

Strengthening Temporary Assistance for Needy Families

Marianne Bitler and Hilary Hoynes



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BROOKINGS

Abstract

The Great Recession was the longest and by some measures the most severe economic downturn in the postwar period. The experience revealed important weaknesses in the central cash welfare program for families with children in the United States, Temporary Assistance for Needy Families (TANF). First, TANF fails to reach a sizeable share of needy families, does little to reduce deep poverty, and is not targeted to the most needy. Second, in its current form the program does not automatically expand during economic downturns, when the need for the program is likely greatest and the additional consumer spending would be particularly welcome. To strengthen TANF, we propose reforms to expand its reach, improve its responsiveness to cyclical downturns, and enhance its transparency. Together these reforms would make the program more effective in protecting families from deep poverty.

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Chapter 1. Introduction

The passage of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) made sweeping changes to the central cash safety net program in the United States. The Aid to Families with Dependent Children (AFDC) program, commonly known as “welfare,” had provided cash benefits to low-income and primarily single-parent families with children since 1935. After 60 years with minimal changes to AFDC, President Clinton made good on his pledge to end “welfare as we know it,” signing the 1996 federal welfare reform legislation and thereby replacing AFDC with Temporary Assistance for Needy Families (TANF). The key elements of reform under TANF are work requirements, lifetime limits on the duration of welfare receipt, and financial sanctions for failing to adhere to work requirements or other rules. Though not explicitly part of the welfare reform legislation, many states used the flexibility the legislation afforded them to enhance recipients’ ability to maintain eligibility while earning additional income.¹ These changes were designed to facilitate the transition from welfare to work and to reduce dependence on cash benefits. Importantly, time limits shifted the program away from its previous status as an open-ended entitlement. States have considerable discretion in setting TANF policies, but by federal law programs must include work requirements and lifetime limits of five years or less. Federal funding also changed from the uncapped matching formula under AFDC to a capped block grant under TANF. Furthermore, PRWORA included a maintenance-of-effort (MOE) requirement mandating that each state spend at least 75–80 percent of what it spent on welfare programs in 1994.

The PRWORA legislation outlined four specific goals: (1) providing assistance to needy families so that children may be cared for in their own homes or in the homes of relatives; (2) promoting job preparation, work, and marriage among needy parents; (3) preventing and reducing the incidence of out-of-wedlock pregnancies; and (4) encouraging formation and maintenance of two-parent families.

It is important to point out that cash welfare provides benefits only to families with quite low incomes: eligibility cutoffs and benefit levels are substantially below the poverty line. For example, prior to welfare reform, the median state provided cash benefits to families with income below 68

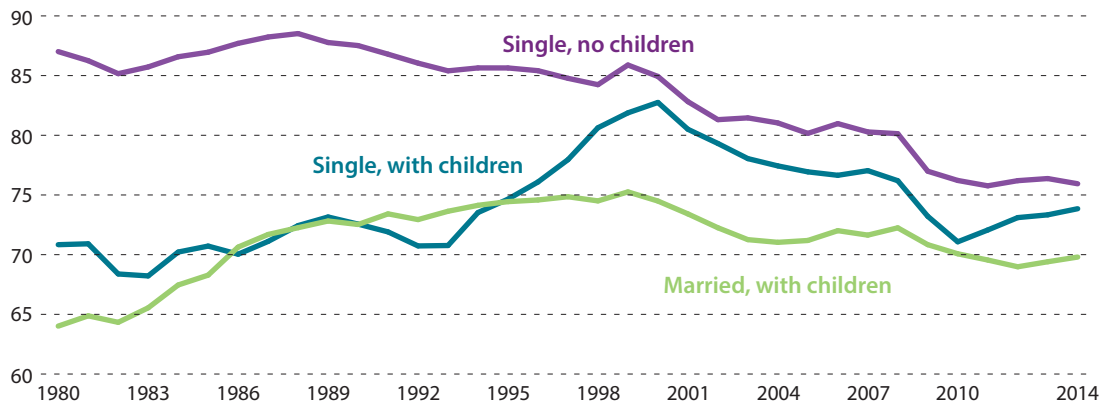
percent of official poverty and the median state’s benefit level for a family of three was about 36 percent of the 1996 official poverty guideline (U.S. House of Representatives 1996).² State benefits varied widely across states during the AFDC era; for example, in 1996 maximum benefits for a family of three were \$120 per month in Mississippi and \$607 per month in California. PRWORA freed states to use their block grant and state MOE spending on a variety of noncash benefits with different eligibility requirements, as we discuss below. TANF now consists primarily of non-cash assistance (only about a quarter of TANF spending is on cash assistance nationally) while prior to welfare reform most (though not all) AFDC spending took the form of cash benefits.

In the wake of this landmark welfare reform legislation, there was substantial concern that the new policy would lead to increases in poverty and deprivation among disadvantaged families. This led to literally hundreds of studies evaluating the impacts of state waivers and welfare reform on family and child well-being. A broad summary of that voluminous literature is that welfare reform contributed to a significant reduction in welfare participation and an increase in female employment, with little consistent evidence that reform led to an increase (or decrease) in poverty or a worsening of (or improvement in) child well-being.³

Federal welfare reform, however, did not occur in isolation, making it difficult to rigorously identify its effects. During this same period there was a large expansion of “in-work” aid for low-income families with children through the Earned Income Tax Credit (EITC), and the economy had the strongest labor market for low-skilled workers in half a century. Each of these three forces—welfare reform, the EITC, and the strong economy—would be expected to lead to increases in employment. Figure 1 shows trends in employment rates (an individual is considered to be employed if any weeks of work are recorded during the calendar year) for single women with children. For comparison, figure 1 also shows employment rates for married women with children and for single women without children. The figure shows the dramatic increase in employment for single mothers: between 1992 and 2000, the employment rate of single women with children increased by 12 percentage points from 70.8 to 82.8 percent. The increase in employment is even larger for lower-educated single

FIGURE 1.

Employment Rates for Women Aged 20–54, 1980–2014



Source: Authors' calculations from the 1981–2015 March Current Population Survey (CPS).

Note: Employment is measured annually and is defined as having worked at least one week during the calendar year preceding the survey year.



mothers: those with less than a college degree increased their employment rates by 12.5 percentage points (from 68.8 to 81.3 percent; not shown). Note that, by comparison, employment rates for married women and single women without children did not experience these dramatic increases. Additionally, by the end of the expansion of the 1990s, the cash welfare caseload had fallen by more than 50 percent from its peak in 1994—to levels not seen since 1970. From 1992 to 2000, the official child poverty rate declined by 6.1 percentage points from 22.3 to 16.2 percent. The research concludes that all three factors—welfare reform, the EITC, and the strong labor market—played a role in the dramatic changes in the 1990s (e.g., Grogger 2003; Meyer and Rosenbaum 2001) and that the strong labor market of the late 1990s and the expansion of the EITC may have softened any negative impacts of welfare reform on poverty.

Of course, the dramatic expansion of the 1990s eventually ended with a short recession in 2001, followed by a relatively

weak expansion, and then in 2007, by the Great Recession—the longest downturn since World War II. In this contraction the national unemployment rate increased by 5 percentage points from 5.0 in December 2007 to 10.0 in October 2009, exceeding the largest increases seen during either of the deep recessions of the early 1980s. Incomes declined, poverty increased, and families' participation in government assistance through unemployment insurance (UI) benefits and food assistance rose substantially. By contrast, the TANF caseload remained relatively flat, and even continued to decline in some states. This happened despite the creation of a new emergency fund (as part of the 2009 stimulus) which allowed states to fund a variety of activities, including cash assistance, child care, and some innovative training and work programs. This new wave of state experimentation echoed some of the state innovations at the dawn of TANF in the late 1990s, when states were flush with savings from reduced caseloads. But this was ended within two years, and states have been, if anything, disinvesting (in contrast to the experimentation of the late 1990s).

Chapter 2. The Challenge

The experience of the Great Recession and the broader emerging trends revealed important holes in the safety net. In particular, TANF falls short along two dimensions. First, TANF currently fails to reach a sizeable share of needy families, does little to reduce deep poverty, and is not targeted to the most needy. Second, in its current form the program does not automatically expand during economic downturns, when the need for the program is likely greatest and the additional consumer spending would be particularly welcome.

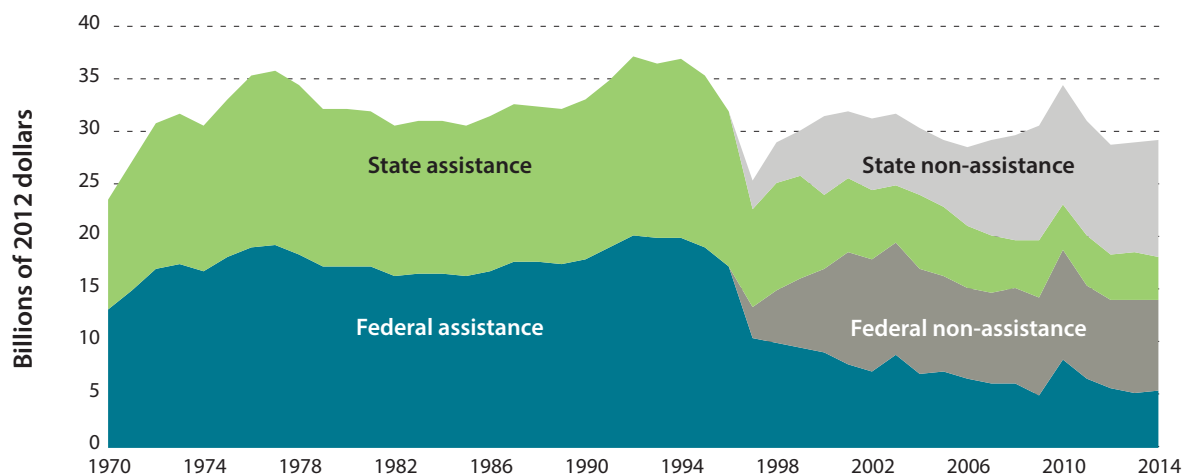
A. THE LIMITED REACH OF TANF

With regard to the first deficiency, a major challenge is that states currently allocate a small share of TANF dollars to cash assistance—partly a result of the wide latitude given to states under welfare reform about how they can spend their TANF dollars. In 2014, states spent, on average, about one-quarter of their TANF funds on basic cash assistance, and another one-quarter on child care and other work-related support activities.

Figure 2 shows aggregate real expenditures on the category of “assistance” from the federal block grant and state funds, showing a significant decline following welfare reform. For this figure, we use the HHS distinction between “assistance” and “non-assistance”: HHS defines assistance as “benefits directed at basic needs” (plus some supportive services); this corresponds largely to cash assistance. HHS defines non-assistance as all other TANF benefits. Between 1995 and 2000 federal assistance fell from about \$19 billion to \$9 billion in real terms, a decline of about 50 percent (Ziliak 2015).

With this latitude, states spend their TANF dollars on a host of programs outside of basic assistance. As we will discuss, this reallocation away from cash assistance is potentially a problem for a couple of reasons. First, the noncash benefits often are provided to relatively better-off recipients. Second, some of these noncash benefits may be of lower value: for example, work assistance is of limited value when employment opportunities are very scarce.

FIGURE 2.
AFDC/TANF Expenditures, by Category, FY1970–FY2014



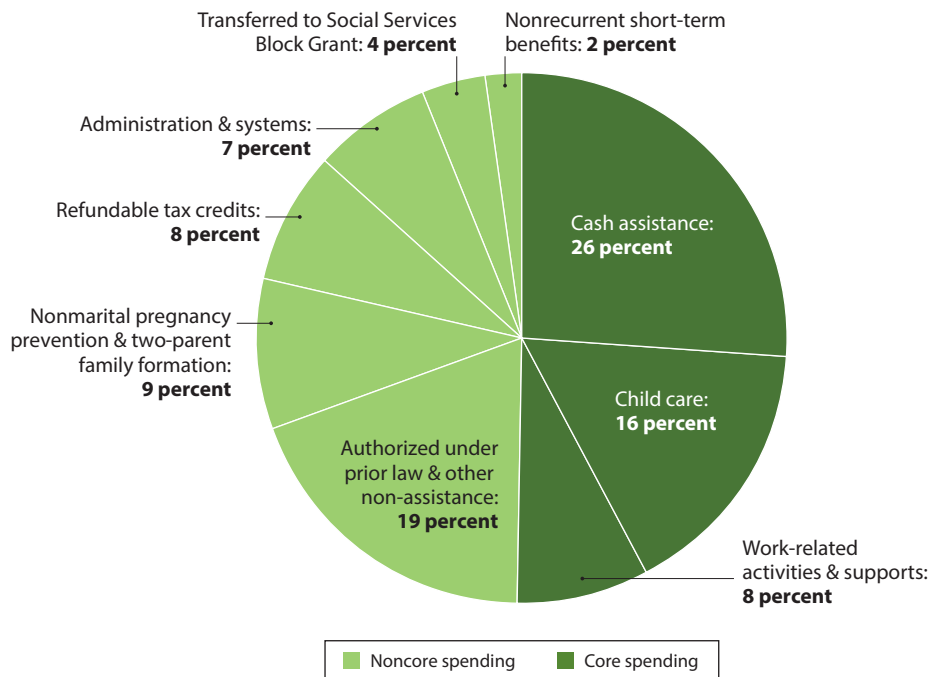
Source: Ziliak 2015, updated with data for 2013 and 2014.

Note: “Assistance” includes the categories of basic assistance, child care, transportation and supportive services, and “assistance under prior law,” or spending of federal funds (but not MOE funds) for purposes outside the four main goals of the 1996 welfare reform law, but which is nonetheless permitted because it supports a service that was in the state’s AFDC Emergency Assistance Program when TANF replaced AFDC. “Non-assistance” includes the categories of work-related activities, some additional child care and transportation spending, refundable tax credits, prevention of out-of-wedlock pregnancies, two-parent family formation and maintenance, administration, and systems, among others.

Figure 3 shows the breakdown by category of TANF block grant and state maintenance-of-effort (MOE) spending in fiscal year 2014: core spending categories of cash assistance, child-care services, and work-related activities are shown in dark green and noncore spending is shown in light green. Spending on noncore activities (activities besides cash assistance, child care, and work-related activities and

supports) ranges from state refundable earned-income tax credits (8 percent) and prevention of nonmarital pregnancies and formation of two-parent families (9 percent), to recurrent short-term benefits (2 percent). “Other non-assistance” includes a wide array of spending, “including funding for services related to child abuse and neglect, pre-kindergarten and other early childhood programs, short-term emergency

FIGURE 3.
TANF Block Grant and State MOE Spending as a Share of Total, by Category, FY2014

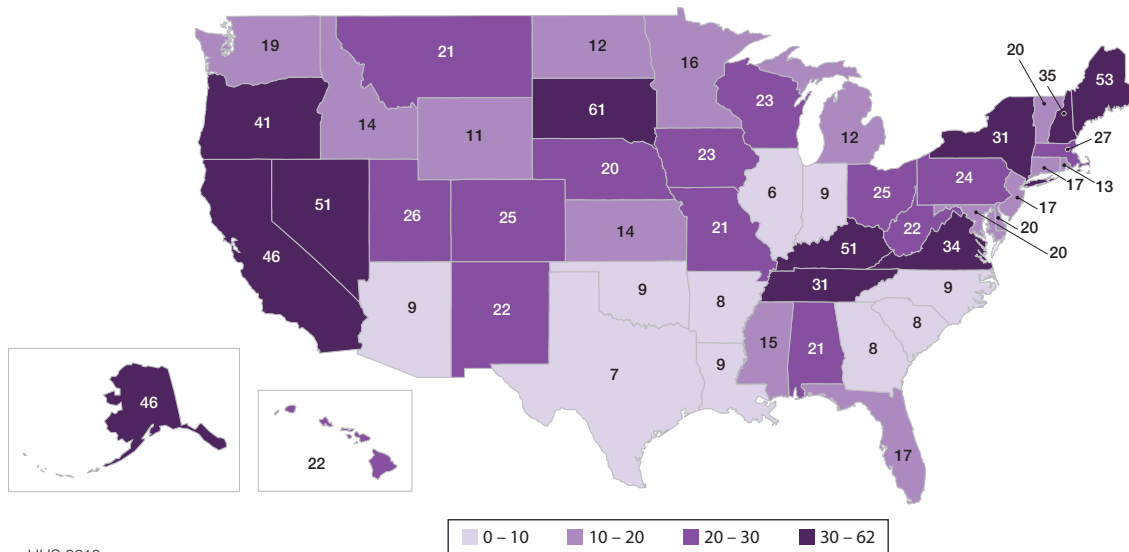


Source: HHS 2016.

Note: “Authorized under prior law” refers to the spending of federal funds (but not MOE funds) for purposes outside the four main goals of the 1996 welfare reform law, but which is nonetheless permitted because it supports a service that was in the state’s AFDC Emergency Assistance Program when TANF replaced AFDC.



FIGURE 4.
Cash Assistance as a Share of Total TANF Spending, by State, FY2014



Source: HHS 2016.



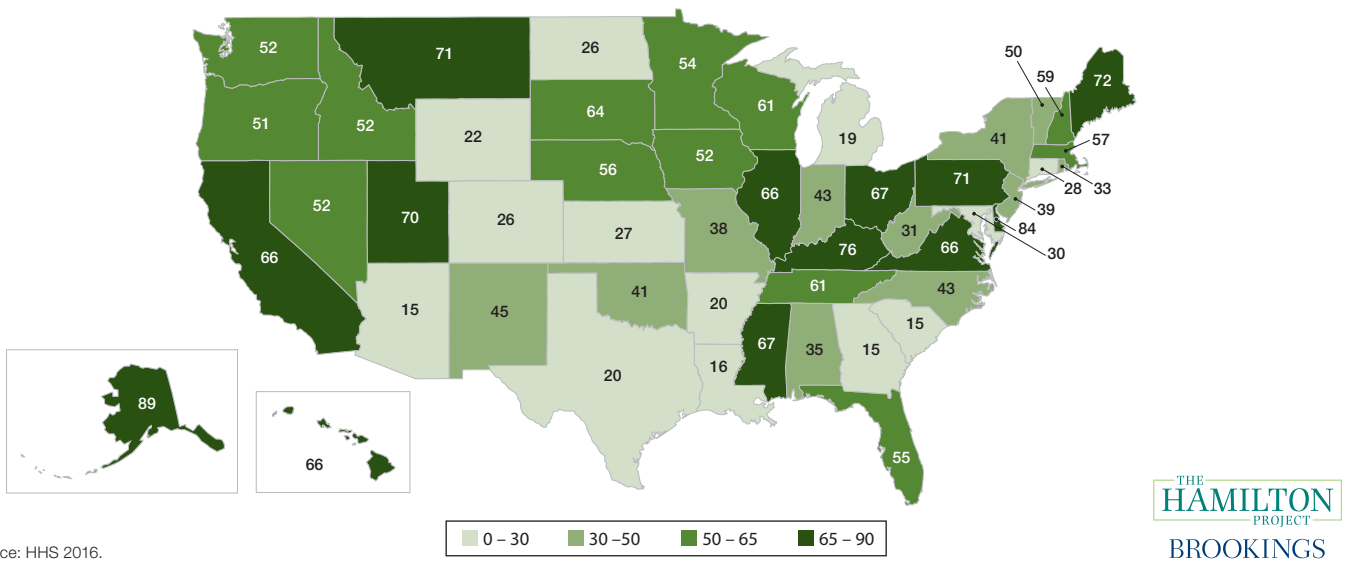
aid, state responsible-fatherhood and marriage programs, and programs for adolescents” (U.S. Congressional Research Service 2015, 11). In addition to flexibility on what services and programs the TANF block grant funds, TANF also gives states a great deal of flexibility as to the income levels of recipients at whom the spending is directed, particularly for spending tied to child care, TANF goal 3 (preventing and reducing nonmarital births) and TANF goal 4 (encouraging formation and maintenance of two-parent families). Before welfare reform, AFDC primarily served the very needy (the median state extended cash assistance to families with income below

68 percent of official poverty). While the precise distribution of spending across income groups is not known, a large share of TANF spending goes to individuals with incomes far above the level served by the program before welfare reform. In short, TANF is less targeted to the most-needy families, compared to AFDC.

This national summary of block grant and state MOE spending obscures what turns out to be significant variation across states in their allocation of TANF dollars. Figure 4 shows the variation across states in cash assistance as a percent of total

FIGURE 5.

Cash Assistance, Work-Related Supports, and Child Care as a Share of Total TANF Spending, by State, FY2014

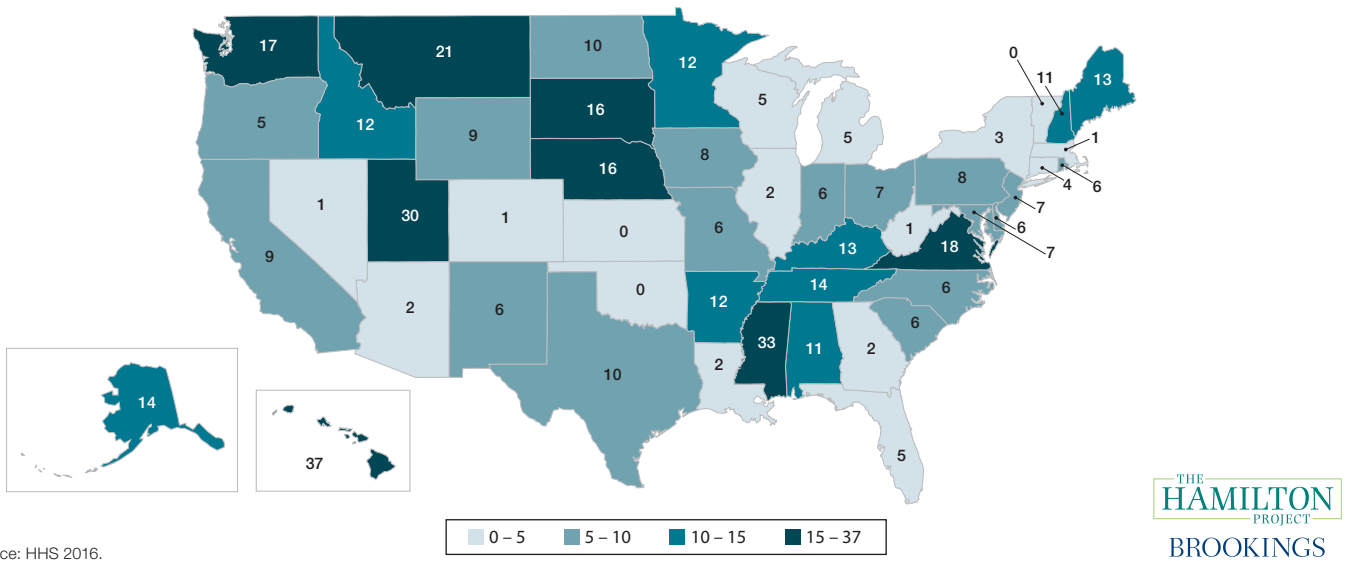


Source: HHS 2016.



FIGURE 6.

Work-Related Supports as a Share of Total TANF Spending, by State, FY2014



Source: HHS 2016.



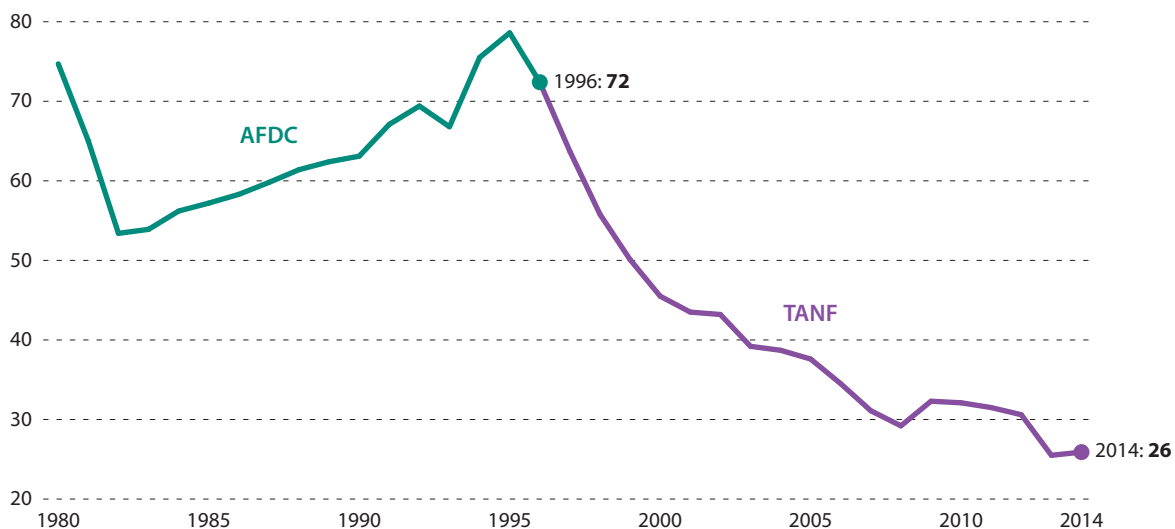
TANF spending and figure 5 shows the sum of cash assistance, work-related supports, and child care as a percent of total TANF spending. This shows that states differ widely in their allocation of TANF dollars across cash and other categories. For example, as shown in figure 4, only 7 percent of spending in Texas is on cash assistance, compared to almost 46 percent in California. Thirty-five states spend less than a quarter of their TANF funds on cash assistance. Additionally, as shown in figure 5, 23 states spend less than half of their funds on core categories (cash assistance, child care, and work-related support activities). Again, the range is also wide: Pennsylvania spends 71 percent of its TANF funds on the three core categories whereas Georgia and Arizona each spend just 15 percent on them. Figure 6 shows spending on work-related activities and supports as a share of total TANF spending. This figure shows that states that spend a lot on cash assistance are not always those that spend a large share on the other core components. It is further worth noting that assistance tied to work may not be helpful when no work is available (Bitler, Hoynes, and Kuka forthcoming).

The overall effect of the decline in cash assistance is a dramatic reduction in TANF’s effectiveness in reaching needy families. Figure 7 shows trends in the number of families receiving TANF cash assistance for every 100 families with children in poverty.⁵ The figure shows a steady decline in the receipt of TANF among the population in need after welfare reform. In 1996 72 families received TANF per 100 families with children in poverty; in 2014 this number had fallen to 26. Driving this

change is the dramatic reduction in the TANF caseload, rather than an increase in poverty. Research suggests that only a small share of individuals participating in TANF become ineligible due to exhaustion of their lifetime limits, and Haider and Klerman (2005) show that reductions in the caseload are mostly driven by decreased entry. This may have changed in the past 10 years. Little is known, however, about whether these declines primarily reflect a reduction in applications for the program or an increase in application denials. It is also unclear how these declines are related to state decisions about allocating funds across cash assistance, other core activities, and noncore activities.

Another way to see the decline in TANF’s ability to reach those in need is to calculate the magnitude of the antipoverty effects of TANF over time. Figures 8a and 8b, from Sherman and Trisi (2015), shows how TANF (and AFDC before it) lowers poverty and deep poverty, and how this compares to the other central elements of the social safety net, including the Supplemental Nutrition Assistance Program (SNAP), tax credits (the Earned Income Tax Credit and the Child Tax Credit), and Supplemental Security Income (SSI). Deep poverty is defined as having income below 50 percent of the poverty line. This calculation does not incorporate behavioral effects (i.e., worker responses to the existence of a given social program), but simply compares the poverty rate including and excluding reported family TANF income.⁶ The results in figure 8a show that in 1995, on the eve of welfare reform, AFDC removed 2.4 million children from deep poverty. Post-welfare reform, in

FIGURE 7.
Number of Families Receiving AFDC/TANF Benefits for Every 100 Families with Children in Poverty, 1980–2014



Source: HHS 2016; authors’ calculations from the 1981–2015 March CPS.

2010, TANF removed 600,000 children from deep poverty—a 75 percent reduction in the children the program lifts out of deep poverty.⁷ In contrast, the number of children removed from deep poverty by tax credits (EITC and CTC) and SSI have remained steady between 1995 and 2010. Figure 8b shows the number of children lifted above 100 percent of poverty, by program. In 1995, AFDC lifted 1.8 million children out of poverty, but in 2010 TANF raised only 800,000 out of poverty. In contrast to the declining role of TANF, other antipoverty policies, notably SNAP and the EITC, have expanded and were lifting substantially more children out of poverty in 2010 than they did in 1995. Thus, the hole in the safety net produced by welfare reform is particularly evident for the most disadvantaged, in part because eligibility for AFDC and TANF cash assistance usually ends well below the poverty

threshold. Other changes in policy, notably the expansion of the “in-work” safety net (the EITC), are providing protection to those a bit farther up the income scale (those around the poverty threshold). This is also the conclusion of Edin and Shaefer (2015), who focus on the growing number of people living on \$2.00 per day.

Under AFDC cash assistance was the vast majority of the program, but under TANF it is only part of the program. In part, the decline in cash assistance in TANF was offset by other spending, but much of this other spending was less tightly targeted on those who would have been eligible for the AFDC program. Overall, what went to families in the form of cash pre-reform is now provided in the form of services, playing a less direct role in reducing poverty.

FIGURE 8A.

Number of Children Raised Out of Deep Poverty (Below 50 Percent of Poverty), Selected Years

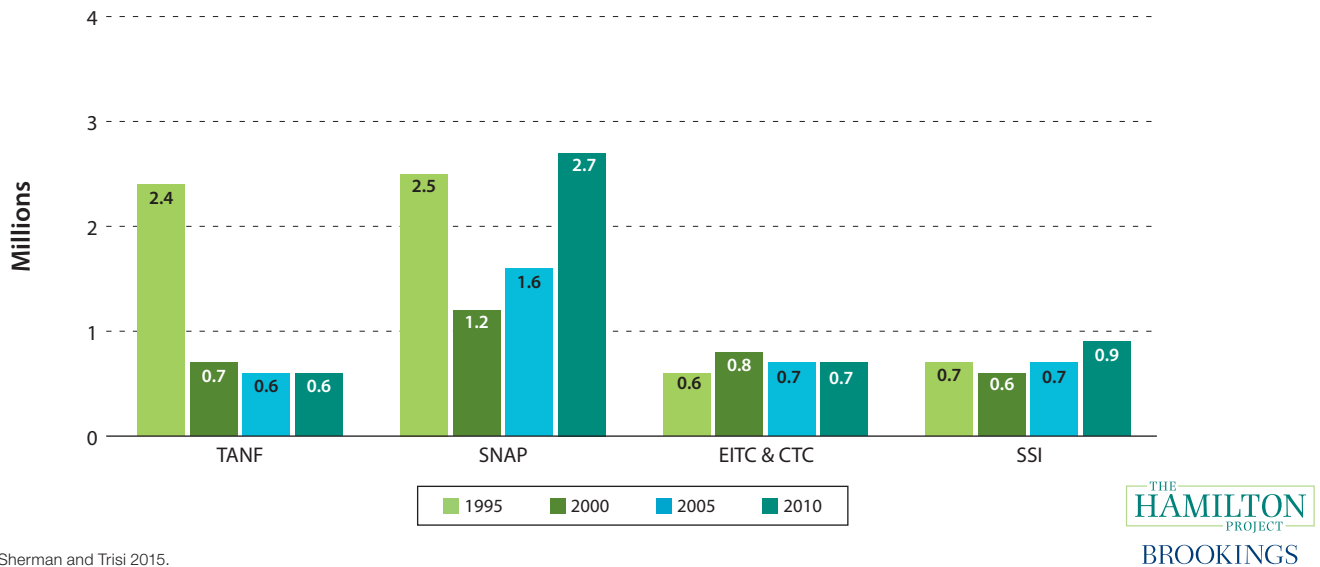
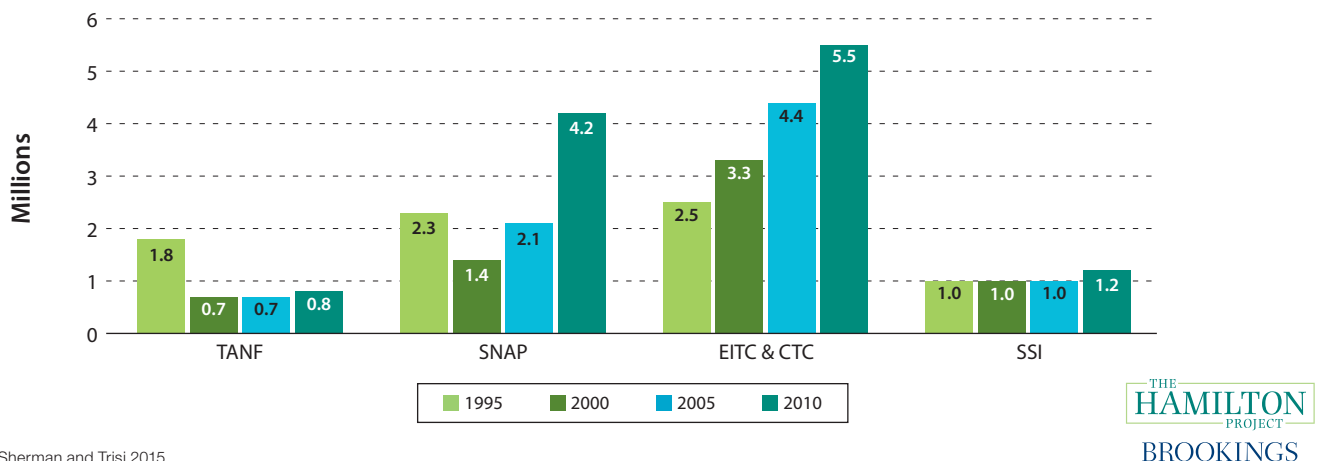


FIGURE 8B.

Number of Children Raised Out of Poverty (Below 100 Percent of Poverty), Selected Years



In addition to providing states with more-flexible funding to meet the goals of PRWORA, states face new TANF work participation rate targets that aim to measure how well states engage families receiving assistance in certain work activities. States can lose funding if they do not meet these targets (U.S. Congressional Research Service 2012). The rates are high—50 percent for work-eligible adults in the full caseload and 90 percent for those in two-parent families. However, a state’s target work participation rate is decreased for every percentage point decline in the state’s caseload between the previous year and the base year (set by PRWORA to 1995). This caseload reduction credit eased the stringency of the work participation rate targets, given the dramatic declines in caseloads in the aftermath of PRWORA. However, the Deficit Reduction Act of 2005 made two changes that greatly increased the stringency of the work participation rate. First, the Deficit Reduction Act stepped up the base year for the caseload reduction credit to 2005, and consequently, many fewer states were able to claim substantial caseload reduction credits. Second, under this act the work participation rate now applies to those receiving assistance under state maintenance-of-effort (MOE) spending as well as the federal TANF grant.⁸ Previously, states could structure their MOE spending such that it did not affect the official work participation rate. After the 2005 rule change some states responded by moving recipients to “solely state funded” programs that are not included in MOE spending. States are not

required to report to HHS on these programs, because they are not funded with federal dollars and do not contribute to a state’s MOE requirement, yet many states provide benefits much like TANF cash assistance for these solely state funded families. The takeaway here is (1) states face a high and rising accountability standard, (2) they make changes via state spending to meet these standards, and (3) we track only the share of recipients and spending associated with MOE and federal TANF spending.

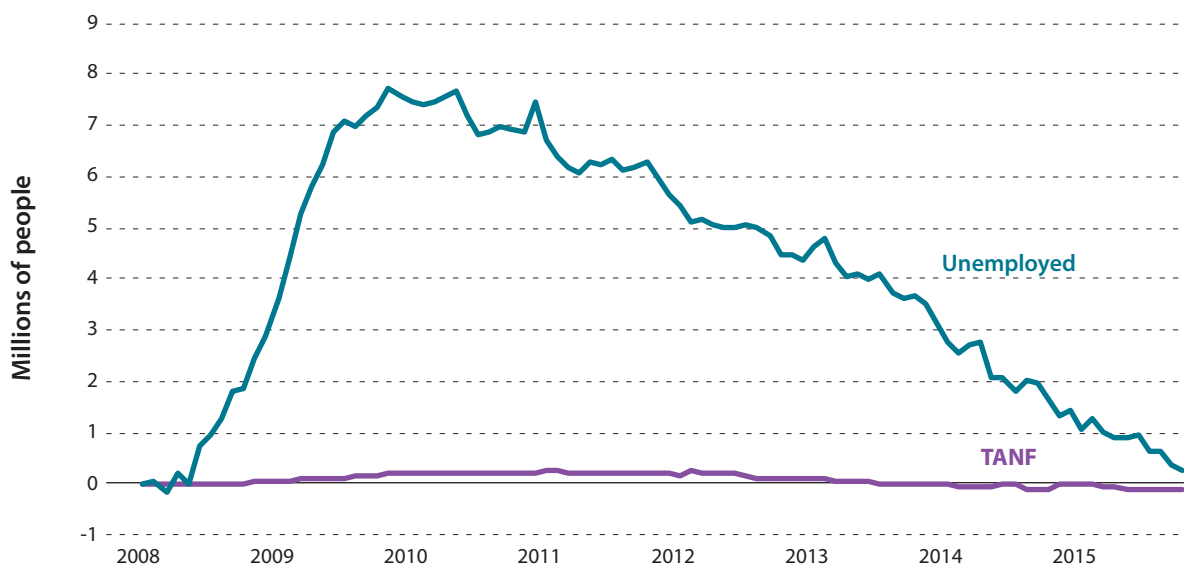
B. TANF’S FAILURE TO RESPOND TO ECONOMIC DOWNTURNS

The second challenge is that TANF is unresponsive to economic downturns. One way to illustrate this is to show how the caseload changed when unemployment rose during the Great Recession. Figure 9 shows the monthly number of unemployed persons and the monthly TANF cash assistance caseload during and after the Great Recession, each shown relative to its value in December 2007. Even though unemployment rose sharply, the TANF caseload increased only modestly, and it did so with a lag. By the end of 2014, the TANF caseload was lower than it was at the end of 2007, even though the economy had not returned to its prerecession unemployment level.

Of course, one might argue that total unemployment is a poor proxy for the population likely to need TANF. Thus we can also compare TANF cash assistance caseloads to trends in

FIGURE 9.

Change in the TANF Caseload, and Change in the Number of Unemployed Persons, December 2007–September 2015



Source: HHS 2016; Bureau of Labor Statistics 2015.

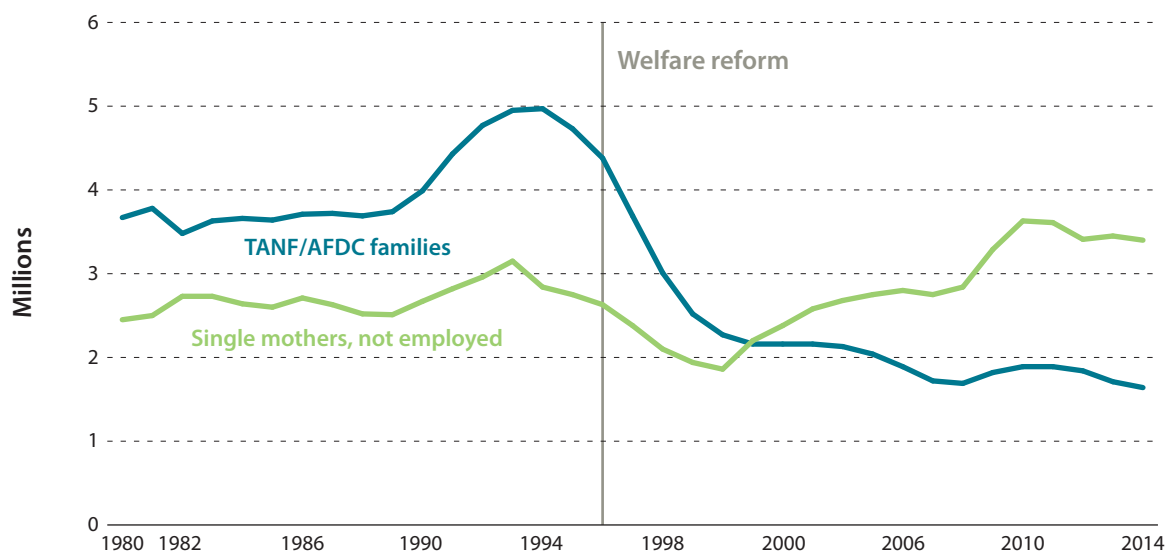
nonemployment among single mothers—a group that better proxies the population likely to need TANF. Figure 10 shows this trend and extends it to look across a longer period. In the roaring economy of the late 1990s, both the number of single mothers who were not employed and the caseloads of AFDC and then TANF dropped sharply. Starting in 2000, though, as the number of nonemployed single mothers started to rise substantially, the TANF caseload continued to fall modestly, and showed only a very slight increase from 2008 through 2012 during the labor market collapse of the Great Recession.

We can also use variation across states in the severity of the recession to illustrate the lack of responsiveness of TANF. Figure 11 plots the change in state-level unemployment rates from 2007 to 2009 against changes in the TANF cash assistance caseload, and for comparison the SNAP caseload, over the same period.⁹ In the figure, the size of each state’s population is proportional to the area of the circle representing the data point. The horizontal axis shows the change in state-level unemployment rates—a proxy for the severity of the recession in each state—and the vertical axis shows the percent change in the SNAP or TANF per-capita cash assistance caseload over the same period. Note that there was considerable variation across states in the magnitude of the recession. Between 2007 and 2009, changes in annual state-level unemployment rates ranged from about 1 to 7 percentage points. The left panel illustrates

the change in the SNAP caseload over this timeframe. All states experienced an increase in SNAP participation, but those with larger increases in unemployment experienced larger increases in SNAP, indicating that SNAP was responsive to this severe cyclical downturn. For TANF, as shown in the right panel, there is a starkly different relationship. One would expect a safety net program to expand during a recession, but changes in the TANF caseload bore no relationship to increases in unemployment. In fact, more than half the states saw declines in their TANF rolls. If state-level unemployment rates were a poor proxy for single-mother unemployment rates, this might partly explain the lack of responsiveness documented in figure 11. Appendix figure 1 shows that this is not the case, however: the official state-level unemployment rates for women are strongly and positively correlated with our measures of the unemployment rates from the CPS for single mothers aged 20–54.¹⁰

This lack of connection between TANF cash assistance and the dramatic decline in employment opportunities in the Great Recession led to greater volatility in deep poverty than expected. Bitler and Hoynes (2015, 2016) find that deep poverty exhibited greater sensitivity to increases in unemployment rates in the Great Recession than it did in earlier recessionary periods that preceded welfare reform. Edin and Shaefer (2015) also document this finding in their ethnographic account of deep poverty in the post-welfare reform period. Additionally,

FIGURE 10.
Number of Families Receiving TANF/AFDC and Number of Single Mothers not Employed, Aged 20–54, 1980–2014

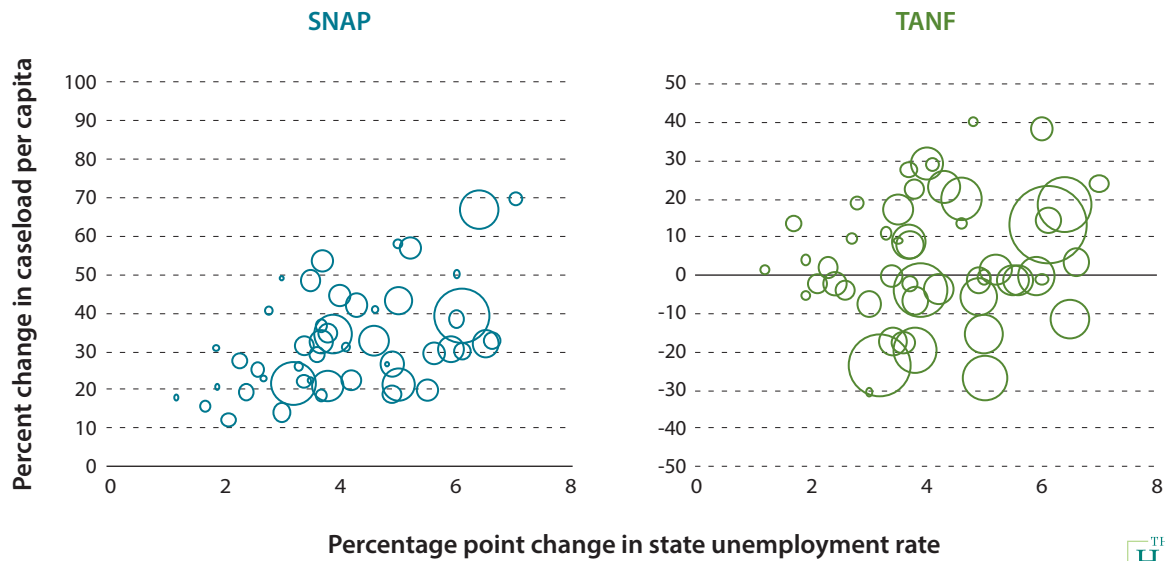


Source: Authors’ calculations from the 1981–2015 March CPS; HHS 2016.

Note: Employment is measured annually and is defined as having worked at least one week during the calendar year preceding the survey year; not employed corresponds to having worked no weeks during the preceding calendar year.

FIGURE 11.

Change from 2007 to 2009 in State Unemployment Rate vs. Change in Safety Net



Source: Bitler and Hoynes 2010.



TANF’s lack of responsiveness to the business cycle means a lost opportunity for the important automatic stabilizing role that the social safety net typically plays in periods of low aggregate demand.

Other programs in the social safety net provided significant support to households affected by the Great Recession. Fueled in part by benefit increases as part of the economic stimulus, SNAP expenditures amounted to \$71.8 billion in 2011, with more than one in seven people in the United States receiving SNAP benefits. The maximum duration of UI benefits was extended to 99 weeks. The stimulus contained many provisions that targeted lower-income families, including the Making Work Pay tax credit and increases in the generosity of SNAP, UI, the EITC, and the CTC.

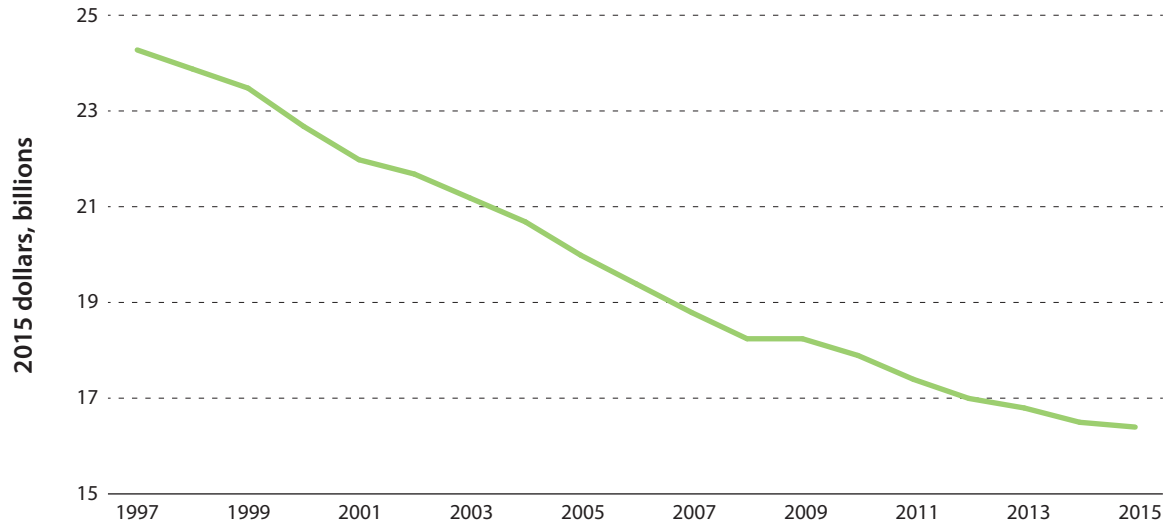
Much of the lack of cyclical response of TANF is likely attributable to the block-grant form of the program. Previously, under AFDC, the program was an entitlement and therefore outlays would expand as demand for aid increased. Under TANF, though, states receive block grants that are fixed in nominal terms each year, regardless of macroeconomic conditions. To some extent this inflexibility of the TANF block grant was addressed with the American Recovery and Reinvestment Act of 2009, which included a \$5 billion TANF Emergency Contingency Fund. The Emergency

Contingency Fund offered 80 percent federal funding for new TANF spending in the categories of cash assistance, non-recurrent short-term payments, and subsidized employment. This program led to a needed infusion of resources for states. However, the allocation of additional funds reflected the existing pattern of TANF spending: only 32 percent of the contingency fund was spent on cash assistance, with 26 percent spent on subsidized jobs and 42 percent spent on non-recurrent short-term payments. For both of the latter categories, little evidence exists that the benefits targeted the most disadvantaged. Unfortunately, the Emergency Contingency Fund lasted only two years—likely shorter than the duration necessary to meet increased need given the weak economic recovery.

Finally, as mentioned previously, the TANF block grant has remained fixed in nominal terms at its 1996 level. With nearly two decades of price inflation since the block grant was established, the real value of the grant has declined by one-third, as shown in figure 12. Additionally, due to geographic changes in the population of poor children, the amount of TANF block funding allocated to each state may no longer reflect the needs of the U.S. population. To the extent that the distribution of poor children across states has shifted, the allocations from the mid-1990s no longer make sense today.

FIGURE 12.

Real Value of TANF Block Grant, 1997–2015



Source: HHS 2016.

Note: The data are adjusted for inflation using the Consumer Price Index.



Chapter 3. The Proposal

To strengthen TANF, we propose reforms to expand both its reach and its responsiveness to cyclical downturns, and to improve the program’s transparency. The former will improve TANF by making it a stronger part of the safety net. The latter will help us understand how the program works, who it supports, and who is seeking access to the program.

A. EXPAND THE REACH OF TANF

In addition to the core categories of cash assistance, child care, and work-related support activities, states have used their TANF funds in a variety of ways ranging from refundable tax credits to the prevention of nonmarital pregnancies. As a result, some states spend very little on cash assistance and core support—in FY2014 35 states spent less than 25 percent of TANF funds on cash assistance and 23 states spent less than 50 percent on the three core categories. Furthermore, states are using TANF funds to support individuals who are likely at higher income levels than those served by the program prior to reform.

We propose that Congress enact legislation to require states to spend at least 25 percent of annual TANF funds on cash assistance and at least 50 percent on the core support categories. To provide flexibility to states that are out of compliance with the new requirement, it should be phased in over a five-year period during which states would be held to intermediate goals that would allow them to gradually move toward compliance. For example, if a state were currently spending 30 percent of its TANF funds on core support, it would need to increase this share by 4 percentage points each year to reach 50 percent in five years. This new requirement would restore some pre-reform cash spending while still providing considerable state flexibility.

Currently, states can use TANF funds to meet any of the four goals set out in the 1996 welfare-reform law. Some of the goals may allow for funds to be spent on relatively high-income recipients. To improve the targeting of the spending we propose that all TANF funds apply to individuals and families below 150 percent of the federal official poverty threshold.

As discussed previously, states face increasingly stringent work participation rate requirements and are adjusting their programs and spending to remain in compliance. Yet we are proposing that the program spend a larger share on cash assistance, which is targeted to exactly the group least likely

to meet the current work requirements. To make it feasible to meet these new rules, we propose that Congress reduce the work participation rate targets to 40 percent for the full caseload and 70 percent for two-parent families, to encourage states to keep those who are least work-ready on the TANF caseload. Another option is to broaden the range of activities that can count toward the work participation rate targets.

B. IMPROVE ACCOUNTABILITY MEASURES

We further propose that Congress amend the TANF legislation to improve measures of accountability by collecting additional information on spending (particularly on noncash assistance recipients), on application determinations, on program reach, and on employment outcomes. This would help fill a huge gap in our understanding about where TANF resources are going, the population served, and the overall reach of the program.

Currently, states are required to track TANF spending by usage category (e.g., cash assistance, child care, prevention of out-of-wedlock pregnancies, etc.). A more robust accountability measure would be to track the funds not only according to the amount in each usage category, but also by the share of spending in each category going to different income groups. We propose using three groups defined by income-to-poverty ratios: the first group would include those with income below 50 percent of poverty, the second group would be those at or above 50 percent but below 100 percent of poverty, and the third those at or above 100 percent but below 150 percent of poverty (defined using official poverty thresholds). Note that we are not proposing a specific share of TANF spending go to each group, but rather that states collect and report this more granular information. If this proves to be too administratively burdensome for states, an alternative is to require states to report the income ranges for various programs that they fund with TANF dollars.

In addition, to generate more information about both the reach of the program and the population served, we propose that states be required to track the core services caseload, the child care caseload, as well as the cash assistance caseload, and report these numbers as a share of the families with children with incomes below 150 percent of the official poverty threshold.¹¹

As shown above, TANF caseloads responded very modestly in the Great Recession. Does this come from a lack of new TANF applications, or does it result from increased application denials? We propose that states track and report TANF applications for cash and other assistance and include additional detail. Specifically, we propose that states report denials by reason for denial (e.g., whether the applicant was ineligible based on income or for other reasons) separately for cash and noncash applicants. Again, this requirement should be phased in to reduce administrative burden.

Finally, measuring employment outcomes for the TANF population would be an important step toward a better understanding of TANF's effectiveness. One approach would be to track the employment rate among TANF core-service recipients one to three years after receiving services, although this would require relatively sophisticated data infrastructure. A simpler but somewhat less effective approach would be to track the employment rate among parents in families with children with incomes below the poverty threshold. We propose that states be required to report one of these two measures; the choice of which measure would be left to the states.

C. MAKE TANF MORE RESPONSIVE TO ECONOMIC DOWNTURNS

To improve TANF's ability to respond to cyclical downturns, Congress should enact legislative changes that temporarily expand both who is eligible for TANF and the federal funding allocated to the program during economic downturns.

The 1996 welfare reform law limited lifetime use of TANF to 60 months. Additionally, it set work requirements for TANF recipients. During cyclical downturns, however, TANF may be the only cash safety net program available to a needy family. For example, if a parent has an inconsistent work history, she may not be eligible for UI after a recession-induced job loss. We propose that states be required to lift work requirements and lifetime limits on the duration of receipt during economic downturns so that those who have reached their lifetime benefits cap or are unable to meet the work requirements would still be eligible to participate in the program. Specifically, we propose that time limits and work requirements be waived under the same economic conditions that make a state eligible to waive SNAP time limits for able-bodied adults without dependents. Time limits and work requirements would be waived when at least one of the following holds: a recent 12-month or 3-month state unemployment rate above 10 percent, qualification for UI Extended Benefits, or designation

as a Labor Surplus Area by the Department of Labor—that is, when the area has experienced a recent 24-month average unemployment rate 20 percent above the national average for the same period. Unlike the SNAP waivers, which states must actively request, we propose that the TANF waivers be automatic. Furthermore, given that recipients would have their time limits and work requirements waived during these downturns, we propose that work participation rate requirements be relaxed concurrently so states would not be discouraged from expanding spending on those not working.

Because need is greater during economic downturns, we also propose that Congress create an Automatic Emergency Fund (AEF) modeled after the successful TANF Emergency Fund, which was enacted as part of the American Recovery and Reinvestment Act of 2009. Under that fund, states were

To improve TANF's ability to respond to cyclical downturns, Congress should enact legislative changes that temporarily expand both who is eligible for TANF and the federal funding allocated to the program during economic downturns.

eligible to receive up to 50 percent of the state's annual TANF block grant amount over the two-year period 2009–10, and funds could be used to reimburse states for up to 80 percent of increased TANF-related spending in the areas of subsidized employment, cash assistance, and short-term non-recurrent benefits. We propose that the AEF reimburse up to 80 percent of increased TANF-related spending up to a maximum of 20 percent of their annual block grant. These AEF funds would also be required to meet the guidelines we propose above. That is, at least 25 percent of the spending must go to cash assistance, 50 percent of the spending must go to core programs, and benefits must be limited to those with incomes less than 150 percent of the federal official poverty threshold. States would be eligible to receive AEF funding under the same economic conditions and triggers as discussed above for waiving individual time limits and work requirements.

D. RESTORE THE VALUE OF THE BLOCK GRANT

In 1997 the TANF block grant was set at \$16.5 billion and has remained unchanged in nominal terms since then. However, due to rising prices across the economy, the real value of the block grant has declined by one-third since 1997. During this same period, the number of people in poverty increased by over 30 percent (Sherman and Trisi 2015). To strengthen the program and prevent further erosion, we propose that Congress restore the value of the block grant to its inflation-

adjusted 1997 level (today approximately \$24 billion), and index the block grant to inflation going forward. It is also important to reconsider how the new funding is apportioned across states, given that the current block grant calculations were made quite some time ago. We propose that new funding be allocated across states according to the number of poor children in the state, using a three-year average of this number. We recommend that this adjustment be revisited periodically.

Chapter 4. Questions and Concerns

Does this proposal undermine TANF's promotion of job preparation, work, and marriage?

No. The proposal strengthens these goals by requiring states to use a substantial share of TANF funds on core activities, including child care and work supports. In addition, we propose measuring program effectiveness through monitoring employment outcomes.

Why not rely on the UI Extended Benefits program instead?

It is unclear how UI is working for women at risk for TANF. Are they gaining eligibility—either because they have worked more or due to changes in UI eligibility rules—or are their work histories too sporadic to qualify for UI? There is little evidence available to answer this question. What we do know is that among families with income below the poverty line, the presence of income from UI has changed little over the past decades (Bitler and Hoynes 2010). A different estimate comes from the SNAP Quality Control Data: there we see that only 6 percent of SNAP recipients in 2010 had any UI income in the household. UI does not appear to be a good substitute for a well-designed TANF program.

Is the Supplemental Security Income system a better way to serve the neediest population?

SSI pays benefits to disabled adults and children with low incomes. As such, eligibility requires that a child or adult in the household meet the disability requirement. This is not and should not be available for all income-needy families. Furthermore, when children shift to Supplemental Security Income the length of time they receive aid is quite long (Deshpande unpublished) which is undesirable in the context of often-temporary poverty alleviation.

The EITC is a successful antipoverty program. Isn't it picking up the slack for TANF?

For many families the EITC has been successful, but it has some limitations that should be addressed through TANF. EITC does not help in times when work is unavailable (Bitler, Hoynes and Kuka forthcoming) or impossible (e.g., due to illness). Furthermore, the EITC is distributed when families file taxes, and may not respond immediately to need.

Is the decline in the TANF caseload due to applicants being turned away or applicants not turning up?

We do not know the answer to this, which is why we are proposing collecting information on applications and denials, and the reasons for denial.

Why should we put conditions on how states use the block grant? Don't states know best?

The original PRWORA legislation, and its 2005 reauthorization, consist of many conditions placed on states including work requirements, time limits, and great specificity in what defines the categories that can count as work participation for those on cash assistance who are classified as work able. The safety net was severely tested in the Great Recession, and TANF proved particularly unable to respond to the increased need. Our proposed requirements about spending on cash assistance and core services will improve the effectiveness of the program. By expanding total federal spending and relaxing state work participation rates during economic downturns, states will actually be less constrained in some important ways.

How are state maintenance-of-effort (MOE) funds treated under this proposal?

Currently, similar to TANF funds, state MOE funds can be used to meet any of the four goals set out in the 1996 welfare reform law. This would be unchanged in our proposal. We propose that state funds count toward the MOE requirement only if they are spent on individuals and families below 150 percent of the federal official poverty threshold.

Chapter 5. Conclusion

The passage of the 1996 welfare reform bill led to sweeping changes to the central U.S. cash safety net program for families with children, replacing the AFDC program with TANF. The key provisions of that law included work requirements, lifetime limits on the duration of welfare receipt, and financial sanctions for failing to adhere to work requirements or other rules. In the immediate aftermath of welfare reform, TANF appeared to be working reasonably well. This appearance of success was bolstered by expansions in earnings subsidies for low-income families with children through the EITC as well as by the booming labor market of the late 1990s—which offered the most favorable conditions for low-skilled workers in many decades. The relative contributions of all these factors is a matter of discussion in the literature.

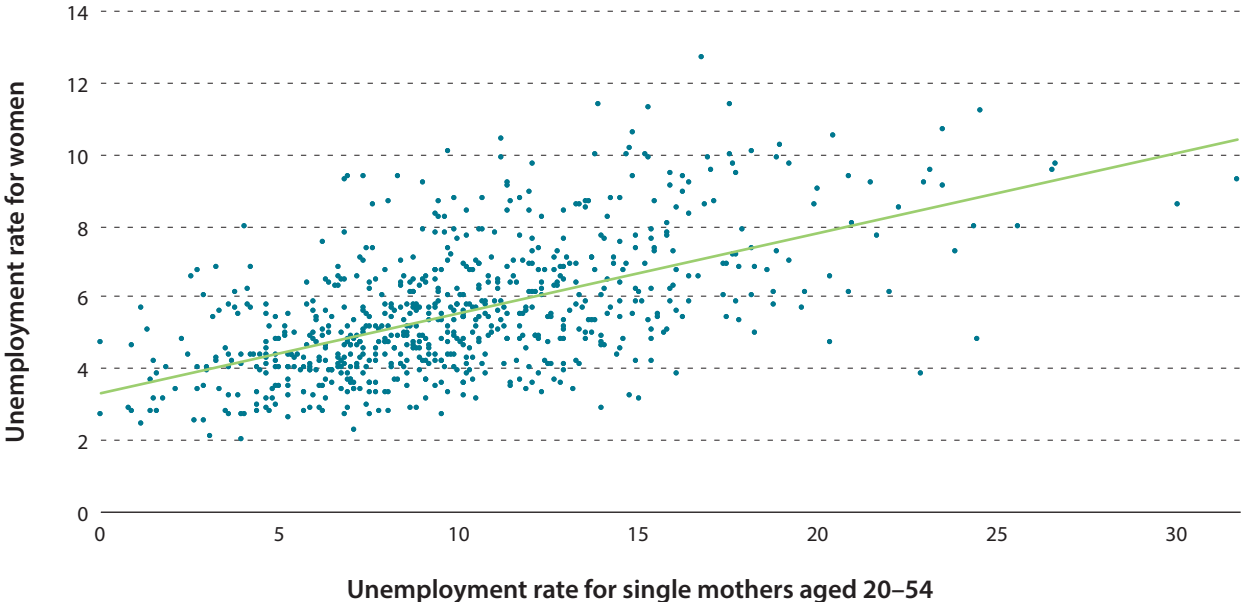
However, the Great Recession has highlighted significant shortcomings in the current TANF program. Welfare reform altered the responsiveness of TANF to the business cycle; in an economic downturn TANF is less capable of providing protection—or certainly no more capable—than was AFDC, whereas the noncash welfare safety net (and especially SNAP)

provides significantly more protection. Yet the expansion of other safety net programs was insufficient to offset the shortcomings of TANF. As a result, deep poverty went up while TANF did not adjust, suggesting that many families may have fallen through the safety net in the Great Recession. By implication, TANF reaches a smaller fraction of poor families than it did previously. Exacerbating the problem is states' wide flexibility in block grant usage, which has led to disinvestment in the most needy families and a massive shift away from cash assistance and toward services. Further, stringent work participation targets limit the ability of states to invest in getting many low-income women with children into work.

TANF can be meaningfully improved while preserving its strong pro-employment emphasis. We provide policy proposals that will achieve three goals. First, they will ensure that TANF funds reach the neediest families and that states can continue to experiment with ways to connect those who can work to jobs. Second, they will increase TANF's responsiveness to economic downturns. Third, they will improve states' accountability along both of these dimensions.

Chapter 6. Appendix

APPENDIX FIGURE 1.
State-by-Year Unemployment Rates for Women vs. Single Mothers Aged 20–54



Source: U.S. Department of Labor 2016; authors' calculations from the 2001–2013 and 2015 CPS; we exclude 2014 as it is the transition year to a new survey instrument and the effective sample size is smaller.

Note: The unemployment rates for women, plotted on the vertical axis, come from the U.S. Department of Labor; the unemployment rates for single mothers aged 20–54, plotted on the horizontal axis, come from the CPS.



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Marianne Bitler is a Professor of Economics at the University of California, Davis. She is an economist, and her research focuses on the study of the safety net and its effects on low income families, the economics of the family, and the impacts of food assistance programs. Current projects include understanding how the Great Recession has affected consumption and how this has changed with the shift to in-work income support, the interactive effects of the War on Poverty across children's life courses, the effects of Head Start on the distribution of children's outcomes, and how misreporting in survey data affects estimates of policy changes in state two way fixed effect models. In addition to her appointment in the economics department at the UC Davis, she is an affiliate of the National Bureau of Economic Research; the UC Davis Center for Poverty Research; and the German Institute for the Study of Labor (IZA). She is also a member of the National Academies of Sciences, Engineering, and Medicine's Health and Medicine Panel on the Review of the WIC Food Packages and the Committee on National Statistics Panel on Review and Evaluation of the 2014 Survey of Income and Program Participation Content and Design.

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Hilary Hoynes is a Professor of Economics and Public Policy and holds the Haas Distinguished Chair in Economic Disparities at the University of California, Berkeley. Hoynes specializes in the study of poverty, inequality, food and nutrition programs, and the impacts of government tax and transfer programs on low-income families. Current projects include evaluating the effects of access to the social safety net in early life on later life health and human capital outcomes, examining the effects of the Great Recession on poverty and the role of the safety net in mitigating income losses, and estimating the impact of Head Start on cognitive and non-cognitive outcomes. Since 2011 Hoynes has been a Co-Editor of the *American Economic Review*. From 2008 to 2011 she was Co-Editor of the *American Economic Journal: Economic Policy*. In addition to her faculty appointment, Hoynes has research affiliations at the National Bureau of Economic Research, the UC Davis Center for Poverty Research and the Institute for Fiscal Studies. Previously, she sat on the Advisory Committee for the National Science Foundation, Directorate for the Social, Behavioral, and Economic Sciences and the National Advisory Committee of the Robert Wood Johnson Foundation Scholars in Health Policy Research Program. Hoynes received her PhD in Economics from Stanford in 1992 and her undergraduate degree in Economics and Mathematics from Colby College in 1983.

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Endnotes

1. Other changes adopted by some states include expanding eligibility for two-parent families, “family caps” (freezing benefits at the level associated with current family size), and imposing residency and schooling requirements for unmarried teen recipients. For a detailed discussion of the policy changes, see Blank and Haskins (2001) and Grogger and Karoly (2005).
2. Throughout this paper, unless stated otherwise, poverty refers to the official poverty measure.
3. Comprehensive reviews of the effects of welfare reform can be found in Blank (2002), Grogger and Karoly (2005), Moffitt (2002), and Ziliak (2015). Research has examined the effects of reform on program participation, income and earnings, consumption, child outcomes, and a host of other measures.
4. The AFDC program did fund some child care and employment services, though this was a small share of total spending. Due to data limitations we categorize all pre-1996 spending as assistance.
5. The numerator is administrative counts from HHS and therefore is not subject to concerns about undercounting in the CPS and other surveys (Marquis and Moore 1990; Meyer and Mittag 2015; Meyer, Mok, and Sullivan 2015). The denominator is calculated using the CPS following the methods developed in Bitler and Hoynes (2015). The income concept used to determine poverty is after-tax-and-transfer income inclusive of many in-kind transfers including SNAP, National School Lunch Program, and housing subsidies. The poverty threshold to which total after-tax-and-transfer income is compared is the official poverty threshold. The family measure is the smallest unit of related individuals identified by the Census (so related subfamilies are their own unit and are not included with the larger families they may live with).
6. Sherman and Trisi (2015) use a poverty measure similar to the federal Supplemental Poverty Measure (SPM) and adjust it for underreporting in transfer payments. Like the SPM, their measure uses an after-tax-and-transfer definition of income (reduced by out-of-pocket medical and work expenses). Their poverty threshold is a 2010 SPM-like threshold published by the Census Bureau and deflated with the CPI. The Urban Institute’s TRIM model generates the adjustment for undercounting of transfer payments. Sherman and Trisi note that when they use an alternative post-tax post-transfer poverty measure — relying on official Census poverty thresholds rather than SPM-like thresholds and on a non-TRIM approach to correcting for underreported transfer payments — they find a similar increase in deep poverty.
7. It is possible that we are missing some state-only funded programs for low-income families with children, which are not well measured. GAO (2010) reports 82,000 individuals on such state programs, and 1.8 million families on federal TANF.
8. Additionally, states can reduce their work participation rate target by increasing state spending beyond the required MOE level. After the Deficit Reduction Act of 2005, more states used this “excess MOE expenditures” to increase caseload reduction credits and reduce target work participation rates (GAO 2010).
9. Note that the caseload data come from administrative sources rather than self-reports from household surveys, so they do not suffer from the well-documented underreporting of safety net program participation (Marquis and Moore 1990; Meyer and Mittag 2015; Meyer, Mok, and Sullivan 2015).
10. Appendix figure 1 plots observations for each state and year between 2000 and 2014 (minus 2013). We omit 2013 to have adequate sample sizes to estimate state-by-year level unemployment rates for single mothers age 20–54. In 2013, the CPS introduced new income measures and the sample that year split in two as part of their evaluation of the new survey instrument. The effective sample we use for 2013 is quite a bit smaller than the other years and thus we exclude it from this graph.
11. States already report on the cash assistance caseload. We are proposing additional reporting on the cash assistance caseload as a share of total poor families, thereby making it clearer who is reached by the program.

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Highlights

Marianne Bitler of the University of California, Davis and Hilary Hoynes of the University of California, Berkeley propose reforms to strengthen TANF by expanding its reach, improving its responsiveness to cyclical downturns, and enhancing its transparency.

The Proposal

Improve the effectiveness of TANF. Congress would pass legislation to make TANF a more-effective part of the safety net, better targeted to the needy population.

Make TANF more responsive to economic downturns. Recession-linked temporary funds and relaxation of work and other requirements would allow TANF to expand in an economic downturn, when it is most important for the program to reach needy families.

Enhance the transparency of TANF. Congress would require states to provide additional information regarding the use of TANF funds and labor market outcomes for TANF recipients, permitting a more informed assessment of the program.

Benefits

This proposal would make TANF a better-targeted, more-effective antipoverty program. In addition, it would allow TANF to expand during economic downturns, when the need for the program is greatest. Finally, the additional data reporting requirements would lay the groundwork for more evidence-based reform in the future.



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