No. 3 January 2015 | e21 Issue Brief

Economic Policies for the 21st Century AT THE MANHATTAN INSTITUTE

WELFARE IN AMERICA, 1998–2013

The Case for Further Reform

Diana Furchtgott-Roth*
Senior Fellow
Director, Economics21

EXECUTIVE SUMMARY

In 1998, spending on major U.S. federal welfare programs and Medicaid totaled $225 billion in today's dollars. By 2013, spending had grown by 83 percent, to $412 billion. The Supplemental Nutrition Assistance Program, or SNAP (popularly known as "food stamps"), accounted for the largest percent increase in spending over this period, nearly tripling in real terms: from $27 billion (in 2013 dollars) in 1998 to $80 billion in 2013.[1]

This paper examines the evolution of major U.S. welfare programs since 1998—shortly after the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), the 1996 federal welfare reform signed into law by President Clinton, went into effect.

The paper chronicles the average amount of aid provided, as well as length of time on public assistance, focusing on the following programs: SNAP; Temporary Aid to Needy Families, or TANF (established by PRWORA); Medicaid; and Section 8 Housing Choice Vouchers (HCV). The paper also reports on how welfare eligibility and enrollment have expanded significantly since the Great Recession began in late 2007.

Indeed, while the U.S. economy has since improved, participation in such programs has generally not declined. This paper concludes

*The author gratefully acknowledges the research assistance provided by Jared Meyer, Jason Russell, and Matthew Sabas.

Published by the Manhattan Institute

that there is ample scope for states to reform welfare, and it proposes two substantial changes: (1) cap welfare spending at the rate of inflation and the number of Americans in poverty; and (2) allow states to direct savings from welfare programs to other budget functions.

While politically challenging, such changes would allow states greater flexibility to better target the neediest, as well as stem the increasing flow of money into such programs. For instance, this paper finds that federal savings through 2013 would, after accounting for inflation and the number of Americans in poverty, total $1.3 trillion had welfare funding remained at 1998 levels.

Related proposals have been espoused by a number of elected officials, including recently by Wisconsin Rep. Paul Ryan (who refers to his approach as one based on "Opportunity Grants") and Utah senator Mike Lee. Theirs, and the reforms suggested herein, differ from the status quo by providing greater discretion to state governments as to how to best assist those in need—while suggesting that sustained spending at current levels, which reflect significant recent increases, may neither be sustainable nor the best approach to long-term poverty alleviation.

I. INTRODUCTION

"This administration today ... declares unconditional war on poverty in America.... But this attack, to be effective ... must be supported and directed by State and local efforts.... [T]he war against poverty will not be won here in Washington." [2]

—Lyndon Johnson, State of the Union Address, 1964

Figure 1. Major Federal Welfare Programs, Fiscal Year 2013

Program	(Millions, $)	Percent of Total	Type of Cost
Medicaid	265,392	64.39	Outlays
SNAP*	79,929	19.39	Categorical Grants
TANF	16,654	4.04	Block Grants
Section 8 Housing Choice Vouchers	18,022	4.37	Categorical Grants
Section 521 Rural Rental Assistance	1,128	0.27	Net Outlays
Section 8 Project-Based Rental Assistance	9,429	2.29	Formula Grants
Public Housing Capital Fund	2,182	0.53	Formula Grants
Public Housing Operating Fund	4,068	0.99	Formula Grants
Child Care and Development Fund	5,049	1.22	Block Grants
Low Income Home Energy Assistance Program (LIHEAP)	3,255	0.79	Block Grants
Community Development Block Grant (CDBG)	5,768	1.40	Block Grants
WIA Dislocated Workers	1,166	0.28	Formula Grants
Weatherization Assistance Program	138	0.03	Categorical Grants
Total	**412,180**	**100**	

*Includes total benefits received by SNAP recipients, educational programs, employment training, and other federal administrative costs

Categorical Grants: grants awarded by federal government to states and local governments to be used for very specific purposes

Formula Grants: non-competitive awards given to recipients based on predetermined formula

Block Grants: federal awards provided to state and local governments, with only general guidelines attached on spending

Net Outlays: gross outlays minus reimbursements

Source: Food and Nutrition Service, "Supplemental Nutrition Assistance Program Participation and Costs," USDA, Oct. 5, 2014, http://www.fns.usda.gov/pd/supplemental-nutrition-assistance-program-snap; Office of Family Assistance, "TANF Financial Data FY 2013," Department of Health and Human Services, Oct. 5 2014, http://www.acf.hhs.gov/programs/ofa/resource/tanf-financial-data-fy-2013; "Fiscal Year 2015 Budget of the U.S. Government," Office of Management and Budget, Oct. 5 2014, http://www.gpo.gov/fdsys/pkg/BUDGET-2015-BUD/pdf/BUDGET-2015-BUD.pdf; "Public Budget Database," Office of Management and Budget, Oct. 5, 2014, http://www.whitehouse.gov/omb/budget/supplemental; "LIHEAP: Program and Funding," Congressional Research Service, Oct. 5, 2014, http://neada.org/wp-content/uploads/2013/08/CRSLIHEAPProgramRL318651.pdf; "Historical Tables, Outlays for Mandatory and Related Programs 1962–2019," Office of Management and Budget, Oct. 18, 2014, http://goo.gl/Du9HOk

Giving states more flexibility to allocate welfare allows them to more efficiently serve their residents. Some people need temporary assistance until a well-paid job puts them back on their feet. Others require training, or help with medical problems, including drug addiction or mental illness, to reenter the workforce.

States should have the freedom to experiment to see what policies are most effective. Under such conditions, successful states would serve as models for other states—and, possibly, models for further federal welfare reform. Indeed, successful welfare reforms have already been observed in North Carolina, New York, Indiana, and Rhode Island.

Figure 1 breaks down the $412 billion annual cost of major U.S. federal welfare programs. (Federal administrative costs are omitted; funding indicates amount given to states.) Medicaid accounts for 64 percent of the $412 billion total, SNAP 19 percent, and TANF and HCV each about 4 percent: these four programs collectively account for 92 percent of the money given to states.

Providing states increased flexibility to adjust resource levels between welfare programs offers numerous advantages. For instance, states with low food prices but high housing costs might shift resources from SNAP to housing programs. In addition, states could divert funding from existing programs to new ones, such as community-based programs that prove successful.

Figure 2 shows funds received for each major program by state. Funding levels for four large programs (Medicaid, SNAP, TANF, and HCV) differ substantially among states. This allows for estimates of what states will receive in total if they sign up for consolidated block grants. California receives the most overall funding, about $40 billion, giving it substantial sums to reprioritize.

To provide a clearer picture of how states spend their funds, this paper calculated Medicaid, SNAP, TANF, and HCV spending figures per person living below 138 percent of the federal poverty line (Figure 2). Nationwide, $4,018 is spent per person on welfare programs. While such calculations do not account for all influential factors, such as cost of living, the wide range of spending levels suggests that some states spend funds more efficiently than others. Vermont leads all states in per-capita spending ($7,975), followed by Maine ($6,601). At $9,994 per person, the District of Columbia spends the most of all jurisdictions. Nevada spends the least ($2,101).

Figure 2 shows that six of the seven states that benefit most from federal welfare are situated in the Northeast. Such programs, in other words, transfer funds from the rest of the country to the Northeast. While the cost of living is, admittedly, lower in the South or the Midwest, this sharp spending disparity testifies to the clout of the northeastern urban political lobby.

In 1998, shortly after PRWORA took effect, federal spending on major welfare programs, including Medicaid, totaled $225 billion in today's dollars. By 2013, spending had grown by 83 percent, to $412 billion. Moreover, federal spending on these programs has not fallen in recent years, even as the economy gradually recovers from the Great Recession.

What if federal outlays on the major welfare programs over the same period had, instead, grown *only* with inflation and the number of families in poverty? Federal spending would, this paper finds, have risen by about 31 percent, to $287 billion in 2013. **Figure 3** provides an annual tracking of the number of families in poverty since 1998, actual spending on the major welfare programs, and hypothetical spending in the aforementioned scenario. Over the past 15 years, as Figure 3 reveals, more than $1.3 trillion would have been saved under the latter.

SNAP accounted for the largest percent increase in spending, nearly tripling in real terms, from $27 billion (2013 dollars) in 1998 to $80 billion in 2013. In 1998, SNAP's share of total spending on major welfare programs totaled 12 percent; by 2013, it had surged to

Figure 2. Federal Funds Received by State for SNAP, TANF, HCV, and Medicaid; Spending per Person Living Near or Below Federal Poverty Line and Ranking

Jurisdiction	SNAP Benefits FY 2013 ($)	State Family Assistance Grant Federal Awards FY 2013 ($)	HCV Total Assistance FY 2014 ($)	Medicaid, Federal Share 2012 ($)	Total for Programs ($)	Spending per Person Living Below 138% of FPL ($)	Rank
District of Columbia	235,020,570	100,708,990	142,179,496	1,474,843,737	1,952,752,793	9,994	1
Vermont	150,054,164	47,353,181	42,191,821	778,030,905	1,017,630,071	7,975	2
Maine	367,069,888	76,792,429	75,979,705	1,529,719,966	2,049,561,988	6,601	3
Connecticut	707,654,612	266,788,107	335,084,663	3,381,413,618	4,690,941,000	6,452	4
New York	5,621,405,245	2,656,576,646	2,202,492,504	26,701,450,681	37,181,925,076	6,266	5
Massachusetts	1,394,535,579	499,545,331	787,261,808	6,451,425,059	9,132,767,777	6,206	6
Minnesota	771,362,512	253,945,174	203,061,347	4,477,529,696	5,705,898,729	5,536	7
Rhode Island	302,852,007	94,760,108	74,057,942	973,926,168	1,445,596,225	5,354	8
Alaska	189,565,646	44,965,572	31,426,171	786,372,217	1,052,329,606	5,179	9
West Virginia	504,485,785	100,787,162	59,270,318	2,024,966,992	2,689,510,257	4,979	10
Michigan	2,911,624,110	775,352,858	314,100,724	8,266,269,399	12,267,347,091	4,886	11
Missouri	1,428,882,352	229,403,360	221,562,457	5,559,042,597	7,438,890,766	4,863	12
Maryland	1,178,661,931	249,133,760	472,204,343	3,851,981,296	5,751,981,330	4,772	13
Pennsylvania	2,748,346,529	705,394,109	474,245,166	11,220,466,594	15,148,452,398	4,762	14
Wisconsin	1,198,302,422	345,337,451	139,546,192	4,326,302,171	6,009,488,236	4,755	15
Ohio	2,923,160,707	698,630,611	503,913,538	10,474,188,375	14,599,893,231	4,720	16
New Mexico	679,481,811	120,244,927	65,633,743	2,416,959,078	3,282,319,559	4,589	17
Louisiana	1,479,828,133	163,971,985	333,243,266	5,095,339,349	7,072,382,733	4,585	18
Iowa	586,542,123	130,470,741	84,096,425	2,128,510,484	2,929,619,773	4,558	19
Delaware	235,028,481	35,114,983	35,264,203	805,931,508	1,111,339,175	4,540	20
North Dakota	85,530,266	21,992,880	27,087,257	416,623,560	551,233,963	4,428	21
Mississippi	993,077,956	78,061,911	129,607,533	3,325,227,337	4,525,974,737	4,424	22
Tennessee	2,127,681,953	208,273,474	196,790,237	5,857,876,389	8,390,622,053	4,373	23
Oregon	1,250,176,428	181,274,818	195,528,746	2,904,376,147	4,531,356,139	4,266	24
Kentucky	1,332,998,664	176,215,477	161,858,657	4,064,392,104	5,735,464,902	4,224	25
New Hampshire	162,970,800	38,761,588	73,472,843	597,954,781	873,160,012	4,192	26
Oklahoma	958,684,325	138,532,835	118,008,025	3,001,843,803	4,217,068,988	4,075	27
North Carolina	2,491,197,794	327,796,962	305,125,178	8,036,081,928	11,160,201,862	4,018	28
Indiana	1,461,136,176	206,799,109	188,822,781	5,012,894,390	6,869,652,456	3,996	29
New Jersey	1,419,226,622	404,034,823	666,429,469	5,201,695,565	7,691,386,479	3,904	30
Washington	1,678,737,077	413,017,390	370,434,643	3,817,599,646	6,279,788,756	3,796	31
Arkansas	731,845,896	60,159,849	84,543,836	2,947,236,127	3,823,785,708	3,777	32
Nebraska	264,636,314	57,817,203	58,887,859	979,787,073	1,361,128,449	3,614	33
South Dakota	165,040,184	18,011,035	25,501,587	470,849,900	679,402,706	3,566	34
Arizona	1,648,236,258	226,715,845	154,343,273	5,453,659,143	7,482,954,519	3,562	35
Montana	192,259,685	36,440,745	27,722,094	657,374,862	913,797,386	3,538	36
Alabama	1,414,951,864	92,984,144	171,986,440	3,468,312,860	5,148,235,308	3,476	37
South Carolina	1,381,782,118	107,278,665	133,924,467	3,409,560,972	5,032,546,222	3,403	38
Illinois	3,378,095,657	543,683,687	666,959,084	6,736,288,326	11,325,026,754	3,365	39

California	7,558,348,393	3,659,376,553	3,051,357,584	25,670,682,918	39,939,765,448	3,317	40
Georgia	3,188,743,586	313,680,335	388,576,330	5,641,016,886	9,532,017,137	3,240	41
Hawaii	494,182,027	107,554,487	100,682,122	748,482,794	1,450,901,430	3,218	42
Idaho	346,782,947	32,214,361	33,126,390	1,014,600,581	1,426,724,279	3,205	43
Kansas	474,255,829	104,235,777	56,568,271	1,515,016,503	2,150,076,380	3,120	44
Virginia	1,442,442,319	157,266,839	366,377,176	3,468,947,719	5,435,034,053	3,112	45
Florida	5,906,158,957	475,366,962	784,383,172	10,036,122,533	17,202,031,624	3,074	46
Colorado	823,529,607	147,955,505	217,399,349	2,369,668,708	3,558,553,169	3,035	47
Wyoming	56,980,056	18,500,530	11,609,309	268,822,166	355,912,061	2,973	48
Texas	5,934,441,831	528,782,245	956,563,582	16,521,572,724	23,941,360,382	2,948	49
Utah	377,903,214	75,440,929	66,536,295	1,351,456,910	1,871,337,348	2,880	50
Nevada	535,230,693	47,747,443	123,137,419	984,106,573	1,690,222,128	2,101	51
TOTAL	**76,066,279,984**	**16,601,251,891**	**16,733,862,455**	**238,674,801,818**	**348,076,196,148**	**4,018**	

Source: "Supplemental Nutrition Assistance Program (SNAP)," USDA, http://www.fns.usda.gov/pd/supplemental-nutrition-assistance-program-snap; "Fiscal Year 2013 TANF Financial Data, Department of Health and Human Services, http://www.acf.hhs.gov/programs/ofa/resource/tanf-financial-data-fy-2013; "Housing Choice Voucher Program Support Division," U.S. Department of Housing and Urban Development, http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/programs/hcv/psd; "Distribution of Total Population by Federal Poverty Level," Urban Institute and Kaiser Commission on Medicaid and the Uninsured, estimates based on Census Bureau's March 2012 and 2013 Current Population Survey, http://kff.org/other/state-indicator/distribution-by-fpl/#. "Federal and State Share on Medicaid Spending," The Kaiser Family Foundation, estimates based on Urban Institute estimates based on data from CMS (Form 64), http://kff.org/medicaid/state-indicator/federalstate-share-of-spending/#

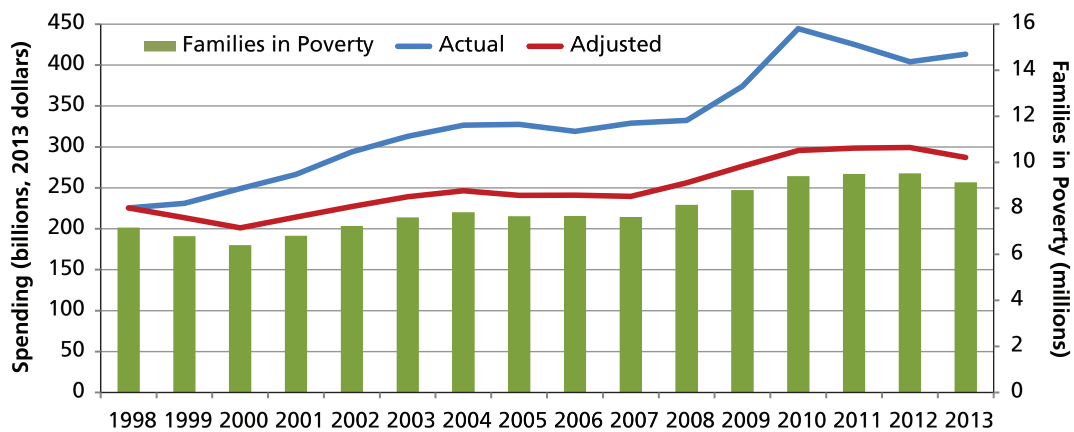
20 percent. Spending on Section 8 housing programs also nearly tripled, from an inflation-adjusted $10 billion to $28 billion over the same period.

In contrast, TANF inflation-adjusted spending declined slightly. PRWORA deserves much of the credit: unlike its predecessor, Aid to Families with Dependent Children, TANF required recipients to work or secure job training. Between January 1998 and March 2014, the number of TANF recipients declined by 62 percent.[3]

II. MEDICAID

At $265 billion, Medicaid accounted for 13 percent of mandatory federal expenditures in 2013, or 8 percent of total federal expenditures.[4] Total federal and state spending on Medicaid ($431 billion in fiscal year

Figure 3. Spending on Medicaid and Major Welfare Programs, Actual and Poverty-Rate-Adjusted Benchmark (1998–2013)



Source: Author's calculations based on data from Office of Management and Budget, U.S. Department of Health and Human Services, U.S. Department of Labor, U.S. Department of Energy, and U.S. Department of Housing and Urban Development

2012) is more than five times greater than on food stamps—and more than 25 times TANF outlays. Combined federal and state Medicaid spending grew by 63 percent from 2000 to 2013, after adjusting for inflation.[5] Since federal spending on Medicaid is projected to more than double within ten years, reform is essential.[6]

Medicaid enrollment, meanwhile, has nearly doubled since 2000, rising from 34.5 million participants to 59.1 million in 2013.[7] Nearly one-fifth of the U.S. population is now enrolled in Medicaid.[8]

At present, state governments have an incentive to spend as much money as possible on Medicaid because the federal government covers a majority of the cost of reimbursement. For each dollar that a state spends on Medicaid, the federal government reimburses at least 50 percent and, at times, over 80 percent.[9] The exact rate varies depending on a state's per-capita income and other related factors. In fiscal year 2015, the average state reimbursement rate is set to be 57 percent: 13 states will receive the federal minimum of 50 percent; Mississippi, at 74 percent, will receive the highest reimbursement rate.[10]

High reimbursement rates, coupled with flexibility for states to determine eligibility, are clearly a recipe for fiscal disaster. States, moreover, set eligibility criteria within standards determined by the federal government and can then apply for waivers to expand health coverage even further beyond optional eligibility groups.

The Affordable Care Act (ACA) will only aggravate the current reimbursement situation. From 2014 to 2016, the federal government will reimburse 100 percent of state expenditures on individuals newly eligible under expanded Medicaid programs established in certain states.[11] After 2016, the federal government will continue high reimbursement rates, between 93 percent and 95 percent, for such individuals, followed by 90 percent reimbursement rates for 2020 and beyond. While this seems a rosy deal for state governments, their respective taxpayers ultimately foot the bill for state and federal Medicaid funding. Medicaid, unlike Medicare, does not have a trust fund and is, instead, funded by general revenues at the state and local levels.

To improve Medicaid's effectiveness and reduce its strain on budgets, states should seek reforms limiting administrative costs and nonurgent emergency-room visits, while increasing preventive care.

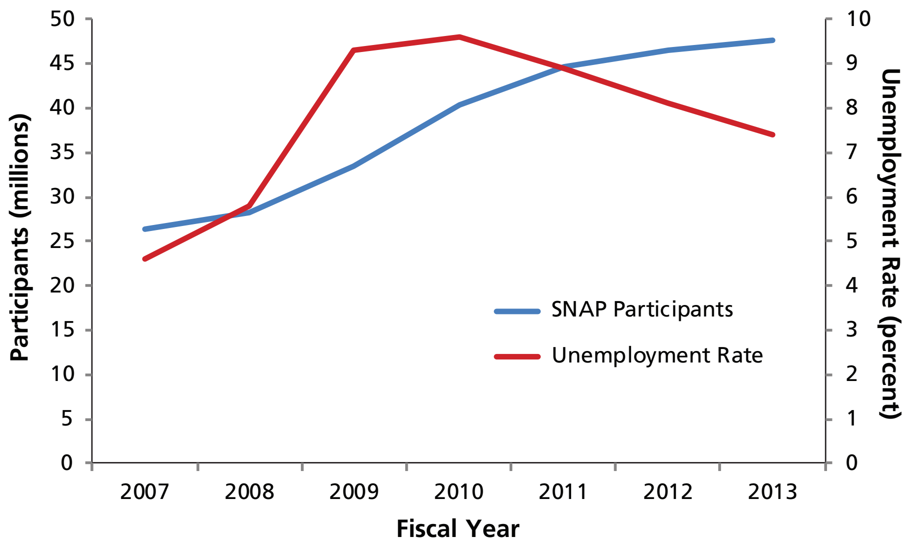
III. SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM

With more control over SNAP funding, states might lower the number of participants receiving assistance, helping reverse the trend of increased spending on the program. Although the recession officially ended in June 2009, **Figure 4** demonstrates that the number of Americans on food stamps has steadily increased. Indeed, even after adjusting for inflation, the total cost of the program has more than doubled since 2007.[12]

As Figure 4 reveals, the cost and coverage of SNAP benefits accelerated dramatically during the Great Recession. Falling incomes and rising unemployment necessitated larger welfare rolls. States expanded SNAP coverage further still through categorical eligibility (i.e., automatic qualification for SNAP benefits if individuals already receive benefits from certain other welfare programs) and more generous benefits by abusing the so-called heat-and-eat loophole (explained later in detail).

This paper finds that the federal government spent an additional $180 billion on SNAP from 2008 to 2013 than it otherwise would have if 2007 spending levels had only risen with inflation. Average monthly benefits per person in fiscal year 2013 were 23 percent higher, in real terms, than in fiscal year 2007.[13] Benefits peaked in 2010, at $142.92 per month in 2013 dollars (remaining high at $133.07 per month, as of 2013).[14] And, despite the fact that eligibility has not changed in recent years and the U.S. economy has grown, SNAP enrollees continued to increase, peaking at 47.8 million in December 2012.[15] As of

Figure 4. SNAP Participant Growth and Unemployment Rate, 2007–13



Source: "Supplemental Nutrition Assistance Program Participation and Costs," USDA, Sept. 5, 2014; Bureau of Labor Statistics, "Labor Force Statistics from the Current Population Survey," Department of Labor, Oct. 24, 2014

June 2014, there were 46.5 million participants,[16] 77 percent higher than in 2007.[17]

Eligibility

Unless every household member receives TANF, Supplemental Security Income (SSI), or state-funded general assistance payments, households must pass gross and net monthly income tests to receive SNAP benefits; households with elderly members or recipients of certain types of disability assistance need only pass the net monthly income test.[18] **Figure 5** lists maximum monthly incomes for SNAP eligibility.

Households also must have $2,250 or less in countable resources to be eligible for SNAP benefits under federal guidelines. Assets such as a home, educational

Figure 5. Maximum Monthly Incomes for SNAP Eligibility

Household Size	Gross Monthly Income* (130 Percent of Federal Poverty Line)	Net Monthly Income** (100 Percent of Federal Poverty Line)
1	$ 1,245	$ 958
2	$ 1,681	$ 1,293
3	$ 2,116	$ 1,628
4	$ 2,552	$ 1,963
5	$ 2,987	$ 2,298
6	$ 3,423	$ 2,633
7	$ 3,858	$ 2,968
8	$ 4,294	$ 3,303
Each additional	+$ 436	+$ 335

*Gross income equals total, non-excluded income before deductions.

**Net monthly income equals gross income minus allowable deductions (such as standard deductions of $152 for households with one to three people, legally owed child-support payments, and dependent-care deductions when needed for work or education).

Source: Food and Nutrition Service, "Supplemental Nutrition Assistance Program (SNAP) Eligibility," USDA, July 31, 2014, http://1.usa.gov/1yiwAAR savings, and pension income are not counted. If at least one person is disabled or older than 60, the household may have up to $3,250 in countable resources. Resources of people on SSI and TANF are not included. States have the option to include the value of a vehicle as a countable resource, but 39 states exclude the value of all vehicles.[19]

If residents have already met income and asset requirements for TANF, they are approved for SNAP benefits. Another way to receive benefits without meeting federal requirements is through categorical eligibility, a method that states have used to expand SNAP rolls. States' increased use of "broad-based" categorical eligibility is, in fact, one of the main factors behind the increasing number of people receiving SNAP benefits.[20]

With broad-based categorical eligibility (unlike "traditional" categorical eligibility, which only includes cash benefits), individuals receiving benefits—cash and noncash—from other means-tested welfare programs with less stringent requirements than SNAP leads to automatic SNAP eligibility, allowing participants to bypass federal SNAP guidelines. As of July 21, 2014, 40 states, along with the District of Columbia, Guam, and U.S. Virgin Islands, utilize broad-based categorical eligibility.[21]

Eligibility for SNAP benefits varies across the United States. Of the 43 jurisdictions using broad-based eligibility, 41 allow all family types to be eligible for SNAP benefits, 38 utilize no asset test, and 27 place the gross income cutoff above the federal guideline of 130 percent. If a household is categorically eligible but its income is too high to qualify for SNAP benefits, it still receives the minimum monthly benefit.[22]

In November 2013, total SNAP benefits were trimmed 5 percent as temporary benefits, enacted in the 2009 American Recovery and Reinvestment Act, expired. Still more recently, the 2014 Farm Bill, signed into law in February, reduced the heat-and-eat loophole, which provided recipients higher benefits if they received assistance from the federal Low Income Home Energy Assistance Program.[23] Before this loophole was closed, 15 states, as well as the District of Columbia, had been providing as little as $1 in LIHEAP benefits to individuals, including to some entirely without heating bills, to increase benefits received.[24]

The 2014 Farm Bill raised the threshold for receiving SNAP benefits to $20 in energy assistance. As of September 2014, ten states and the District of Columbia continue to use heat-and-eat by increasing LIHEAP benefits—at a cost of nearly $1.5 billion in federal SNAP funds (despite merely a $50 million increase in LIHEAP benefits).[25] This suggests that states do respond to incentives, in positive and negative ways, and that block grants to states hold the potential to change states' behavior.

The current system of SNAP benefits delivery encourages nearly all states to expand enrollment and increase benefits as a way to receive more federal money, at no cost to state treasuries. Rather than encourage more people to sign up for government aid, states should focus on moving individuals off public support. Reform that caps the current, unlimited inflow of Washington money would allow states to adjust the number of people in the program, as well as the duration of benefits, without forgoing federal funds (as states would at present, if they pursued such reform).

IV. TEMPORARY ASSISTANCE FOR NEEDY FAMILIES

Established under PRWORA, TANF provides financial assistance to families, as well as support services such as job preparation and child-care assistance. Total federal funds spent on the program rose from $17 billion in 2007 to $21 billion in 2010, but have since declined to $17 billion in 2013.[26] Likewise, the average number of recipients per calendar year rose by 13 percent from 2007[27] to a peak of 4.4 million in 2010;[28] by 2013, total recipients had declined to 3.7 million, nearly 200,000 fewer than in 2007.[29] In 2013, 60 percent of families with a head of household on TANF stayed in the program for more than one year—13 percent stayed four years or longer—with an average stay of two years.[30]

Eligibility

TANF includes work participation rate standards for states, noncompliance with which subjects states to potentially reduced TANF funding from the federal government. Employment, training, job search assistance, and community service are examples of activities that count as work activity. Since 2002, half of a state's TANF families with work-eligible members must be engaged in work activities (i.e., the work participation rate), with a higher standard of 90 percent for two-parent families.

Yet even with declared work participation standards, the federal government provides some credits to state governments that lower actual work participation standards. **Figure 6** reveals that in FY 2009 (the most recent for which data are available), of the 54 U.S. states and territories with TANF programs, 22 had effective work participation standards of zero (i.e., no families were, in practice, *required* to engage in work-related activities).[31] The federal government, in short, allowed states to water down work requirements if state spending on TANF exceeded a certain threshold. As such, in FY 2009, 17 further states and territories featured effective work participation standards below 25 percent (i.e., fewer than 25 percent of families receiving TANF benefits were required to engage in work activities)—in stark contrast with FY 2007, when only four states and territories employed effective work participation standards of zero and 16 further states employed effective standards below 25 percent.

Figure 6. Number of States and Territories by TANF Work Participation Effective Standards and Actual Rates

X = Work Participation Rate (%)	Number of States with X Effective Standard		Number of States with Actual X	
	2007	2009	2007	2009
0 = x	4	22	0	0
0 < x <10	5	1	2	4
10 ≤ x < 25	11	16	11	11
25 ≤ x < 50	32	13	32	32
50 ≤ x	2	2	9	7

Source: Gene Falk, "Temporary Assistance for Needy Families: Welfare Waivers," Congressional Research Service, March 7, 2013, pp. 15–17

However, this change in effective standards was not, as Figure 6 indicates, reflected in changes in actual work participation rates, which experienced little change between 2007 and 2009. For example, 13 states and territories experienced work participation rates under 25 percent in 2007, compared with 15 states and territories in 2009. Meanwhile nine states and territories enjoyed participation rates above 50 percent in 2007, compared with seven in 2009.

In a majority of states, asset limits for TANF eligibility average $2,000 (although eight states have abandoned asset limits entirely).[32] A family must have a dependent child or a woman in her final three months of pregnancy. Most immigrants cannot receive TANF assistance until they have resided in the U.S. for at least five years.

Eligibility was tightened under the Deficit Reduction Act of 2005. Previously, only families on TANF had to meet the aforementioned 50 percent and 90 percent work requirement standards. Under the new, tighter standards, families receiving other state-funded public assistance were now counted toward the 50/90 standards that states had to meet to avoid funding cuts of up to 5 percent.[33]

To maintain compliance with the tighter standards, states responded by shifting TANF recipients unlikely to engage in work onto SSI or exclusively state-funded programs.[34] The number of families on TANF accordingly dropped by 18 percent from 2005 to 2008, with 360,000 fewer families receiving TANF or separate state-funded assistance.[35] In contrast, the number of blind or disabled SSI recipients rose by 5 percent over the same period.[36]

Still more recently, in July 2012, the Department of Health and Human Services notified states that they can apply to have TANF's work participation standards waived.[37] Alternative welfare-to-work strategies with formal evaluations would still be required. At least eight states expressed interest in the waivers, but none ever formally requested one.

V. HOUSING CHOICE VOUCHERS

HCV is the federal government's largest housing assistance program for low-income families, with 2.2 million families participating, at a federal cost of $19.2 billion in 2014.[38] Under HCV, funding stays tied to families, fostering mobility and choice of residency. In comparison, Section 8 Project-Based Rental Assistance provided aid to 1.2 million families in 2014, at a cost of $10 billion, with eligible tenants receiving funding strictly for specific developments.[39]

In both 2008 and 2013, HCV spending, after adjusting for inflation, hovered around $18 billion, with roughly equal numbers of families enrolled in the program, too. Over the 2008–13 period, average Housing Assistance Payment declined from $672 per month (2013 dollars) in 2008 to $647 per month in 2013; in 2013, $8,639 was spent per family (2013 dollars; includes total program costs), compared with $8,206 per family in 2008.[40]

Eligibility

Though federally funded (money dispersed by the Department of Housing and Urban Development funds both vouchers and state and local administration costs), approximately 2,250 state and local public housing agencies administer the program and determine eligibility.[41]

To be eligible, a family's income typically may not exceed 50 percent of their county's median income; 75 percent of a housing agency's vouchers, moreover, must go to families with incomes below 30 percent of their county's income. At present, 60 percent of families have one or two members, with an average family size of 2.4.[42] Despite the housing crisis associated with the Great Recession, the Section 8 HCV program has since remained largely unchanged. Section 8 HCV, unlike SNAP and TANF, is a discretionary program, not an entitlement. (SNAP and TANF are available to all who qualify, while Section 8 HCV payments have to fit within a budget.) During the recession, more newly eligible families enrolled in SNAP and TANF; Section 8 HCV, in contrast, did not receive a significantly higher level of appropriations, which explains why the number of families enrolled remained roughly the same.

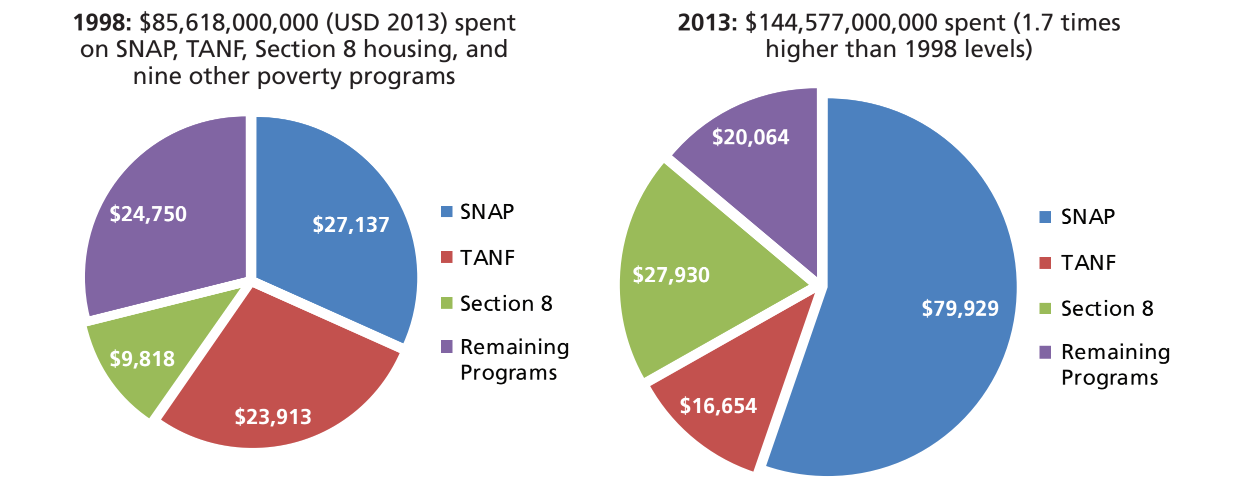
Still more recently, sequestration budget cuts ($938 million for the 2013 calendar year)[43] meant that, in December 2013, 70,000 fewer families were enrolled in HCV than in December 2012.[44] This suggests that it is, indeed, possible to halt the rising tide of welfare payments by transitioning from entitlement to discretionary programs. If Congress were required to annually vote on SNAP, as it does with housing vouchers, the former would likely be far smaller.

VI. OPPORTUNITY GRANTS

House Budget Committee chairman Paul Ryan has proposed combining funding for SNAP, TANF, and various housing programs into single block grants, "Opportunity Grants," without changing the amount that states receive, while offering states flexibility to use such funds in ways that best fit their particular circumstances. **Figure** 7 depicts the growth in welfare programs between 1998 and 2013, targeted by Ryan's Opportunity Grants.

Under Ryan's proposal, states choosing to participate in an Opportunity Grants pilot program would contract out services to at least two providers, which would operate under strict accountability rules. While some states currently require welfare recipients to provide generic "personal responsibility action plans," Opportunity Grants would encourage states to provide case managers to develop tailored plans for recipients in participating states. Notably, Ryan's proposal offers states the freedom not to participate and to continue receiving welfare funding instead, in the current format—while retaining the right to opt in later.[45]

Figure 7. Real Spending on Welfare Programs Included in Ryan Opportunity Grants



Source: Author's calculations based on data from Office of Management and Budget, Department of Health and Human Services, Department of Labor, Department of Energy, and Department of Housing and Urban Development

To secure benefits from welfare programs included in Ryan's Opportunity Grants (as well as to enroll in various other welfare programs), families currently must visit many offices and providers. Under Ryan's proposal, however, they would need visit only one, dramatically boosting efficiency.[46] Providers would develop structured plans out of poverty for families, encouraging personal accountability. The goal: to encourage work among the able-bodied by providing a safety net, not a hammock.

As such, state proposals for Opportunity Grants would have to satisfy four conditions:[47]

1. Include a plan for how funds would be used to transition families out of poverty and into independence. Funding would first have to go to people below the poverty line and could not be used on other programs, such as infrastructure.
2. All able-bodied recipients, except the elderly, must work or engage in work-related activity, such as job search, education, or job-related training.
3. Nongovernmental groups must receive funding to encourage new approaches. States may choose to have state agencies remain as providers, while some ineffective service providers may lose their funding.
4. Federal and participating state governments must agree on clear measures of success that third parties could objectively assess.

Under Opportunity Grants, existing incentives encouraging states to acquire more money from the federal government for SNAP benefits would be reduced. Broad-based eligibility would likely be rolled back because states would not gain financially from expanding participation far above the poverty line. At the same time, block grants would allow states to use the money in ways that states deem most effective. For some, this might mean further expanding SNAP benefits; others may select alternative uses for their set amount of federal funds. If, say, more families in a given state required aid finding affordable housing rather than groceries, that state would have the flexibility to spend less on SNAP and more on housing vouchers. If, on the other hand, a state decided that local public housing agencies were already doing satisfactory work, it might choose to exempt such agencies from its Opportunity Grants proposal.

Opportunity Grants, in short, retain a substantial role for the federal government while acknowledging the reality that states possess superior knowledge of the poverty situation within their borders—and are better placed to experiment with the provision of welfare services to assist the needy.

VII. LESSONS FROM STATE-LED REFORMS

Innovative reforms by states can affect their respective labor-force compositions and levels of enrollment in public assistance programs. The recent reform examples of North Carolina, New York, Indiana, and Rhode Island are particularly instructive.

North Carolina

In June 2013, North Carolina dramatically shortened the duration of unemployment benefits, from 63 to 19 weeks. By December 2013, the state had created 26,570 new jobs, a 0.6 percent rise. By June 2014, its unemployment rate had declined from 8.3 to 6.4 percent.[48] Until January 2014, meanwhile, when benefits nationally reverted to the prerecession norm of 26 weeks, the length of benefits in neighboring states—Virginia, Tennessee, South Carolina, and Georgia—ranged from 63 weeks (Tennessee) to 40 weeks (Virginia).[49]

Between June 2013 and June 2014, North Carolina's employment growth outperformed not only its neighbors but the rest of the U.S., too.[50] Also noteworthy: from January 2014 (when unemployment benefits in other states fell to 26 weeks) to July 2014, employment nationwide quickly rose as well, rising by 0.8 percent.[51]

Although unemployment benefits are not included in the Opportunity Grants proposal, North Carolina's success reveals the power of work-promotion incentives and state-based welfare reform.

New York City

New York City's welfare caseload declined from 1.1 million recipients in 1995 to fewer than 347,000 in 2013. Between 1994 and 2009, meanwhile, employment rates for single mothers rose from 43 percent to 63 percent.[52]

Robert Doar, New York's Human Resources Administration commissioner, attributes these changes to the city's requirement that welfare recipients work, or seriously seek work, as a condition of benefits payments. The HRA, notes Doar, resembled an employment agency as much as it did a place to receive benefits, with work, not training, recognized as a more effective path to getting people off welfare rolls. To help in the job search, Doar also significantly expanded the number of caseworkers (the latter, he found, cost far less than benefits).[53]

Indiana

In 2007, Governor Mitch Daniels oversaw the enactment of the Healthy Indiana Plan (HIP), designed as a consumer-driven alternative to Medicaid. In 2013, a remarkable 96 percent of HIP members reported being either "somewhat" or "very" satisfied with their plan.[54]

Indiana residents, aged 19 to 64, if not eligible for Medicare or Medicaid and with incomes below the federal poverty level, are eligible.[55] HIP members pay about 2 percent of family income for health insurance and are charged co-pays for visiting the emergency room in nonemergencies.[56] (Because of the emergency-room co-pay requirement, 5 percent of HIP beneficiaries reported seeking care from an alternative source in 2012.)[57]

Rhode Island

Since January 2009, Rhode Island has enjoyed a federal waiver from certain Medicaid rules. The waiver, which established a cap on Medicaid spending in Rhode Island but allowed the state to retain a portion of unspent funds, created a strong incentive to keep spending low.[58]

Through 2012 (according to the latest data), Rhode Island has saved $2.3 billion, thanks to the waiver, with an audit showing fewer emergency-room visits and better access to physicians.[59] Without restricting eligibility, the state succeeded in incentivizing healthy living and more efficient care (e.g., home and community care for the elderly, instead of nursing homes). According to Gary Alexander, former Rhode Island secretary of health and human services, "Rhode Island is showing that more money is not the solution. Comprehensive reform and freedom from federal mandates and burdensome regulations work."[60]

VIII. RECOMMENDATIONS

Lawrence Summers, Harvard economist and former Treasury secretary, once observed, "Each unemployed person has a 'reservation wage'—the minimum wage he or she insists on getting before accepting a job. Unemployment insurance and other social assistance programs increase that reservation wage, causing an unemployed person to remain unemployed longer."[61] The longer the unemployed remain out of work, in turn, the more their skills atrophy, kick-starting a vicious cycle of still more long-term unemployment.

Of course, poverty alleviation programs that create disincentives to work harm the economy, as well as individuals receiving assistance. Indeed, arguably worse than America's current high unemployment rate is the number of Americans who have simply stopped seeking work altogether. At 62.7 percent (as of September 2014), the U.S. labor-force participation rate had descended to its lowest level since 1978.[62]

Nor can America's aging population alone explain this alarming trend: in September 2014, the labor-force participation rate, aged 25–54, was just 80.7 percent, the lowest level since 1984.[63] Government benefits, according to University of Chicago economist Casey Mulligan, account for roughly half the recent decline in labor-force participation.[64] And while Opportunity Grants represent a significant improvement on the current system, two additional tweaks to Ryan's proposal would yield big payoffs:

1. States should be instructed that their block grants, including Medicaid, will be increased only by the inflation rate and the number of people below the poverty line. If this reform had been implemented in 1998, $1.3 trillion would have been saved to date.[65]
2. States should be allowed to spend any block-grant savings that materialize on non-welfare programs, as long as poverty reduction metrics continue to be met. This would boost states' incentive to cut costs and make programs more efficient.

IX. CONCLUSION

Antipoverty programs should be judged by how successfully they help lift people out of poverty. By this measure, the country's welfare programs performed poorly during the Great Recession and its aftermath: welfare costs and eligibility have, as this paper has documented, largely expanded, with few gains in poverty reduction.

Further, after accounting for inflation and changes in the poverty level, the federal government now spends $1.3 trillion more on welfare than it did in 1998. The current system, in short, spends substantial sums but nevertheless leaves many millions of Americans trapped in poverty. The status quo is plainly unacceptable. New solutions, not more funding, are the answer. Promising reforms—such as Opportunity Grants—acknowledge this reality and seek, instead, to tap into America's 50 state "laboratories of democracy." Under such proposals, conservative states will have the power to implement work requirements for the able-bodied without sacrificing the level of aid received by recipients. Liberal states, for their part, can experiment with different distribution methods without sacrificing accountability.

The goal: empower states to choose welfare policies that best serve their most vulnerable families, as well as those that best fit their political demands.

ENDNOTES

[1] Food and Nutrition Service, "Supplemental Nutrition Assistance Program Participation and Costs," U.S. Department of Agriculture (USDA), November 7, 2014, http://www.fns.usda.gov/sites/default/files/pd/SNAPsummary.pdf.

[2] See http://www.pbs.org/wgbh/americanexperience/features/primary-resources/lbj-union64.

[3] Office of the Administration of Families and Children, "TANF Caseload Data 2014," Department of Health and Human Services, http://www.acf.hhs.gov/sites/default/files/ofa/2014_15months_tan.xls.

[4] Budget Analysis Division, "The Budget and Economic Outlook: 2014 to 2024—August 2014 Baseline Budget Projections," Congressional Budget Office, http://www.cbo.gov/publication/45069.

[5] Centers for Medicare and Medicaid Services, "2013 Actuarial Report on the Financial Outlook for Medicaid," Department of Health and Human Services, http://bit.ly/1yHxDcL.

[6] Congressional Budget Office, "An Update to the Budget and Economic Outlook: 2014 to 2024," August 27, 2014, http://1.usa.gov/1sVGZ1r.

[7] Centers for Medicare and Medicaid Services, "2013 Actuarial Report on the Financial Outlook for Medicaid."

[8] U.S. Census Bureau, "U.S. and World Population Clock," U.S. Department of Commerce, October 17, 2014, http://1.usa.gov/1tzEuUo.

[9] Office of the Assistant Secretary for Planning and Evaluation, "ASPE FMAP 2015 Report," Department of Health and Human Services, February 5, 2014, http://aspe.hhs.gov/health/reports/2014/FMAP2015/fmap15.cfm.

[10] Ibid.

[11] Center for Medicaid and CHIP Services, "Medicaid and CHIP FAQS: Newly Eligible and Expansion State FMAP," Department of Health and Human Services, February 2013, http://bit.ly/1sZ0nLQ.

[12] Food and Nutrition Service, "Supplemental Nutrition Assistance Program Participation and Costs," USDA, September 5, 2014, http://1.usa.gov/1s8RIH1.

[13] Author's calculations based on data from the USDA.

[14] Author's calculations based on data from the USDA.

[15] Food and Nutrition Service, "Supplemental Nutrition Assistance Program, Monthly Data—National Level," USDA, November 7, 2014, http://www.fns.usda.gov/sites/default/files/pd/34SNAPmonthly.pdf.

[16] Ibid.

[17] Food and Nutrition Service, "Supplemental Nutrition Assistance Program Participation and Costs," USDA, November 7, 2014.

[18] Food and Nutrition Service, "Supplemental Nutrition Assistance Program Eligibility," USDA, October 1, 2014, http://www.fns.usda.gov/snap/eligibility.

[19] Ibid.

[20] Gene Falk and Randy Alison Aussenberg, "The Supplemental Nutrition Assistance Program (SNAP): Categorical Eligibility," Congressional Research Service, July 22, 2014, http://fas.org/sgp/crs/misc/R42054.pdf.

[21] Ibid.

[22] Ibid.

[23] "Agricultural Act of 2014," 113th Congress, Sec. 4006, http://1.usa.gov/1r4gRPm.

[24] Randy Alison Aussenberg and Libby Perl, "The 2014 Farm Bill: Changing the Treatment of LIHEAP Receipt in the Calculation of SNAP Benefits," Congressional Research Service, February 12, 2014, http://www.ncsl.org/Portals/1/Documents/cyf/2014FarmBill_LIHEAP.pdf; and Daphne Hunt and Bob Franzola, "Federal Update: The Agricultural Act of 2014: Highlights of Impacts to California," California Senate Office of Research, February 2014, http://www.sor.govoffice3.com/vertical/Sites/%7B3BDD1595-792B-4D20-8D44-626EF05648C7%7D/uploads/Federal_Update--The_Farm_Bill.pdf.

[25] Authors' calculations based on information from governors' offices and media reports.

[26] Office of Family Assistance, "TANF Financial Data FY 2013—Table A.1.: Federal TANF and State MOE Expenditures Summary by ACF-196 Spending Category, FY 2013," Department of Health and Human Services, July 1, 2014, http://1.usa.gov/XEK8pz.

[27] Office of Family Assistance, "TANF Total Number of Families: Fiscal and Calendar Year 2007," Department of Health and Human Services, May 15, 2014, http://1.usa.gov/1BTNOCT.

[28] Office of Family Assistance, "Fiscal and Calendar Year 2010—TANF: Total Number of Recipients," Department of Health and Human Services, December 31, 2010, http://1.usa.gov/1AUUDSf.

[29] Office of Family Assistance, "TANF Total Number of Recipients: Fiscal and Calendar Year 2013 Average Monthly Number of Families: October 2012 through December 2013," Department of Health and Human Services, May 15, 2014, http://1.usa.gov/1BTNOCT.

[30] Office of Family Assistance, "Tenth Report to Congress—Appendix Table 2:5," Department of Health and Human Services, December 12, 2013, http://1.usa.gov/YTdcuK.

[31] Gene Falk, "Temporary Assistance for Needy Families: Welfare Waivers," Congressional Research Service, March 7, 2013, http://bit.ly/1thegDH, 5.

[32] Corporation for Enterprise Development, "Lifting Asset Limits in Public Benefit Programs," July 2013, http://bit.ly/1qOSthg.

[33] Sharon Parrott et al., "Implementing the TANF Changes in the Deficit Reduction Act: 'Win-Win' Solutions for Families and States, Second Edition," Center on Budget and Policy Priorities & Center for Law and Social Policy, February 9, 2007, http://bit.ly/1mlLt07, 8–9.

[34] Mary Farrell, MEF Associates, "Connections Between TANF and SSI: Lessons from the TANF/SSI Disability Transition Project," Office of Planning, Research, and Evaluation at the Department of Health and Human Services, December 2013, http://1.usa.gov/1AVhAVt.

[35] Office of Family Assistance, "Combined TANF and SSP-MOE—Fiscal and Calendar Year 2008: Total Number of Families," Department of Health and Human Services, November 18, 2009, http://1.usa.gov/XQBJzo.

[36] Social Security Administration, "2011 Annual Report of the SSI Program," May 27, 2011, http://1.usa.gov/1scxEkZ.

[37] Office of Family Assistance, "TANF-ACF-IM-2012-03 (Guidance Concerning Waiver and Expenditure Authority Under Section 1115)," Department of Health and Human Services, July 12, 2012, http://1.usa.gov/Xj3ksl.

[38] "Public and Indian Housing Tenant-Based Rental Assistance: 2015 Summary Statement and Initiatives," Department of Housing and Urban Development, http://1.usa.gov/1mmCuvi, G-16.

[39] "Housing Project-Based Rental Assistance: 2015 Summary Statement and Initiatives," Department of Housing and Urban Development, http://1.usa.gov/1mmCuvi, Y-1-4.

[40] "Public and Indian Housing Tenant-Based Rental Assistance."

[41] Center on Budget and Policy Priorities, "Policy Basics: The Housing Choice Voucher Program," May 14, 2014, http://bit.ly/1uSZa85.

[42] U.S. Department of Housing & Urban Development, "Housing Choice Vouchers Fact Sheet," http://1.usa.gov/1wx9PEG.

[43] Douglas Rice, "Sequestration Could Cut Housing Vouchers for as Many as 185,000 Low-Income Families by the End of 2014," Center on Budget and Policy Priorities, November 6, 2013, http://bit.ly/1o9yzO2.

[44] Douglas Rice, "Sequestration's Toll: 70,000 Fewer Low-Income Families Have Housing Vouchers," Center on Budget and Policy Priorities, February 26, 2014, http://bit.ly/1v0PmXz.

[45] Paul Ryan and House Budget Committee Majority Staff, "Expanding Opportunity in America," July 24, 2014, http://budget.house.gov/uploadedfiles/expanding_opportunity_in_america.pdf.

[46] Ibid.

[47] Ibid.

[48] Local area unemployment statistics, Department of Labor, September 2014, http://www.bls.gov/lau/home.htm.

[49] Diana Furchtgott-Roth, "North Carolina Cut Jobless Benefits and the Sky Didn't Fall," POLITICO, January 10, 2014, http://www.politico.com/magazine/story/2014/01/north-carolina-cut-jobless-benefits-and-the-sky-didnt-fall-102048.html#.VIIhTjHF_-s.

[50] Local area unemployment statistics.

[51] Ibid.

[52] Robert Doar, "10 Welfare Reform Lessons," *National Review*, April 21 2014, http://www.nationalreview.com/article/375679/ten-welfare-reform-lessons-robert-doar.

[53] Ibid.

[54] Office of Medicaid Policy and Planning, "Healthy Indiana Plan Demonstration," Indiana Family and Social Services Administration, January 21, 2014, http://www.medicaid.gov/Medicaid-CHIP-Program-Information/By-Topics/Waivers/1115/downloads/in/in-healthy-indiana-plan-ar.pdf.

[55] "Healthy Indiana Plan: Am I Eligible?," Indiana Family and Social Services Administration, http://www.in.gov/fssa/hip/2333.htm.

[56] "Healthy Indiana Plan: Frequently Asked Questions," Indiana Family and Social Services Administration, http://www.in.gov/fssa/hip/2445.htm.

[57] Office of Medicaid Policy and Planning, "Healthy Indiana Plan Demonstration," Indiana Family and Social Services Administration, January 21, 2014, http://www.medicaid.gov/Medicaid-CHIP-Program-Information/By-Topics/Waivers/1115/downloads/in/in-healthy-indiana-plan-ar.pdf.

[58] Centers for Medicare and Medicaid Services, "Rhode Island Global Consumer Choice Compact Demonstration," Department of Health and Human Services, January 16, 2009, http://www.ohhs.ri.gov/medicaid/pdf/GlobalWaiverFinal1-09.pdf.

[59] "Medicaid Reform That Works," *Wall Street Journal*, August 28, 2013, http://on.wsj.com/1FUoLjn.

[60] Ibid.

[61] Lawrence H. Summers, "Unemployment," in *The Concise Encyclopedia of Economics*, 1993, http://www.econlib.org/library/Enc1/Unemployment.html.

[62] "Labor Force Statistics from the Current Population Survey," Bureau of Labor Statistics, December 5, 2014, http://data.bls.gov/cgi-bin/dbdown?Your+request+was+invalid+for+this+Data+Access+Service.+Please+attempt+other+data+requests.+Thank+you+for+using+LABSTAT.

[63] Current Population Survey, Bureau of Labor Statistics, October 3, 2014.

[64] Casey B. Mulligan, *The Redistribution Recession: How Labor Market Distortions Contracted the Economy* (New York: Oxford University Press, 2012).

[65] Author's calculations.