confusing TANF with “welfare reform.” TANF is not “welfare reform,” but a flexible funding stream that states can use for a wide variety of benefits and services. In a nutshell, the enactment of TANF set in motion changes that would: (1) initially provide a large windfall of federal funds for states, but also put in place a funding structure that in the longer-term would provide insufficient resources due to inflation and demographic changes; (2) give states excessive flexibility to convert TANF (over time) to a giant slush fund with minimal reporting and accountability provisions, including the ability to use federal funds to simply supplant existing state expenditures; and (3) give states excessive flexibility to avoid or evade virtually all of the federal requirements in the law, most notably work requirements. In short, conservatives (along with President Bill Clinton) gutted real welfare reform and replaced it with a blank check to states with no meaningful accountability provisions.

Mistake #6: Failing to provide a causal connection. If one believes TANF reduced poverty, what is the plausible causal mechanism? States already had flexibility with cash assistance and TANF added little to this (except for removing the entitlement altogether) and work requirements were weakened as 20 to 30 states had a 0 percent target for the period between FY 1998 and FY 2011. And, other states have taken advantage of various loopholes created by conservatives themselves (see “TANF Work Requirements: An Epic Fail” in *TANF is Broken!*). This leaves the big increase in federal funding 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.

An Alternative Assessment

An alternative approach would be to compare caseload changes to changes in the number of families *eligible* to receive assistance. The data on TANF families eligible for benefits is estimated using simulation models. The estimates are produced by experts using survey and administrative data, with careful attention to reporting issues and program rules. For TANF, the eligibility estimates come from the TRIM model, which has been used for over 40 years by administrations of both parties to calculate eligibility for TANF and other programs.¹¹ Program administrative data can be used for the number of families receiving benefits.

Table 1 shows the change in the average monthly number of families eligible for assistance compared to the average monthly number receiving assistance for selected years from 1996

¹¹ For more detail on the TRIM model, see: U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, *Welfare Indicators and Risk Factors: Fourteenth Report to Congress*, September 22, 2015, available at: <https://aspe.hhs.gov/sites/default/files/pdf/116161/FINAL%20Fourteenth%20Report%20-%20FINAL%209%2022%2015.pdf>; and, The Urban Institute, “TRIM3: Transfer Income Model, Version 3,” available at: <http://trim.urban.org/T3Technical.php>.

through 2012. In 1996 (before TANF), about 5.6 million families were eligible to receive benefits, and about 4.4 million (79 percent) did so. By 2012 the number eligible for TANF was higher (5.7 million), but the number receiving benefits had dropped over 50 percent to 1.9 million (32 percent). Using the conventional conservative pre-post method for assessing impact, a reasonable question is: If TANF is such a success and if these families had really been “helped,” why are there more families with incomes below TANF’s eligibility thresholds? (It is true that the number of families with children grew by about 10 percent during this period, so one might expect a larger number of potentially eligible families, but TANF’s financial eligibility rules have become more restrictive over time, particularly since benefit levels and income eligibility limits have not kept pace with inflation.)

**Table 1:
Number and Percentage of Eligible Families Participating in TANF
(Average Monthly Data, Selected Years, 1996-2012)**

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

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

The more important statistic that can be derived from this table, however, is the increase in the number of families that were eligible to receive TANF, but that did not. This number grew from 1.2 million in 1996 to 3.8 million in 2012. This is an increase of 2.6 million very poor families that were eligible for assistance but did not receive it. For the affected families, this represents a loss in benefits of about \$200 to \$700 per month (the maximum grant for a family of three, depending on the state). Most of these families were poor before being pushed off TANF (or “discouraged” from coming on it) and are poor afterwards. The poverty *rate* would not pick this up, but certainly the fact that they are deeper in poverty should be a matter of concern.¹²

Between 1996 and 2012, spending on cash assistance declined by over \$21 billion, from \$30.3 billion to \$9.1 billion (in 2013 dollars).¹³ It is true that total spending on means-tested programs

¹² In addition, nearly half the states have not increased their benefit levels since 1996 and some have actually reduced them, representing a decline of 34.5 percent or more when adjusted for inflation. Whereas the participation rate of eligible families was about 80 percent for the 15 years preceding the 1996 law, the erosion in the real value of AFDC/TANF benefits started in the 1970s. So, even those families remaining on assistance have been pushed deeper into poverty. Ife Floyd and Liz Schott, “TANF Cash Benefits Have Fallen by More Than 20 Percent in Most States and Continue to Erode,” Center on Budget and Policy Priorities, October 15, 2015, available at: <http://www.cbpp.org/research/family-income-support/tanf-cash-benefits-have-fallen-by-more-than-20-percent-in-most-states>.

¹³ U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, *Welfare Indicators and Risk Factors: Fourteenth Report to Congress*, September 22, 2015, available at:

has increased since the 1996 law, but these increases have generally not helped the neediest families – those with incomes low enough to qualify for TANF cash assistance. Robert Moffitt of Johns Hopkins University has documented a decades-long shift in spending on means-tested program away from the very poor (those with incomes below 50 percent of the federal poverty line) to those with incomes as much as 200 percent above the poverty line.¹⁴ He observes, “You would think that the government would offer the most support to those who have the lowest incomes and provide less help to those with higher incomes. But that is not the case.”¹⁵

Conclusion

In assessing the impact of TANF and other safety net programs, distributional effects matter. With regard to the 1996 law, Harvard professor Christopher Jencks recently discussed the importance of distinguishing between “winners” and “losers”:

People who were able to find work, either because they live in places where work was available, or because they were better qualified than the average welfare recipient, have done pretty well. People who can’t find work are where they were before they had welfare at all. That’s a big problem. People have no means of support for themselves or their children.¹⁶

Notably, in 2004, Jencks co-authored an article with Scott Winship that declared, “Welfare reform is now widely viewed as one of the greatest successes of contemporary social policy.”¹⁷ He now acknowledges, “I was wrong.”¹⁸

It is now long past time for Scott Winship and other conservatives to admit they are wrong too, so that we can focus on real, common-sense conservative welfare reform. Giving states a blank check and weakening work requirements, the TANF model, is not “welfare reform” and should not be a model for reforming other safety net programs. In the words of Speaker Ryan: “Those who protect the status quo must answer to the 46 million Americans living in poverty.”¹⁹

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

¹⁴ “U.S. Welfare Spending Up – But Help for the Neediest Down,” Press Release, May 6, 2014, available at: <http://releases.jhu.edu/2014/05/06/u-s-welfare-spending-up-but-help-for-the-neediest-down/>.

¹⁵ *Ibid.*

¹⁶ Max Ehrenfreund, “Bernie Sanders is right: Bill Clinton’s welfare law doubled extreme poverty,” *The Washington Post*, February 27, 2016, available from: <https://www.washingtonpost.com/news/wonk/wp/2016/02/27/bernie-sanders-is-right-bill-clintons-welfare-law-doubled-extreme-poverty/>.

¹⁷ *Ibid.*

¹⁸ *Ibid.* In fairness to professor Jencks, the weaknesses of the TANF model were masked in the early years by a strong economy and the federal funding windfall and many observers considered the reform a success. Clearly, today it is not.

¹⁹ Paul Ryan, “The GOP Plan to Balance the Budget by 2023,” *The Wall Street Journal*, March 12, 2013, available at: <http://www.wsj.com/articles/SB10001424127887323826704578353902612840488>.