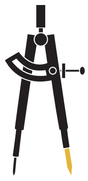

The Carleson Center for Welfare Reform

"Fulfilling the Reagan Agenda"

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Block Grants Were THE Key to the Success of Welfare Reform

During his first campaign for election, President Clinton vowed to "end welfare as we know it," but then took a year and a half to introduce legislation that would have increased welfare spending by $14 billion over five years.

The new Republican majorities elected in the fall of 1994 in the House and Senate decried Clinton's proposal as perpetuating a system that had entrapped millions into multi-generational dependence on welfare. This system denied them any opportunity for independence while continuing structural incentives for states to continue increasing their welfare rolls.

The nation's governors, on the other hand, were worried that Congressional proposals would cut their federal assistance as the easier-to-train-and-employ caseload was reduced. This would limit their ability to assist more entrenched, multi-generational welfare recipients that were much harder to train or employ.

A compromise was reached whereby federal assistance to each state would be both capped and maintained at 1994 spending levels (for the most part) and the states were allowed to transfer portions of their federal welfare funds to the Social Services Block Grant (SSBG) and the Child Care and Development Fund (CCDF) programs to provide job training, child care and other welfare-related services. States were also given the flexibility of using federal welfare funds on any state program "reasonably calculated" to achieve the goals of the federal TANF program in providing welfare assistance while also reducing recipients' dependence on welfare. In exchange, the states were required to maintain their own 1994 levels of state welfare spending (i.e. "maintenance of effort") to ensure they used the savings from any decline in caseloads to enhance welfare recipient job training and other services and not merely to substitute federal welfare dollars for their own state welfare funds.

After twice vetoing — once in December 1995 and again in January 1996 — welfare reform bills sent to him by the new Republican majorities in Congress and the nation's governors, President Clinton finally signed such welfare reform legislation [the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (P.L. 104-193)] into law on August 22, 1996, shortly before the vote on his reelection in November.

The 1996 welfare reform law has undeniably resulted in dramatically reduced national welfare cash assistance caseloads, increased employment among the poor, and reduced poverty — while holding federal and state spending on welfare combined essentially stable at 1994 spending levels of approximately $27 billion a year. It is now regarded as a major domestic policy success. Experts across the spectrum agree that the reform law turned a failing and dysfunctional cash welfare program into an effective and successful jobs program for the poor.

Most explanations for the reform's success focus on how it changed incentives for individuals. Some conservatives emphasize the law's "sticks," its various requirements

designed to ensure that welfare recipients work for their benefits. Liberals, meanwhile, point to its “carrots,” the additional resources provided to needy working families, such as child care and income supplements.

While each of these explanations has merit, neither would have been possible without the radical change in incentives for *state governments*. In our view, welfare reform succeeded *primarily* because of the fundamental restructuring of the federal cash welfare program from an open-ended entitlement for individuals into a block grant that is both a cap and a floor for federal welfare assistance to the states. This has important policy implications for current fiscal and policy debates involving other federal programs to assist the poor such as Food Stamps, Medicaid, Supplemental Security Income for the Disabled (SSI-D), and Housing assistance.

Block Grants vs. Entitlements

The reformed cash welfare block grant program (Temporary Assistance for Needy Families, or TANF) differs radically from the program it replaced, Aid to Families with Dependent Children (AFDC). Under AFDC, states were paid more money for each new person added to the welfare rolls and thus had an incentive to increase their caseloads. Under the block grant design, federal funding remains the same regardless of caseload size... If states reduce their welfare rolls, they can keep the savings and use the money for enhanced services such as child care or transportation, at the state’s option, for the remaining low-income welfare beneficiaries who may be harder to train or prepare for employment.

As the Heritage Foundation has noted, “This simple fix shifted the mindset of state agencies from an emphasis on increasing enrollment and processing checks to a new focus on shrinking caseloads and increasing employment.” Together with the repeal of an individual entitlement to benefits, the shift to block grants gave states the flexibility to continually redesign their welfare systems, determining not only who is eligible for benefits, but also the scope, amount and duration of the benefits.

In the wake of Welfare Reform’s passage, caseloads have declined by over 60 percent, and millions of families have moved from welfare to work, with no increase in poverty. Federal taxpayers also have benefited. Since 1996, the amount of federal block grant dollars has remained the same: $16.7 billion per year. States and territories contribute an additional $10 to $11 billion a year in welfare spending for a combined national expenditure of approximately $27 billion a year on welfare — exclusive of any spending on Food Stamps, Medicaid, SSI-D, Public Housing and numerous other federal and state programs that assist the poor. While the Congressional Research Service (CRS) has determined that the value of the original block grant amount has declined in value by almost 26 percent from FY1997 to FY2010 because the block grant was not indexed for inflation, the remaining 74 percent of the TANF block grant’s value only has to serve 40% or less of the caseload that was originally served by the same dollar amount in FY1996 — when the funding level was set.

TANF dollars do come with a few federal strings, however. Specifically, the 1996 federal welfare program:

1) Imposes a five-year time limit on each individual child’s receipt of benefits.

2) Requires each state to have an increasing percentage of its caseload engaged in work programs or training.

3) Threatens financial sanctions on individuals and states that fail to meet federal work participation requirements.

Each of the three limitations has its champions, and collectively they send an important cultural signal in favor of work over dependency; but none of them was essential to welfare reform’s success — at least, not as essential as the fundamental structural change in the program that motivated state bureaucracies to reduce, rather than increase, welfare caseloads. This is evident for two reasons.

First, under the 1996 law, state-only programs (using only state funds) can effectively negate the five-year time limit, weakening its effects. While states are required to maintain a fixed percentage of their pre-1996 spending in order to qualify for full TANF funding (“maintenance of effort”), they are not prohibited from running stand-alone welfare

programs with their own money, and many states do so. Indeed, a number of states provide "state only" funds directly to individuals precisely because they have maxed out on their five years of federal TANF funding eligibility, and thus such states have effectively negated the federal law's five-year limitation on cash welfare assistance. The federal limit on welfare benefits as a result cannot be realistically cited as a major impetus for welfare reform's success in reducing caseloads.

Second, welfare reform succeeded prior to, and without the help of, federal work participation requirements. The work requirements (requirements 2 and 3 above) were not effectively enforced prior to the law's reauthorization in 2006. Indeed, during the law's first decade, the caseload work participation requirement on the states was reduced to almost nothing by a "caseload reduction credit" that TANF gave states that reduced their welfare rolls. Prior to the 2006 amendments, which closed this "loophole," the effective work participation rate never exceeded six percent nationally, and in 17 states and two territories it was effectively zero. And yet, the main measures of the reform's success — shrinking caseloads, rising employment, falling poverty — were all quite visible by 2001, five years before the work requirements could have had any real effect.

For a time, it was also fashionable to argue that the success of the reform was due more to the tremendous economic growth of the late '90s than to any aspect of the reform itself. But a number of studies have since found that economic growth was not the major factor in the welfare reform law's success. And tellingly, the national welfare rolls have continued to decline, relative to population, right through the two recessions that began in 2001 and 2007 respectively. With the exception of 1972 and 1973, when stringent reforms were enacted in California under Gov. Reagan and in New York under Gov. Rockefeller, AFDC rolls had never declined before, and typically rose during economic downturns — as does the current federal Food Stamp program (which, like AFDC, is an open-ended, means-tested entitlement that encourages the welfare bureaucracies to increase the rolls.)

Why would the number of people accessing other welfare programs versus the TANF block grant be different during the same economic swings? Because of the fundamental differences in their structure and thus the completely opposite incentives influencing bureaucratic behavior.

Conclusion

The mechanism of providing federal welfare assistance to the states via a limited and fixed block grant — instead of the previous, open-ended entitlement program that increased federal funding to the states as the number of welfare cases increased — was the key ingredient in the success of the historic 1996 welfare reform. Transforming the open-ended AFDC entitlement into a capped and stable block grant to the states was **THE** structural change that created the powerful economic incentives that states needed to transform their welfare offices into work-promotion centers, which in turn drove welfare reform's positive results for both low-income families and taxpayers. Federal strings, including time limits and work requirements, while symbolically powerful, played a far less important role in the program's success.

1) Any future revisions to TANF should build on and strengthen — not weaken — its basic block-grant approach to providing federal assistance to the states.
2) As Congress debates mandatory spending reforms, it should strongly consider block grants as a tool for not only reining in, but also for improving the effectiveness of other federal welfare programs, including Medicaid and Food Stamps. This will provide state bureaucracies the incentive to reduce caseloads while permitting them to use the savings to enhance benefits for those most in need that remain on the rolls.

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