Welfare Reform, Family Financial Well-Being, and Government Spending
Testimony of Ron Haskins[1]
Before the Majority Policy Committee
Senate of Pennsylvania
June 12, 2018

I thank Chairman Argall and members of the Senate Majority Policy Committee for inviting me to testify. During my more than three decades in Washington, D.C., I have almost always accepted invitations to speak to state legislators, visit state program, and talk at meetings of the National Conference of State Legislatures. Most of the nation's social policies may be initiated in Washington, but they are implemented at the state and local level. If someone wants to understand our social programs, they must get outside Washington and see what is going on in the states, counties, and cities.

I have been asked to testify about welfare reform and, by way of implication, about spending on welfare programs. Like many if not most other states, in the last several years Pennsylvania has had trouble balancing its budget, primarily because of the financial crisis that began in December 2007. As often happens when budgets get tight, both at the federal and state level, elected officials begin looking for ways to save money. Because I suspect that members of the Committee might be in the mood to look into budget savings in welfare programs, I am especially pleased to have the opportunity to testify.

I begin by providing the committee with an overview of social spending at the federal level, then proceed to spending on social programs in Pennsylvania. I then turn to welfare reform and, among other issues, discuss steps states could take to reform their welfare programs and produce more work. Experience shows, however, that there is an inevitable tradeoff in welfare reform between helping welfare recipients find work that might give them a chance to escape poverty and state spending. It is difficult to get people off welfare and into jobs without investing money. However, if parents do leave welfare for employment, they increase their chances of escaping or avoiding poverty because of primarily federal programs that subsidize their usually modest earnings which are often not enough to allow them to escape poverty.

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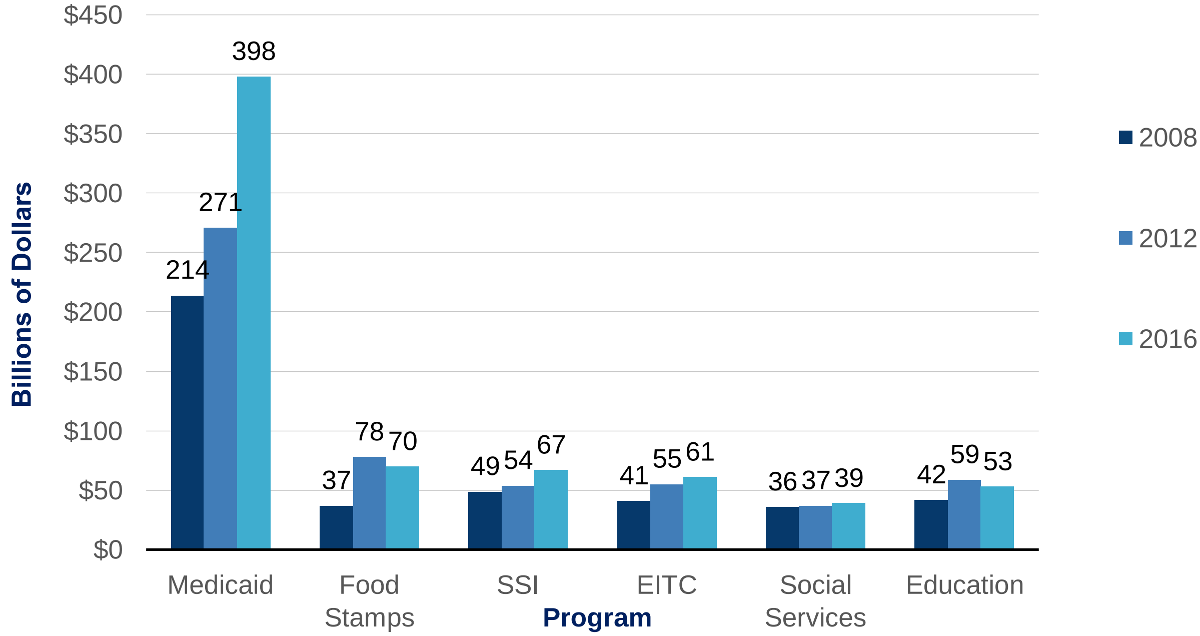
Spending

Figure 1. Federal Spending on Benefits and Services for People with Low Income, by Program, 2008, 2012, and 2016

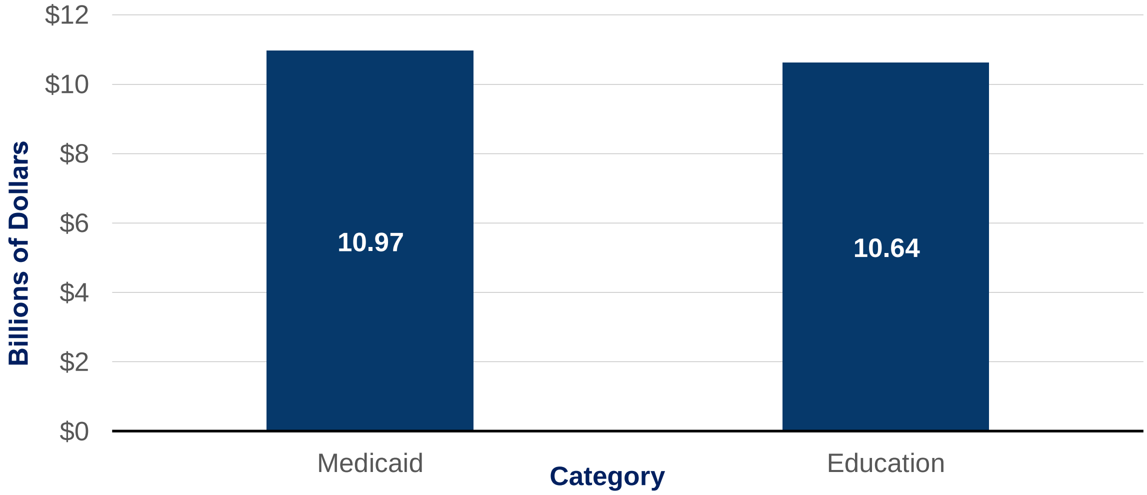


Source: Gene Falk, Karen E. Lynch, and Jessica Tollestrup, *Federal Spending on Benefits and Services for People with Low Income: In Brief,* CRS Report No. R45097 (Washington, DC: Congressional Research Service, 2018), https://fas.org/sgp/crs/misc/R45097.pdf.

Note: All spending given in nominal dollars.

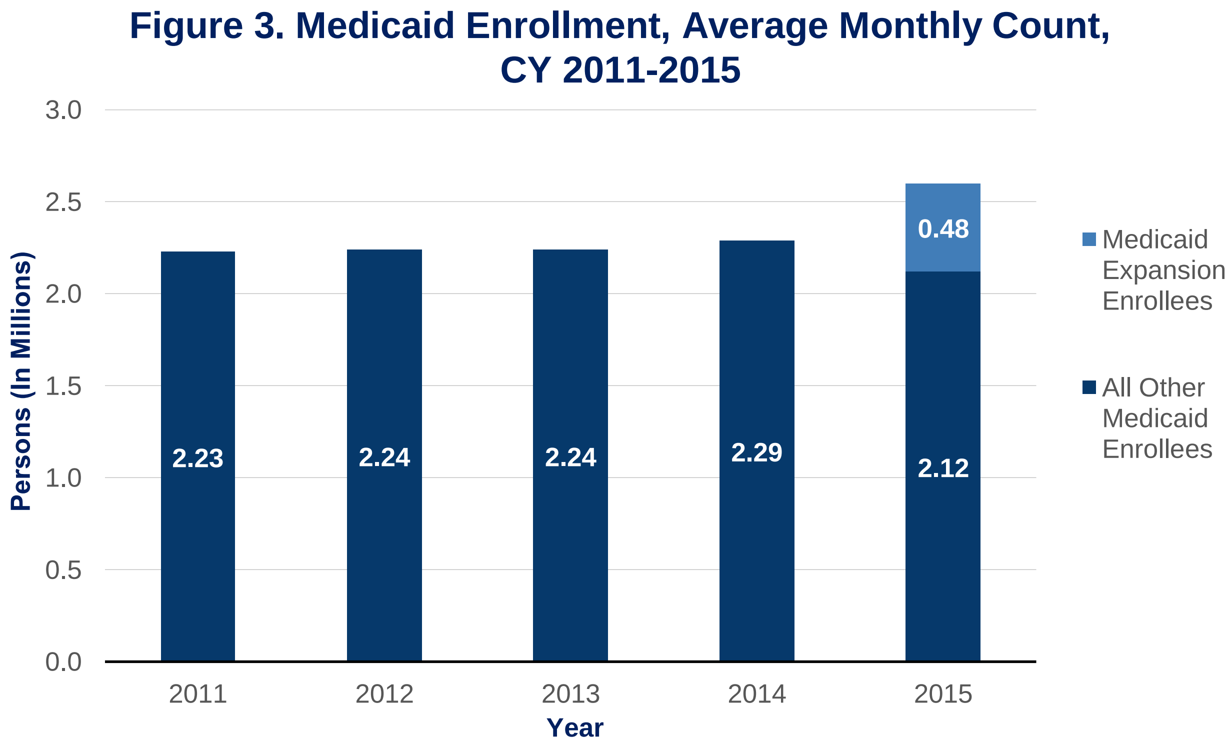
Federal Spending. Figure 1 provides a broad overview of spending in 2008, 2012, and 2016 on six safety net programs or sets of programs including Medicaid, the Supplemental Nutrition Assistance Program (SNAP; formerly Food Stamps), Supplemental Security Income (SSI), the Earned Income Tax Credit (EITC), Social Services, and Education. As Figure 1 suggests, spending on social programs, especially Medicaid and other health programs (not shown), are a major driver of federal spending. Their contribution to the increases in federal spending in recent years, with the exception of Medicaid, are modest compared with Social Security and Medicare increases. The point is that it’s the big insurance programs – Medicare and Social Security – plus Medicaid (and payments on the federal debt), that drive the ongoing increases in spending at the federal level. What about at the state level?

Figure 2. State Spending on Medicaid and Education in Pennsylvania, 2015



Source: Based on tabulations of direct general expenditures at the state level for Pennsylvania from the Annual Survey of State Government Finances, 2015. Medicaid data based on Federal and State Share of Medicaid Spending Table from the Kaiser Family Foundation FY 2016.
Notes: In 2015, Pennsylvania spent $0 on Food Stamp benefits and $0 on EITC. Medicaid data from Fiscal Year 2016.

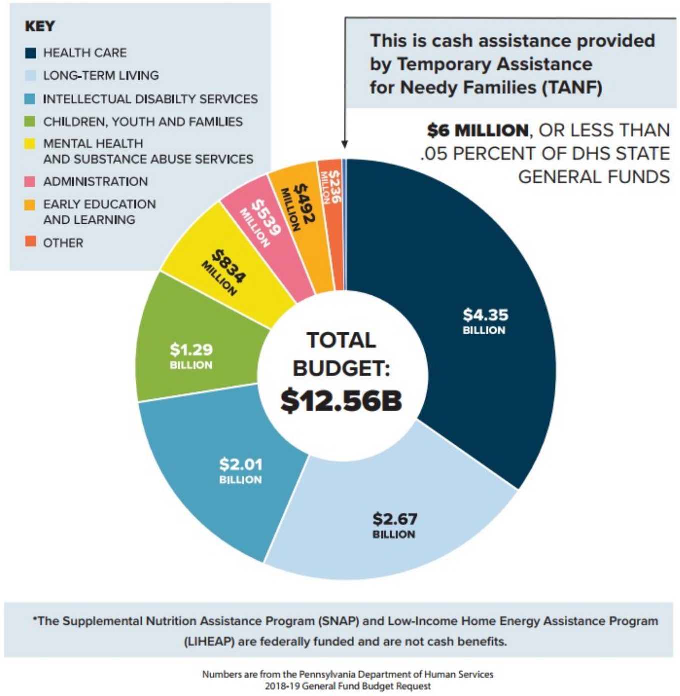
Spending in Pennsylvania. An important question about the social programs portrayed in Figure 1 is whether they require state spending. As Figure 1 makes all too clear, the biggest program by far is Medicaid. Unfortunately, states must match federal Medicaid spending. If federal spending on the Medicaid program increases in a given state, state spending on Medicaid must increase as well. The state-match spending feature of Medicaid combined with the huge size and annual increases in Medicaid outlays make it one of the most expensive social programs in every state. Many states spend more on education than on Medicaid and other children’s health insurance programs, but as Figure 2 shows, Pennsylvania spends slightly more on Medicaid. Spending on many of the other social programs or categories of programs have been increasing as well, but not nearly as much as Medicaid. Some categories of social spending have actually been declining. Even more to the point, states are not required to spend their own dollars on some of these social programs. In 2015, Pennsylvania did not spend any state dollars on Food Stamp benefits. Nor did Pennsylvania spend its own dollars on the EITC, a very expensive program that helps low-income families that work avoid poverty.



Source: Medicaid Expansion Report. (Pennsylvania Department of Human Services, 2017), Figure 8. Medicaid Enrollment by Calendar Year, Average Monthly Count in Millions. Available at http://www.dhs.pa.gov/cs/groups/webcontent/documents/document/c_257436.pdf.

Figure 3 shows that enrollment in the Pennsylvania Medicaid program has been increasing almost every year and that it took a major jump from 2.29 million to 2.60 million in 2015 when the state expansion of Medicaid kicked in (Pennsylvania Department of Human Services, 2017). If the experience of other state is any example, without substantial legislative changes, Medicaid enrollment seems likely to continue growing or at least not decline. It follows that Medicaid will continue to be a major item in the budget of every state. In fact, the trend seems to be, as in Pennsylvania, toward increased spending.

Figure 4. Pennsylvania Department of Human Services Budget



Source: "The True Cost of Welfare." Pennsylvania Department of Human Services. Available at http://www.dhs.pa.gov/publications/infographics/truecostofwelfare/.

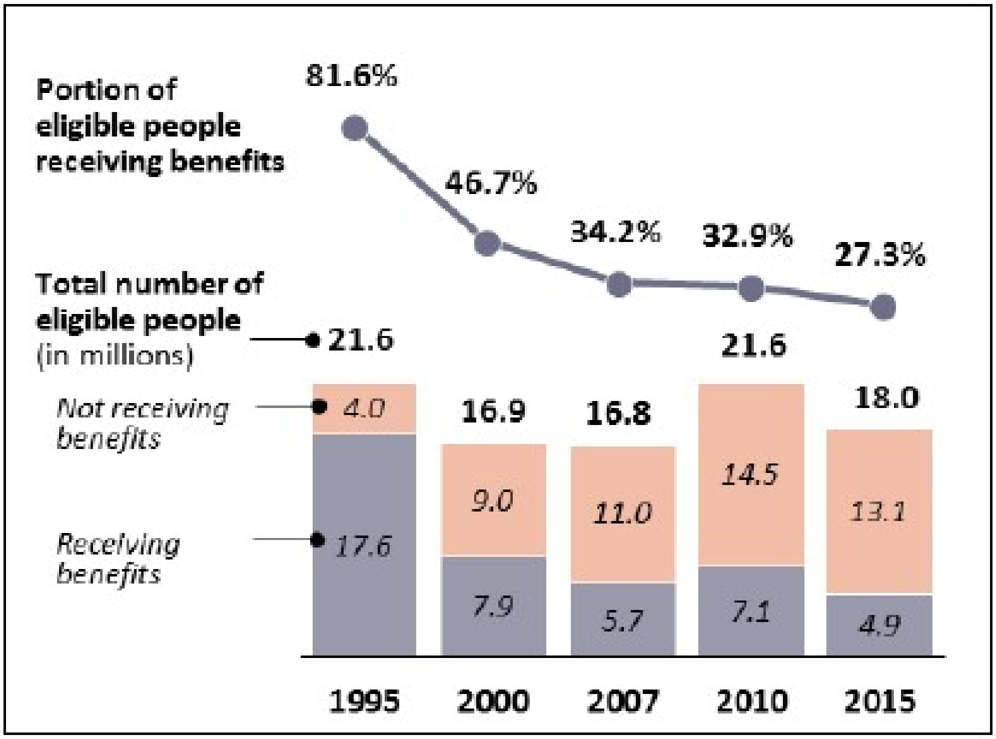
Figure 4 provides a unique way of looking at social spending in Pennsylvania based on an analysis provided by the Pennsylvania Department of Human Services (2017). The total budget of the department for 2018-19 is $12.56 billion. Over 70 percent of these funds are spent on Medicaid and other health care programs, long-term living, and disability services. By contrast, spending on the Temporary Assistance for Needy Families cash welfare program is only $6 million or around 0.05 percent of the total departmental budget.

This analysis of state spending on social programs shows that Medicaid is the program that absorbs the most state money and that poses a constant threat for additional increases. By comparison, most other social programs pose either no major threat to increased spending or at most a comparatively minor threat. It will be difficult to control spending on social programs, let alone reduce them, unless Medicaid spending can be controlled.

Welfare Reform

I preface my analysis of the effects of welfare reform by arguing that there are two broad goals of reform: helping single mothers become self-sufficient and improving the financial well-being of these mothers and their children. Work is central to achieving both goals. As a nation, we have spent many years building both a welfare benefits system that promotes work and a broader system of income supplements for low-income workers, especially those with children, so they will not be poor if they work. This system now improves the financial well-being of millions of Americans, many of whom have never been on welfare. But they must work to enjoy the full advantages of the system.

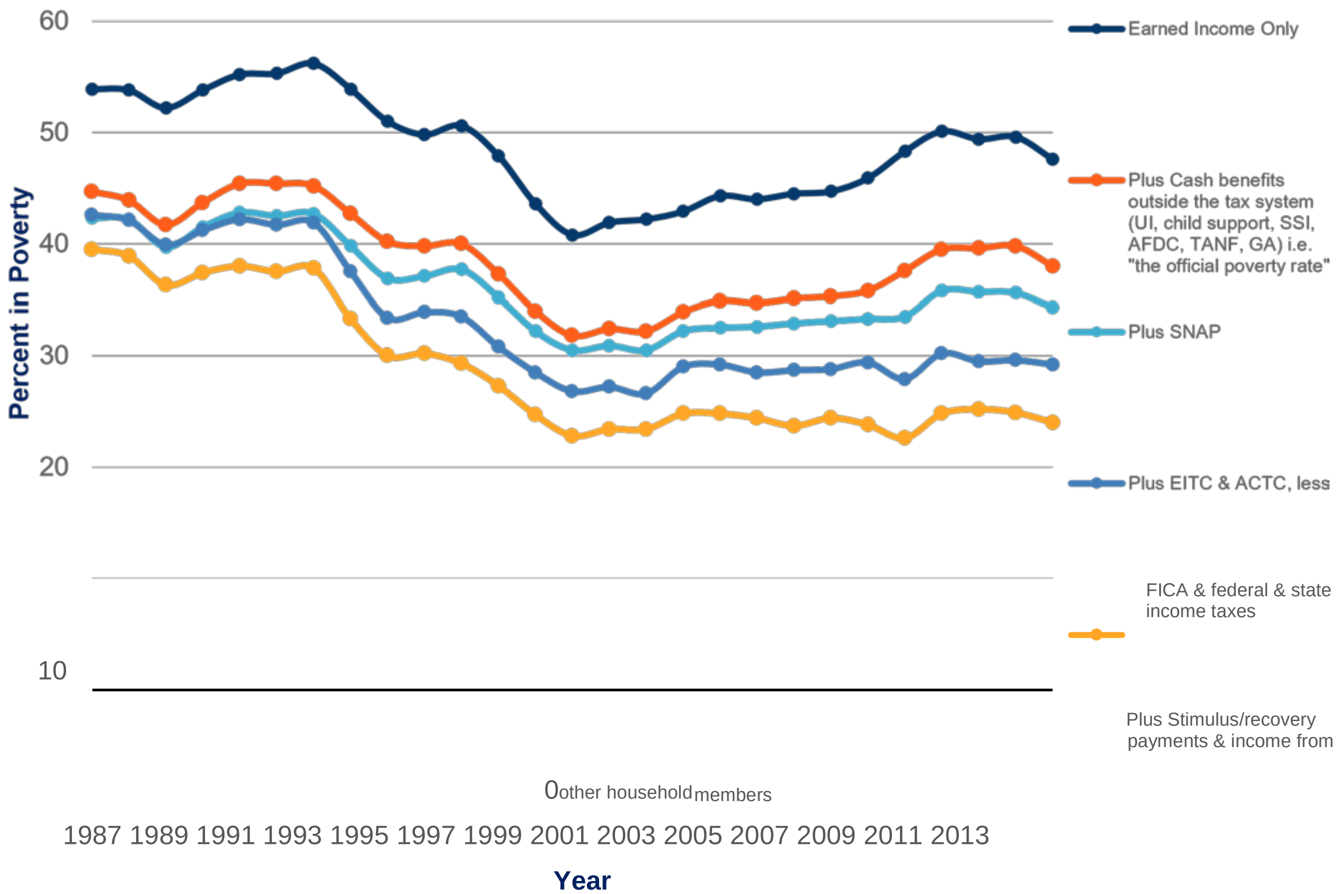
Figure 5. Number of People Eligible for and Receiving Cash Assistance, Selected Years



Source: Gene Falk, *Temporary Assistance for Needy Families: The Decline in the Cash Assistance Caseload,* CRS Report No. IF10889. (Washington, DC: Congressional Research Service, 2018).
Notes: Includes people in state-funded public assistance programs who are eligible for TANF, but excludes families receiving relatively small TANF-funded earnings supplements outside of regular TANF.

The 1996 welfare reform law produced some of the important effects that legislators hope for when they enact reform. In particular, as shown in Figure 5, in the year before federal welfare reform was enacted in 1996, the nation's welfare rolls for the Aid to Families with Dependent Children (AFDC) program had about 17.6 million people. By 2000, four years later, the number of people on cash welfare, which was now called the Temporary Assistance for Needy Families (TANF) program, had declined to 7.9 million; by 2007, the number had declined to 5.7 million. Many people regarded this huge and unprecedented decline in the welfare rolls as a triumph because so many mothers and children had left the rolls. But critics of welfare reform pointed out that the rolls declined, not primarily because people earned more money and no longer qualified for welfare but because they still qualified for welfare but did not, for a variety of reasons, receive the benefit. The line graph near the top of Figure 5 shows the percentage of people (mostly mothers and children) qualified for welfare who actually received benefits in 1995, 2000, 2007, 2010, and 2015. The figure shows a steady decline from nearly 82 percent in 1995 to about 27 percent in 2015, a decline by over 65 percent in the percentage of eligible people who receive the benefit. The conclusion that many critics of welfare reform have drawn from the data in Figure 5 is that the demands of welfare reform have led to a major decline in the financial well-being of some mothers and children qualified for welfare benefits because they did not receive them.

Figure 6. Effect of Earnings, Transfers, and Taxes on the Poverty Rate of Households Headed by Single Mothers, 1987-2013



Source: Thomas Gabe, *Welfare, Work, and Poverty Status of Female-Headed Families with Children: 1987-2013,* CRS Report No. R41917 (Washington, DC: Congressional Research Service, 2014), https://fas.org/sgp/crs/misc/R41917.pdf.
Notes: Poverty status calculated by "Census Bureau family income poverty thresholds scaled for household (rather than family) size and composition." Abbreviations are as follows: Unemployment Insurance (UI), Supplemental Security Income (SSI), Aid to Families with Dependent Children (AFDC), Temporary Assistance for Needy Families (TANF), General Assistance (GA), Supplemental Nutrition Assistance (SNAP), Earned Income Tax Credit (EITC), Additional Child Tax Credit (ACTC), and Federal Insurance Contributions Act (FICA).

However, the appropriate conclusion about welfare reform and financial well-being is more complex than suggested by Figure 5. Tom Gabe of the Congressional Research Service conducted an analysis of the poverty status of all (not just those who were on or had been on welfare) single mothers and their children between 1987 and 2013. His results are portrayed in Figure 6. The first thing we see here is that based entirely on the mother's earnings while ignoring all public benefits, the poverty rate declined substantially from the mid-1990s until the recession of 2000. Then over the next decade (2000 to 2010), the poverty rate based only on earnings increased from about 40 percent to 50 percent of female-headed households, a substantial 25 percent increase. After 2010, the poverty rate among these families leveled off for a few years and, in part because of increased work, began declining again (including in the years beyond 2013; not shown in the figure).

Now comes a very interesting finding about the nation's social policy illustrated in Figure 6. Each of the line graphs below the top line represent the addition of a separate set of income (mostly government benefits) to the earnings shown in the top line. The second line is income from cash benefits and cash insurance including TANF, SSI, AFDC, child support, and Unemployment Insurance. It is evident from the different levels of the top line graph and the second line graph that these government benefits substantially reduce the poverty rate among single mothers who work. The third line graph now adds income from SNAP; the fourth line adds income from the EITC and subtracts Social Security taxes and state and federal income taxes; and the final line graph adds income from various miscellaneous sources, especially other household members besides the mother. When all these sources of income are added to the mothers' earnings, the household poverty rate of the nation's single mothers is cut in half in 2013, from about 48 percent to about 24 percent.

The huge poverty declined illustrated in the Figure, which would be possible without work, are major achievement of the nation's social policy. But this optimistic story about a group of mothers who are doing well by working and receiving work-support benefits does not apply to all mothers. Another conclusion suggested by Figures 5 and 6 and confirmed by recent studies of who benefits from the increase in spending on safety net programs is that mothers and children above the poverty line receive the benefits while those at the bottom of the income distribution are financially worse off (Hoynes and Schanzenback, 2018). There seems to be universal agreement that the nation's improved system of rewarding work has increased the financial well-being of those who work, both those who were prompted to work by welfare and those who had never been on welfare. However, as even the most optimistic interpretations of the impacts of welfare reform on work show, a substantial fraction of mothers leaving welfare do not work regularly and many of these mothers and children are worse off. If they don't work and they don't receive cash welfare, they often struggle (Pavetti, 2018). An important question for states to consider as they assess their welfare reform programs is what they can do to assist these most disadvantaged families. As part of their consideration, they should realize that state programs that have improved the success of mothers on welfare in preparing for good jobs has ranged between about $7,000 and $14,000 per family (Pavetti, 2018b). States could implement good programs to help even the most disadvantaged mothers, but they must be prepared to spending money on the programs.

Welfare Reform and Drug Use and Crime

As the Congressional Research Service (CRS) makes clear in a comprehensive report on crime-related and drug-related restrictions on welfare, welfare programs have often required both meeting a low-income standard and meeting a standard of moral character (McCarty, 2016). As early as the 1930s, AFDC, the predecessor program to TANF, gave states wide discretion to determine whether parents, usually single mothers, were providing a "suitable home" for their children. If the state determined they were not, states could withhold welfare benefits. In some cases, if the suitability of the home was sufficiently deficient, children could even be removed and placed in another residential setting.

In roughly the 1960s and 1970s, the federal government began to be increasingly concerned with rising crime and especially drug use. The Anti-Drug Abuse Act of 1988 included provisions that allowed certain drug users to be denied some federal benefits. The debate on this bill included discussions on the floor of the House and Senate about using welfare eligibility as a tool to reduce drug use. Although there were such provisions in early drafts of several bills, the final bill did not contain any of these provisions. However, the 1996 welfare reform law did. Sponsored by Senator Phil Gramm of Texas, the provision made people convicted of drug felonies subject to a lifetime ban from both TANF and SNAP, although states could opt out of these provisions. The 1996 law also allowed states to drug-test TANF recipients and sanction those who tested positive. As of August 2016, ten states had lifetime bans on TANF for those with drug felony convictions on their record and 27 additional states had "modified" disqualifications such as imposing a shorter-term ban.

The CRS report shows that drug provisions in welfare law have been designed to serve several purposes. These include deterring people, especially parents, from becoming involved in drug-related activities, punishing individuals for engaging in drug-related behavior, directing welfare assistance to households and individuals who are considered more worthy of public benefits than drug users, and protecting vulnerable communities from being victimized by drug related activities. In addition, some states, such as Maine (Grieg, 2015) and North Carolina (Massie, 2016), seem to have created drug programs that would reduce the use of public assistance by drug users and thereby save money. Both media reports and the report from the Congressional Research Service conclude that there is little solid evidence that reforms like these actually save money because states must spend administrative dollars on the programs, especially for drug testing. In addition, the reports tend to show moderate or low drug use among welfare participants.

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