Committee on Ways and Means

Subcommittee on Human Resources

Decade of Welfare Reform Success:
Lessons Learned from the 1996 Reforms

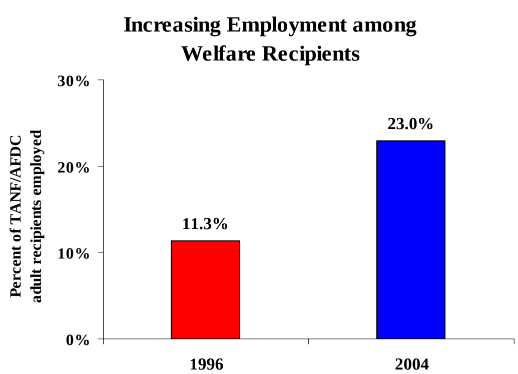
As described in recent reports[i] and highlighted in testimony received at the Ways and Means Committee's July 19, 2006 hearing[ii] on welfare reform outcomes, the 1996 welfare reforms reduced welfare dependence by increasing work and earnings, lowered poverty, and saved taxpayers billions of dollars by cutting waste, fraud and abuse of benefits. In 1996, these reforms were approved despite withering attacks from opponents, some of which continue even today[iii].

Stepping back from these unprecedented gains, the 1996 reforms and their outcomes suggest additional lessons that should inform future reforms in other social programs:

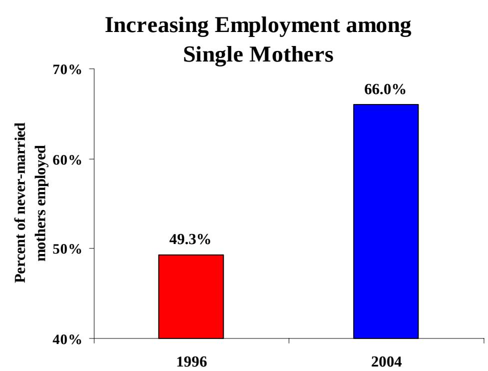
1. Holding programs accountable is essential for success.
2. Block grants reward State success in achieving goals.
3. There is much more work to be done.

Lesson #1: Holding programs accountable is essential for success.

In the years before 1995, many measured America's compassion for low-income families by how much money government spent on welfare and associated benefits. As welfare spending and poverty grew sharply in the early 1990s, that case became progressively harder to make. Under the 1996 reforms, America has adopted a new measure of compassion – not how much money taxpayers spend, but how successful we are in reducing dependence and helping low-income parents go to work. As described in earlier reports, those two goals are closely related. And reform is working on each front – work increased and dependence decreased sharply following the 1996 reforms.



Source: 2000 and 2004 Ways and Means Committee Green Book

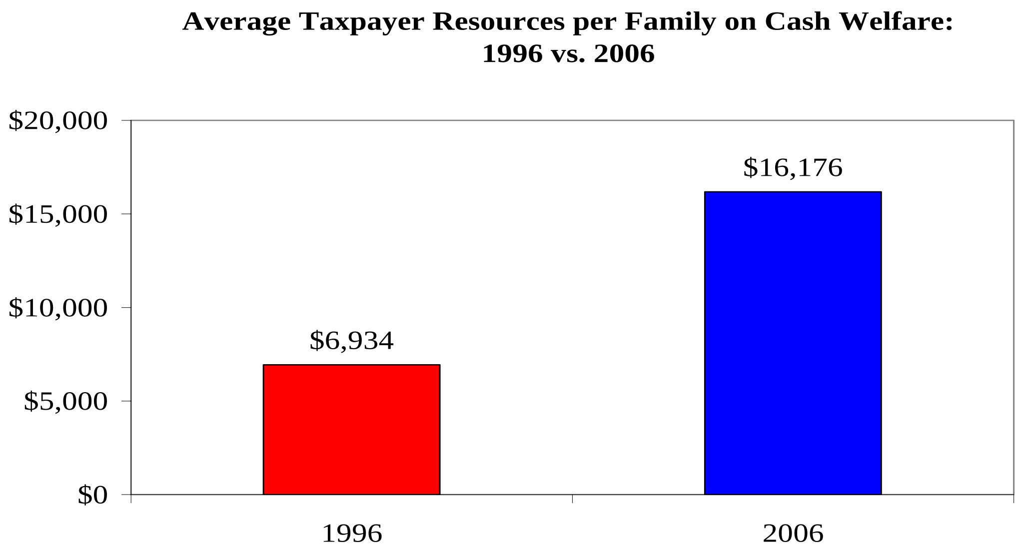


Source: Gary Burtless, the Brookings Institution, 2002 and the Bureau for Labor Statistics

The 1996 reforms expected welfare recipients to engage in work and rewarded States for success in promoting work and cutting welfare dependence, while withholding certain funds for States that failed to reach those goals. Specific policies (such as expecting States to engage individual recipients in work within two years of coming on the rolls and to have a rising share of all adults on welfare in work) were enforced with real financial penalties for failure.

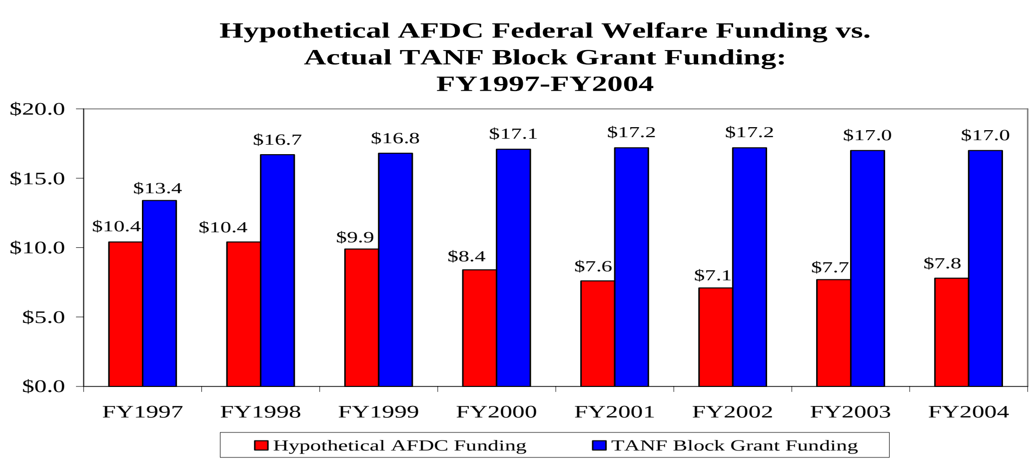
Lesson #2: Block grants reward State success in achieving goals.

Under the failed Aid to Families with Dependent Children (AFDC) program that TANF replaced, Federal funds increased as welfare caseloads rose, or fell if caseloads declined (which they almost never did). Thus, States were financially punished for helping parents find jobs and leave or stay off welfare. In contrast, the new TANF block grant continued record Federal funding for welfare to work efforts supported by the TANF block grant, even as the number of welfare recipients fell by 64 percent following the 1996 reforms. The result - total taxpayer resources for welfare and child care increased from about $7,000 per family on welfare in 1996 to over $16,000 per family today.



Source: Committee on Ways and Means Staff based on U.S. Department of Health and Human Services data.

Some opponents downplay welfare reform's effects, saying the strong economy or some other factor caused the unprecedented declines in welfare dependence in the late 1990s. Welfare reform opponents who make this argument need to account for an inconvenient truth. If Congress had kept AFDC in place as caseloads plummeted, Federal AFDC funding would have dropped $63 billion between 1997 and 2004 – ultimately cutting annual Federal welfare funding to less than half its current level. As the chart below illustrates, that's the difference between what States would have gotten under the former AFDC system, and what they actually received under TANF, given post-1996 caseload declines.



Source: Committee on Ways and Means Staff based on U.S. Department of Health and Human Services data.

In addition, while locking in record Federal welfare funds, welfare reform allowed States to drop their level of State spending to 75 percent of prior levels under AFDC so long as they satisfied new work requirements. So while States have received $63 billion more under TANF than they might have received under AFDC, they also have saved up to $3 billion each year since 1996 in State funds.

A final index of how the TANF block grant has benefited States is the existence of $4 billion in unspent TANF and $2 billion in unspent child care funds under the current system. This sort of "rainy day fund" never existed under the prior AFDC program.

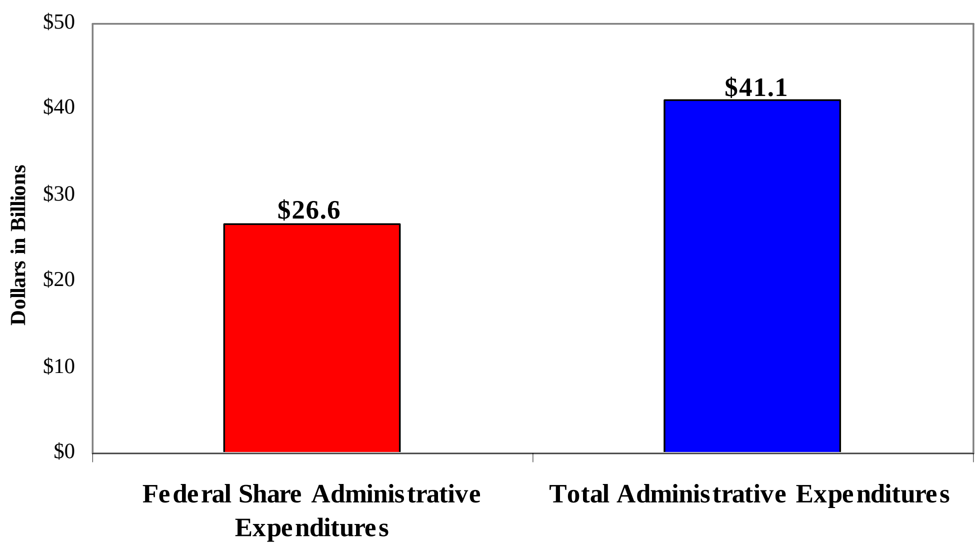
Lesson #3: There is much more work to be done.

While the results of welfare reform have been promising so far, there is much more work to be done. Approximately 58 percent of welfare recipients do nothing in exchange for their cash benefit, too many families break up or never form, and nearly two million families remain dependent on welfare benefits. That is why the *Deficit Reduction Act of 2005* (P.L. 109-171) included provisions to strengthen and improve the 1996 welfare reforms.

Beyond welfare, other major income-tested programs such as food stamps and housing benefits lack work or time limit requirements that would reinforce personal responsibility. Overall funding for these programs remains an open-ended entitlement, effectively discouraging work and self-sufficiency just like the former AFDC program did before 1996.

Administrative spending on anti-poverty programs, already totaling more than $41 billion per year, including nearly $27 billion in Federal funds, continues to soar.

Federal Administrative Expenditures for Selected Programs (FY 2004)



NOTE: Programs are Medicaid; Unemployment Compensation, Supplemental Security Income (SSI), Food Stamps, Temporary Assistance for Needy Families (TANF), Section 8 Housing Vouchers, Child Care and Development Fund (CCDF), Foster Care, State Children's Health Insurance Program (SCHIP), Child Support Enforcement (CSE), Adoption Assistance, and Social Services Block Grant (SSBG). In FY 2004, spending across these 12 major programs totaled more than $467 billion; administrative expenditures accounted for 9% or $41 billion of this total.

Despite this enormous administrative spending, the Government Accountability Office (GAO) has reported that "the existing processes for determining eligibility and calculating benefit levels in the 11 means-tested programs we reviewed are often cumbersome to administer and burdensome for families who apply for assistance."[iv] This lack of coordination among programs also costs taxpayers billions of dollars due to program inefficiency and red tape.

In a budget already expected to face large and rising deficits as the Baby Boom generation retires in the coming years, such continued inefficiency will require reform. Fortunately, the 1996 welfare reforms offer a roadmap of how reform can both improve program outcomes and offer more than adequate Federal funds for appropriate services. By improving efficiency, better targeting benefits, and reducing the rate of program growth, taxpayers can save billions of dollars along the way. Most importantly, American families will receive better service in support of their efforts to lead independent and fruitful lives.

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[i] See http://waysandmeans.house.gov/ResourceKits.asp?section=2314

[ii] See http://waysandmeans.house.gov/hearings.asp?formmode=detail&hearing=488

[iii] For example, in a July 19, 2006 press release ("Catholic Charities USA Criticizes Congress, Administration for Increasing Poor Families' Burdens; Despite Progress, New Rules Likely to Chip Away at Welfare Gains"), Catholic Charities USA, a vocal opponent of the 1996 reforms, said: "Recent regulations issued by the federal government will only serve to add to the burdens facing thousands of low-income families and reverse the progress made by millions toward self-sufficiency."

[iv] GAO, "*Means-Tested Programs: Determining Financial Eligibility Is Cumbersome and Can Be Simplified*," November 2001, p 35. The 11 programs are TANF; Food Stamps; Medicaid; Child Care and Development; State Children's Health Insurance Program; Low-Income Home Energy Assistance Program LIHEAP; Special Supplemental Nutrition Program for Women, Infants, and Children (WIC); School Meals; Housing Choice Voucher; Low Rent Public Housing; and Supplemental Security Income (SSI).