# Twenty Years after Welfare Reform: The Welfare System Remains in Place

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May 2, 2016

It was 20 years ago that leaders of both major political parties gathered in the Rose Garden of the White House to watch President Clinton sign the Personal Responsibility and Work Opportunity Reconciliation Act. The bill that Clinton signed into law on August 22, 1996, despite its obscure title (and unpronounceable acronym, PRWORA—hereafter we will simply call it "the Act"), represented the most extensive revision of federal welfare policy in more than a generation.

There were smiles all around that day in the Rose Garden, and an uncommon political harmony as Democrats and Republicans basked together in the warm afterglow of their enormous undertaking. Clinton even saw it as the beginning of a new era of bipartisan cooperation. "Welfare will no longer be a political issue," he said. "The two parties cannot attack each other over it."

Of course, not everyone was pleased with welfare reform. Even as President Clinton prepared to make it the law of the land, several hundred protestors marched outside the White House, chanting "One, Two, Three, Four. Stop the war on the poor."[1] Three senior members of his administration had resigned in protest.[2] But President Clinton was not deterred. Echoing a theme of his 1992 campaign, he declared: "Today, we are ending welfare as we know it."

And with a presidential signature, 60 years of welfare in America changed. The Act made a number of significant alterations in the way welfare was provided.

Before the 1996 Act, when most people thought of welfare, they thought of Aid to Families with Dependent Children (AFDC), the country's largest cash-assistance program, which provided direct cash payments to children in families where the parents were absent, incapacitated, deceased, or unemployed, and to certain other members of the children's household, most frequently their mother. The program was funded by a combination of federal and state funds (the federal portion varied from 50 to 80 percent), with states setting benefit levels and the federal government determining eligibility requirements.

The Act replaced AFDC with the Temporary Assistance for Needy Families block grant. TANF effectively abolished most federal eligibility and payment rules, giving states much greater flexibility to design their own programs. The TANF block grant was a fixed amount for each state, largely based on the pre-reform federal contribution to that state's AFDC program. In addition, as mentioned above, the block grants eliminated welfare's "entitlement" status, meaning that no one would have an automatic right to benefits.[3] States could choose which families to help. States were, however, required to continue spending at least 75 to 80 percent of their previous levels under the new law's "maintenance of effort" provision.

Widespread work requirements were to be imposed on welfare recipients. States were initially to have at least 40 percent of their welfare recipients either working or participating in activities that prepare one for work, which percentage was to increase to 50 percent by 2002. States were given wide discretion in designing these work programs. They were also given various credits and exemptions that significantly reduced the number of recipients actually required to work.

The Act also established a time limit for receiving welfare. Recipients could not remain on the rolls for longer than 60 months (five years). However, this restriction did not apply to child-only families, where the children received benefits but the parents did not, because of immigration status or other eligibility barriers, and states could exempt up to 20 percent of their adult recipients from time limits for "hardship" reasons. States also had the option of imposing stricter time limits or using their own funds to continue paying benefits to families who exceeded the five-year time limit.

Also included were incentives for states to establish programs to limit out-of-wedlock births. Each year, the five states that achieved the greatest reduction in out-of-wedlock birth ratios (defined as the proportion of out-of-wedlock births to total births), while also decreasing the ratio of abortions to live births, would receive $20 million in additional federal funds.

The other provisions that targeted out-of-wedlock births included: 1) making unmarried mothers under the age of 18 eligible only if they stayed in school and lived with an adult; 2) allowing states to prohibit additional benefits for women who conceived additional children while on welfare; 3) requiring states to establish numerical goals for the reduction of teen pregnancy and out-of-wedlock births, and to develop specific plans for achieving those goals; 4) directing the U.S. Secretary of Health and Human Services to implement a comprehensive program to combat teen pregnancy and to ensure that at least 25 percent of American communities had teen pregnancy prevention programs in place by 2002; and 5) authorizing states to spend unused TANF funds on teen pregnancy prevention and teen parent services.[4]

When welfare reform passed, critics warned that it would only make the lives of disadvantaged Americans worse. Wrote Katha Pollitt in the August 12, 1996 issue of the *New Republic*: "wages will go down, families will fracture, and millions of children will be made more miserable than ever." One frequently cited Urban Institute study predicted that more than a million children would be thrown into poverty.

However, the results do not appear to have borne out those warnings. Poverty rates actually declined in the years immediately following the passage of welfare reform, as did poverty for important subcategories such as African Americans and children. Of course, the mid-to-late 1990s was also a time of strong economic growth. Studies suggest that roughly 30 to 40 percent of the decline in the poverty rate could be traced to welfare reform, while 30 to 40 percent was due to the economy as a whole. What caused the rest of the decline in the poverty rate could not be determined, but it was probably a combination of factors.[5]

Since 2000, poverty rates have crept back up, and they have spiked during the recession, but still remain in line with pre-welfare-reform levels. There is some evidence that those in deep poverty—that is, those at half of the federal poverty level or below—may not have fared as well, but it depends which measure is used. Measures looking at income tend to show that the number of families in poverty has increased. As implementation of the 1996 Act, along with the growth of the Earned Income Tax Credit, first established in 1976, and other changes, reoriented the system more toward work, some Americans who had the fewest work skills or had been out of work the longest were left behind. Other measures focusing on consumption found no reduction in consumption for these most vulnerable groups following welfare reform.[6] In any case, welfare reform does not appear to have thrown large numbers of Americans into poverty.

But if welfare reform was not the disaster that its critics feared, neither was it the unalloyed success that its supporters claimed.

Welfare enrollment, of course, declined, from 13.42 million AFDC recipients in 1995 to just 4.12 million people on TANF in 2015.[7] This should be no surprise; many provisions of the 1996 Act, from its time limits to its work requirements, were designed to move people off the rolls.

Studies predating the recent recession suggest that most of those leaving the welfare rolls found employment: Roughly 60 percent of the adults who left welfare were later found to be employed in the months after they got off welfare, and over a period of several months or longer, about 70 percent held at least one job.[8] Studies also showed employment gains among those population categories most affected by welfare reform. For instance, single mothers with children showed little change in their labor-force participation rates through the 1980s and into the mid-1990s. But between 1994 and 1999, their labor-force participation rose by 10 percentage points. Among single mothers with children under the age of six, labor-force participation rates rose by 5 percentage points. In short, at exactly the same time as caseloads started to fall, work effort rose substantially.[9]

Post-recession evidence is far thinner. Some studies suggest, though, that while an improvement over the pre-1996 status quo, the employment and income outcomes for welfare-leavers were not quite as good as during the economic expansion of the late 1990s. The proportion of TANF recipients who are working in some capacity continues to be much higher than pre-welfare-reform levels even after the 2007-2009 recession. Forty-two percent were employed or in a job-preparation activity in 2009, compared to just 19 percent in 1994.[10]

While these are improvements, there has been some deterioration in employment rates and income of former welfare recipients over the 10-year period from 1996 to 2005. The annual job entry rate (the percentage of unemployed adult TANF recipients who obtained jobs) hovered around 35 percent in the years before the recession, when it fell to about a quarter.[11]

At the same time, turning welfare into a block grant helped hold TANF spending in check. In inflation-adjusted terms, TANF spending declined by roughly a third since the first full year of TANF in 1997. Specifically, it went from $16.5 billion in 1997 to $11.1 billion in 2015 (in constant 1997 dollars).[12]

Yet, it must be acknowledged that welfare reform's successes were modest. This is in large part because the reforms had very limited aims to begin with. The federal government funds more than 100 antipoverty programs, dozens of which provide benefits, either cash or in-kind, directly to individuals (the remainder provide funds to distressed communities or groups). The 1996 Act affected only four of these, and only one (AFDC/TANF) to any significant degree.

Thus, to put welfare reform in context, while TANF spending may have declined in real terms, total spending on antipoverty programs rose dramatically. Federal antipoverty spending alone has more than doubled since 1996, from $306 billion then to roughly $700 billion today. State spending rose from $153 billion then to roughly $280 billion today. That means we are currently spending nearly $1 trillion fighting poverty. Yet all of this additional spending has failed to further reduce poverty.

This is true whether one looks at the official, but flawed, Census Bureau definition of poverty, or the more accurate Supplemental Poverty Measure (which, for instance, accounts for taxes and non-cash benefits).

Nor has welfare reform had much of an impact on economic mobility. Some of the studies undertaken since 1996 found that younger children enjoyed small, positive effects on metrics like test scores, health, and behavior, while teenagers saw small negative effects in terms of academic outcomes and behavior.[13] The vast majority of these studies find relatively small effects on children. This should perhaps not be surprising, as welfare reform was only one contributing factor among much bigger changes to the broader economy.

Earlier studies had found that long-term economic mobility over the entirety of a working life changed little from 1942 to 1999, but there was significant heterogeneity among groups, with women seeing significant increases in mobility and men seeing relatively steady or declining levels of mobility.[14] A more recent study in the *American Economic Review* by Raj Chetty and colleagues found that along a number of measures, "children entering the labor force today have the same chances of moving up the income distribution (relative to their parents) as children born in the 1970s."

Thus, the post-welfare reform world looks troublingly like the pre-welfare reform one. If you look beyond TANF, total welfare spending continues to increase rapidly. While that additional spending may well reduce the discomfort of poverty, it does little to help people get out of poverty. Moreover, many of the structural incentive problems with welfare remain.

For example, a 2013 Cato Institute study in which I participated found that total welfare benefits—counting not just TANF, but also food stamps, housing assistance, Medicaid, WIC, emergency food assistance, and the Low Income Home Energy Assistance Program (LIHEAP)—

exceeded the minimum wage in 35 states. In the eight most generous states, those benefits could exceed what an individual would earn from a $20-an-hour job in 2013. While certainly not every poor family receives all those benefits, it is clear that the welfare system can still create a strong disincentive to work.

Similarly, while the rate of births to unmarried women has leveled out in recent years, the welfare system still subsidizes single parenthood. One of the few recent studies analyzing the issue, published in the *Journal of Political Economy*, found that “higher base welfare benefits (1) lead unwed white mothers to forestall their eventual marriage, and (2) lead unwed black mothers to hasten their next birth,” although the effects were modest. A second study by Irwin Garfinkel and others also found “generous welfare promotes non-marital births.”

All of this stems from the reality that the 1996 Act ultimately reformed a welfare program, but not the welfare system.

We would do well to consider, as we look to the next generation of welfare reform, not restricting reform proposals to individual programs. Trimming food stamps by a few billion dollars or adding a work requirement to the WIC program may not be the best strategy. Rather, we should approach welfare reform, and fighting poverty, in a more holistic way.

That means, as a start, consolidating the current multitude of government programs. There is no reason we should have 33 housing programs, run by four different cabinet departments, including, bizarrely, the Department of Energy. There are currently 21 different programs providing food or assistance in purchasing it. These programs are administered by three different federal departments and one independent agency. There are eight different health care programs, administered by five separate agencies within the Department of Health and Human Services. And six cabinet departments and five independent agencies oversee 27 cash or general assistance programs. All together, seven different cabinet agencies and six independent agencies have responsibility for administering one or more antipoverty programs.

There are currently several proposals to combine a number of these programs, usually in the form of a block grant to the states.

For instance, House Speaker Paul Ryan advocates giving the states a block grant in lieu of funding for 11 current welfare programs: the Supplemental Nutrition Assistance Program, or food stamps; TANF; the Section 8 Housing Choice Voucher Program; Section 521 Rural Rental Assistance Payments; Section 8 Project-Based Rental Assistance; Public Housing Capital and Operating Funds; Child Care and Development Fund; the Weatherization Assistance Program; LIHEAP; Community Development Block Grants, and the WIA Dislocated Workers program.

Unfortunately, however, Ryan’s proposal (which he put forth in 2014 when he chaired the House Budget Committee) would send the money to the states rather than to the recipients themselves. As noted, state provision of welfare is better than federal, but Ryan also includes a host of federal strings, severely limiting the ways in which states may use this money. While that may be politically realistic given the resistance to any reform, his ideas essentially place a federalism template over the current system.

Better is the proposal of Florida's junior senator—and former presidential aspirant—Marco Rubio. It goes further, replacing most current federal welfare programs with a state-run "Flex Fund" under which states could provide benefits the way they want. As he lays out in his 2015 book *American Dreams*, states should be encouraged to replace in-kind programs with cash benefits, although under his plan the final decision would be left up to the states. In fact, Rubio would impose few mandates for how the states should use their money. For example, while he notes the importance of work requirements as a condition for receiving assistance, he would allow states to decide whether or not to impose such requirements.

The second major concept for a new welfare reform is in fact movement away from in-kind assistance toward greater use of cash payments to the poor. Non-cash, or in-kind, benefits have become—in part because the 1996 reform put restrictions on the largest cash-benefit program—a larger and larger portion of the welfare-benefit basket. In-kind assistance and programs administered through the tax code (like the EITC) comprise the other 88 percent.[15]

Why is cash preferable to in-kind benefits? There are several reasons. For one thing, it is simple and transparent. For another, it treats recipients like adults, expecting them to budget and be responsible, while also freeing them from petty restrictions on their behavior. Also it helps break up the concentrations of poverty that spring up around providers that accept government payments. Last but not least, it limits the power of lobbies that are vested in specific programs.

Third, if we are serious about reducing poverty in America, we should look to factors outside the welfare system itself. We actually have a good idea of the keys to getting out and staying out of poverty: 1) finish high school, 2) do not get pregnant outside of marriage, and 3) get a job—any job—and stick with it.

Even among people with some kind of job, high school dropouts are roughly 2.3 times more likely to end up in poverty than those who complete at least a high school education.[16] If they do find jobs, high school dropouts' wages are likely to be low. They have declined (in inflation-adjusted terms) by 17.5 percent over the past 30 years.[17] At the same time, children growing up in a single-parent family are four times more likely to be poor than children growing up in two-parent families.[18] Roughly 63 percent of all poor children reside in single-parent families.[19] But only 2.8 percent of full-time workers are poor. The "working poor" are a small minority of the poor population. Even part-time work makes a significant difference. Only 15 percent of part-time workers are poor, compared with 23.6 percent of adults who do not work.[20]

Notwithstanding that the ways to overcome poverty are clear, with the exception of a few education programs—mostly geared toward higher education, such as Pell Grants—few welfare initiatives address these issues. Indeed, the incentive structure often discourages work and increases non-marital births.

It would make sense therefore to shift our antipoverty efforts from government programs that simply provide money or goods and services to those who are living in poverty, to efforts to create the conditions and incentives that will make it easier for people to escape poverty.  Poverty, after all, is the natural condition of man. Indeed, throughout most of human history, man has existed in the most meager of conditions. Prosperity, on the other hand, is something that is created. And we know that the best way to create wealth is not through government action, but through the power of the free market.

If we wish to fight poverty, we should end those government policies—high taxes and regulatory excess—that inhibit growth and job creation. We should protect capital investment and give people the opportunity to start new businesses. We should reform our failed government school system to encourage competition and choice. We should encourage the poor to save and invest. And we should seek to reduce the biases within our criminal justice system that disproportionately harm the poor and minorities.

Welfare reform was neither the disaster that its critics feared nor the success its supporters claim. It was a step in the right direction—a small one, and one from which we can learn. The real work of fighting poverty remains ahead of us.

[1] Warren Strobel and Cheryl Wetzstein, "Clinton Signs Reform of Welfare into Law; NOW Leads Protest Outside of White House," *Washington Times,* August 23, 1996. For a detailed look at the welfare-reform debate and Clinton's decision to embrace the issue, see R. Kent Weaver, *Ending Welfare As We Know It* (Brookings Institution, 2000).

[2] They were: Deputy Assistant Secretary of Health and Human Services for Human Resources, Wendell Primus, Assistant Secretary of Health and Human Services for Planning and Evaluation, Peter Edelman, and Assistant Secretary of Health and Human Services for Families and Children, Mary Jo Bane. Barbara Vorbejda, "HHS Official Resigns in Protest of Decision to Sign Welfare Bill," *Washington Post,* August 18, 1996.

[3] Section 401(B) states: "No Individual Entitlement—This part shall not be interpreted to entitle any individual or family to assistance under any State program funded under this part." However, Weaver suggests in *Ending Welfare as We Know It* (p. 328) that in some states, an individual entitlement may still exist under state law.

[4] States may not use TANF funds to substitute for current state spending on efforts to prevent teen pregnancy. TANF dollars may only be used to deliver special services over and above the programs generally available to other state residents without cost and regardless of income.

[5] See, for example, Council of Economic Advisers, "The Effects of Welfare Policy and the Economic Expansion on Welfare Caseloads: An Update," August 3, 1999; Douglas Besharov, "The Past and Future of Welfare Reform," *Public Interest,* Winter 2003, pp. 4–21.

[6] Kathryn J. Edin and H. Luke Shaefer, *$2.00 a Day: Living on Almost Nothing in America* (Houghton Mifflin Harcourt, 2015); Yonatan Ben-Shalom, Robert Moffitt and John Karl Scholz, "An Assessment of the Effectiveness of Anti-Poverty Programs in the United States," Institute for Research on Poverty, Discussion Paper No. 1292-11; Bruce Meyer and James Sullivan use a consumption measure and do not find an decrease in consumption or expenditures for the single mothers at the bottom of the income distribution. Bruce D. Meyer and James X. Sullivan, "Changes in the Consumption, Income, and Well-Being of Single Mother

Headed Families," *American Economic Review*, 98(5): 2221-41, https://www.aeaweb.org/articles.php?doi=10.1257/aer.98.5.2221.

[7] Gene Falk, "The Temporary Assistance for Needy Families (TANF) Block Grant: Responses to Frequently Asked Questions," March 18, 2016; Office of Family Assistance, "TANF & SSP: Average Monthly Number of Recipients," U.S. Department of Health and Human Services, Fiscal Calendar Year 2015, March 13, 2016.

[8] Ron Haskins, "The Outcomes of the 1996 Welfare Reform," testimony before the Committee on Ways and Means, U.S. House of Representatives, July 19, 2006.

[9] Rebecca Blank, "Evaluating Welfare Reform in the United States," *Journal of Economic Literature* 40:4 (December 2002), 1104-1166.

[10] Gene Falk, "Temporary Assistance for Needy Families (TANF): Welfare-to-Work Revisited," Congressional Research Service, October 2, 2012.

[11] Gregory Acs and Pamela Loprest, "TANF Caseload Composition and Leavers Synthesis Report," Urban Institute, March 28, 2007.

[12] Falk, March 18, 2016.

[13] Rachel Dunifon, "Welfare Reform and Intergenerational Mobility," Pew Charitable Trusts Economic Mobility Project, May 2010.

[14] Wojciech, Emmanuel Saez, and Jae Song, "Earnings Inequality and Mobility in the United States: Evidence from Social Security Data since 1937," *Quarterly Journal of Economics* 125:1 (February 2010), 91-128.

[16] U.S. Department of Labor, Bureau of Labor Statistics, "A Profile of the Working Poor, 2010," Report 1035, March 2012, Table 3, p. 8.

[17] U.S. Census Bureau, "Table P-16 Educational Attainment," and "Table P-17 Years of School Completed."

[18] Federal Interagency Forum on Child and Family Statistics, "America's Children: Key National Indicators of Well-Being, 2011," http://www.childstats.gov/americaschildren/eco1.asp.

[19] Michelle Chau, et. al, "Basic Facts About Low-Income Children, 2009," National Center for Children in Poverty, October 2010.

[20] U.S. Census Bureau, "Current Population Survey, Annual Social and Economic Supplement," Table POV 22: Work Experience During Year by Age, Sex, Household Relationship and Poverty Status for People 16 Years Old and Over.

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