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Commentary: The Ryan "Opportunity Grant" Proposal — A Reply to Scott Winship

By Robert Greenstein

In a recent commentary, I raised serious concerns about the centerpiece of House Budget Committee Chairman Paul Ryan's new poverty plan — his sweeping proposal to merge 11 programs ranging from SNAP (food stamps) to the Community Development Block Grant (CDBG) into a single block grant.[1] The Manhattan Institute's Scott Winship argues that my critique is off base.[2] With all due respect, his criticisms do not stand up well under scrutiny.

- Winship does not adequately address the concern that Chairman Ryan's block grant would likely lead to significantly less anti-poverty funding over time. He also presents a simplistic picture of how the Temporary Assistance for Needy Families (TANF) program has worked, and he has misplaced confidence that SNAP could work effectively as a counter-cyclical tool if it loses entitlement status and is merged into a sweeping block grant. (See "Impact on Overall Funding to Address Poverty," p. 2.)
- He mischaracterizes my concern that states would substitute some new federal block grant money for what the states had been spending to address poverty, and he uses selective funding data to make his point. (See "State Substitution Under a Block Grant," p. 4.)
- He gives short shrift to my concerns about converting SNAP into a block grant and seems not to recognize that SNAP is one of the leading success stories in American social policy over the last half-century, helping largely to eliminate severe child hunger and malnutrition and playing a key role as an "automatic stabilizer" for a weak economy. (See "Effects on SNAP," p. 5.)
- Winship also argues that my concerns about Ryan's proposal are overblown because the Chairman proposes only a pilot project. Yet under his plan, Ryan proposes to let an unspecified and potentially large number of states make radical changes in anti-poverty policy, and political considerations would likely make it difficult to convince those states to change course even if their new systems didn't produce the results that their proponents had earlier touted. (See "Scope of the Pilot Project," p. 6.)
- Finally, he (and some other conservatives) assert that the Center on Budget and Policy Priorities was wrong about the 1996 welfare law, so no one should listen to us now. In so doing, he

distorts the positions we took at the time, the details of welfare reform as it was actually implemented, and what occurred in its wake. (See "Predictions and Impacts of the 1996 Welfare Law," p. 7.)

Impact on Overall Funding to Address Poverty

Let's start with my concern that the Ryan proposal would likely lead to less funding over time to address poverty, for three reasons:

- Over half of the money in the block grant would come from SNAP, which the plan would convert from an entitlement that rises in cost automatically as need increases and more people become eligible — such as in recessions — to a fixed annual block grant amount that would not similarly respond to rising need.
- When policymakers consolidate disparate federal programs into a block grant with broad purposes, history shows that states often substitute some of the federal block-grant dollars for *state* dollars that they previously spent on those purposes, thereby shrinking *total* federal and state resources.
- History also shows that federal funding for broad block grants tends to erode substantially over time.

Rejecting all three concerns, Winship writes that "there is little reason to assume that block granting will result in a diminished ability to address poverty over time."

To make his case, Winship focuses on one block grant — TANF, which the 1996 welfare law established. He acknowledges that TANF funding has fallen in real terms since 1996 but says that spending on means-tested programs as a whole has risen, as has TANF funding *per participant*. Furthermore, he emphasizes that Congress significantly expanded means-tested spending in the recent Great Recession, declaring, "The lesson from the Great Recession is that federal policymakers are willing to legislate temporary increases in safety-net generosity in response to economic downturns — increases large enough to keep poverty from rising nearly as much as it would have." Finally, he argues that SNAP still could respond effectively to rising need even if policymakers eliminated its entitlement status and converted it into a block grant.

These arguments, however, do not address or mitigate my concerns. They also reflect a somewhat simplistic understanding of developments in TANF, the program that Winship showcases as a model.

First, Winship's confidence that Congress will step in during recessions and provide additional funding for means-tested programs rests on shaky ground. The temporary increases in means-tested programs enacted during the Great Recession as part of the 2009 Recovery Act simply show that, facing the worst recession in decades, a newly elected Democratic President who was enjoying the traditional political "honeymoon" of his early days and had a Senate with 60 Democrats and a strongly Democratic House to work with could enact a stimulus measure with larger increases in means-tested spending than any stimulus legislation in prior recessions. In the House, all Republicans — including Chairman Ryan — opposed the Recovery Act. In the Senate, where it passed on a 60-38 vote, all but three Republicans opposed it. No one should assume that if the Ryan Opportunity Grant (which would operate initially in an unspecified number of states) became national policy, future

Presidents and Congresses would replicate the Recovery Act's means-tested expansions, especially given the widespread (and wrongheaded) conservative view that the Recovery Act hurt rather than helped the recovery.

Second, Winship's claim that TANF spending has risen on a per-participant basis, making it more generous for those receiving assistance, rests on a problematic (and ultimately misleading) use of data. Since 1996, the number of families receiving basic cash assistance through TANF has fallen sharply; TANF now provides basic cash aid to a dramatically smaller share of the low-income population that did its predecessor, Aid to Families with Dependent Children (AFDC). In 1995, some 68 of every 100 poor families with children received AFDC. Today, only 25 of every 100 poor families with children receive basic assistance through TANF.

Winship capitalizes on this plunge by dividing *total* TANF block grant funding — the majority of which goes now to services such as child care, other work supports, and services for families in the child protection system, rather than for basic cash assistance — by the vastly shrunken number of families currently receiving cash aid. In his calculation, he does *not* include families receiving TANF-funded services or supports outside of basic cash assistance. That's why his figures show a large increase in spending per participant — and why they're misleading.

In this way, Winship creates the mistaken impression that benefits for the poor families now receiving TANF cash assistance are more generous than they were under AFDC. The data show, however, that the opposite is true. Cash assistance benefit levels for the poor families receiving this assistance were about 25 percent lower in inflation-adjusted terms in the median (or typical) state in July 2014 than in 1996.

In part, that's because TANF block grant funding has seriously eroded; it is 34 percent lower today than in 1996, after adjusting for inflation. Federal TANF funding has been falling in real terms year after year, and states consequently have less money to address poverty through it. While states spend substantial portions of TANF funds for worthwhile services such as child care, the overall picture is one of diminished cash assistance for the shrunken number of poor families and children still receiving aid, declining funding over time for the other services that TANF supports, and a financing structure that has allowed states to substitute some TANF funds for state funds they previously spent on services.

Winship also glosses over the fact that TANF cash assistance caseloads (i.e., the number of families receiving basic TANF assistance to help them make ends meet) have fallen much more sharply than need (in part because many states instituted policies and procedures that effectively pushed people off the program or made it more difficult to enroll). Only *one-third* of the children poor enough to qualify for TANF under their state's eligibility standards — which typically cut off eligibility far below the poverty line — now receive TANF cash assistance (based on the latest data, which are for 2011). By contrast, in the 1980s and early 1990s, about *80 percent* of such children did.[3]

States had strong financial incentive to reduce their cash assistance caseloads. Any money they saved by reducing TANF cash assistance caseloads was money they could spend on a broad array of purposes — including by replacing some state spending in various areas with freed-up federal funds. (Some TANF funds that states now spend on services replaced other state funds that they formerly used for that purpose, as discussed below.)

Seeking to downplay concerns about funding, Winship notes that TANF spending rose 21 percent in real terms between 2007 and 2010. This, however, was largely due to a Recovery Act provision that created a "TANF Emergency Fund" (along with some accounting changes that states began to use that inflated the state spending they reported). Through this fund, states not only provided some additional assistance but put more than 260,000 low-income adults and youth to work by placing them in subsidized jobs. Nevertheless, the Republican-led House (including Chairman Ryan) rejected President Obama's request to extend the fund beyond September 2010, even though unemployment remained high and Republican and Democratic governors alike supported the fund.

Meanwhile, TANF is hardly the only broad-purpose block grant whose funding has eroded markedly over time. Funding for no fewer than seven other federal block grants — the HOME block grant, CDBG, the Maternal and Child Health Block Grant, the Social Services Block Grant, the Community Services Block Grant, employment and training block grants, and the Native American housing block grant — has fallen by 18 to 63 percent in real terms since their inception. The broad pattern is clear.

Third, regarding SNAP funding in particular, Winship wrongly dismisses concerns that converting SNAP to a block grant would diminish its ability to respond immediately and automatically to rising need. He calls my concern about the loss of SNAP's automatic counter-cyclical response to a weak economy "a red herring," confidently asserting that policymakers could readily design a trigger that would boost funding in response to rising need, such as by adjusting block-grant levels for changes in state unemployment rates.

Let's take a closer look, however. State block grant levels would be set at the start of the year. A formula that adjusted the yearly grant amounts based on state unemployment rates would have to rely on an average of each state's unemployment rate over several months *before the year began*, making it quickly outdated. To be sure, policymakers could try to make adjustments during the year, but that would complicate state administration of the block grant, since states would likely write annual contracts for fixed amounts with various service providers. Moreover, even periodic adjustments during the year would always be months out of date because, like block grant levels at the start of the year, they'd be based on an average of several months of past unemployment data. Besides, need rises due to a myriad of economic and demographic changes, *not* just from changes in a state's unemployment rate.

Not surprisingly, then, in over 30 years of debate on block grants, no proponent of turning an entitlement program like SNAP into a block grant has ever designed a workable formula to adjust grant levels in real time to reflect changes in need. This is no "red herring."

State Substitution Under a Block Grant

Winship dismisses my concern that many states would likely substitute some of the federal Opportunity Grant funds for state funds. Here, he mischaracterizes my point, turning it into a straw man. He says that my idea "seems to be that states that were spending a lot on some programs because there were federal requirements to do so will be able to reduce their spending on those programs if they are rolled into the Opportunity Grant with few strings attached." That doesn't accurately describe the problem.

The Opportunity Grant would have a very broad reach, encompassing everything from subsidies to real estate developers for projects in lower-income areas (now funded through CDBG) to food assistance, housing assistance, child care, social services, and the like. Essentially, most state actions aimed at low-income people or lower-income areas could receive block grant funds. States and localities now spend significant funds within this broad framework that are *not* federally mandated. States and communities spend their own funds on various services for children, seniors, and people with disabilities (including, for example, public transportation for some of these groups) and on economic development-related activities. States would be strongly tempted to substitute some federal block grant money for some of that state and local spending, especially when they face budget pressures; states are required to balance their budgets every year. And once they free up state funds, they can use them for tax cuts, roads, and other purposes far afield from addressing poverty.

Winship notes that Opportunity Grant legislation would likely have a "maintenance-of-effort" requirement like the 1996 welfare law did. But that wouldn't solve the problem. Such requirements are notoriously difficult to enforce, as evidenced by state substitution of federal funding for their own funding under the welfare law *despite* its maintenance-of-effort requirement, as the Government Accountability Office has documented.[4] And the Opportunity Grant would bring even greater potential for state substitution than TANF did, because its federal funding would be far larger and its allowed uses considerably more expansive.

Dismissing my concern about state substitution, Winship notes that combined federal and state low-income spending was no lower in 2011 than in 1997. That's true but irrelevant: 2011 was a recession year with much higher poverty than in 1997, generating higher spending for means-tested entitlement programs like SNAP. Spending also was higher in 2011 because of *federal* Recovery Act resources. In addition, policymakers expanded federal refundable tax credits markedly between 1997 and 2011. Comparing overall low-income spending in those two years says nothing about likely state substitution under a block grant.

Winship also fails to respond to a related concern. In many states and localities, commercial real estate developers are major campaign contributors and politically well connected, and there's often strong competition for limited federal CDBG dollars. Imagine the temptation of state or local politicians to siphon off some SNAP or "Section 8" housing voucher funds for developers for projects or areas classified as "low income." That's not a risk I'd want to take with poor people's well-being.

Effects on SNAP

As noted above, I am deeply concerned that, under the Ryan plan, SNAP would no longer be an entitlement in block-grant states. Winship acknowledges this concern but gives it short shift, essentially asserting that TANF worked so SNAP's conversion to a block grant likely would work, too. As explained earlier, however, concerns about state supplantation under TANF and the program's inadequate responsiveness during recessions proved well-founded. Moreover, the issues involved in merging SNAP into a new block grant differ in important ways from those related to TANF, heightening the concerns:

- The Ryan proposal would merge SNAP with ten other programs into a block grant of more sweeping range than TANF, with over half of the money coming from SNAP. Consequently, SNAP could become a piggy-bank for a variety of other uses, leaving many poor families

without adequate assistance to put food on the table.

- Such radical revamping of SNAP might be reasonable were it a failed program. But it's not. SNAP is one of the leading success stories of the last 50 years in American social policy, an array of research shows. Studies have described the powerful effect of SNAP (then called the Food Stamp Program) in helping to largely eliminate the severe child hunger and malnutrition that existed to a shocking degree in the late 1960s in very poor parts of America, and a recent Urban Institute study finds that SNAP reduces "food insecurity" by roughly 30 percent.

  In addition, path-breaking research by economists Hilary Hoynes, Diane Schanzenbach, and Douglas Almond found that SNAP receipt in childhood significantly increased high-school graduation rates and improved health in adulthood, and that it brought other long-term benefits as well. "Our results suggest," Hoynes and Schanzenbach write, "[that] rather than the Food Stamp program creating an inter-generational 'welfare trap,' the reverse is more likely true. Providing benefits to children at important stages of their development allows them to grow in ways that may enable them to escape poverty when they reach adulthood."[5] Indeed, we know far more about SNAP's effectiveness on a large scale than about that of the large-scale case management that Ryan favors, for which evidence of effectiveness is much weaker.

- On the economic front, both the Congressional Budget Office (CBO) and Moody's Analytics rate SNAP as among the most effective "automatic stabilizers" for a weak economy — on a bang-for-the-buck basis — of *any* federal spending or tax-cut mechanism. When a recession hits, SNAP responds automatically, without requiring congressional or executive action, to assist the growing numbers of households in need. This not only ameliorates hardship but bolsters the economy efficiently at the same time.

Scope of the Pilot Project

Winship argues that even if my concerns about Ryan's Opportunity Grant had merit, they wouldn't be relevant because Ryan is proposing only a pilot project. If the concerns proved valid, Winship says, the Opportunity Grant wouldn't move beyond the pilot phase.

I favor demonstration projects to test various interventions so we can learn what works and what doesn't. Nevertheless, I find Winship's take to be naïve. Ryan is *not* proposing a limited demonstration project in a few localities with a random-assignment evaluation, such as the demonstrations that MDRC, the well-respected research organization, often conducts. He is proposing to let an *unspecified number of states make these radical changes statewide*. Once state politicians have these large federal dollars at their disposal, they would likely push hard (through their congressional delegations) to retain their new systems and proclaim them a success irrespective of the results. It would be difficult politically to compel block-grant states to revert to the old system. Moreover, other governors — eyeing such large sums of federal dollars and broad discretion over how to use them — likely would clamor for similar treatment. That's particularly true of governors from red states, such as those that have declined health reform's Medicaid expansion.

Furthermore, some of the problems that we, at the Center, have identified with the Ryan proposal likely wouldn't come to light in the pilot phase. We might not face a recession during the pilot period, for example. And pilot states that wanted to maintain their new discretion over vast federal cash on an ongoing basis would likely be careful not to go far in substituting federal funds for state funds during the pilot phase. In addition, diminished federal funding under broad block grants

likely wouldn't appear during the pilot period because it tends to occur over longer periods. Besides, lawmakers who advocate expanding the block grant nationwide would be careful not to cut block-grant funding before achieving that goal.

Predictions and Impacts of the 1996 Welfare Law

Winship and a few other conservative commentators have argued that we were wrong about the 1996 welfare law, so why pay attention to us now? Winship says that we thought the law would make the poor worse off and we were wrong.

That amounts to some revisionist history, however. As it ultimately took effect, the welfare law was *very different in key areas from the law as it was enacted in 1996*. Many of the predicted adverse effects didn't occur because the provisions that would have caused them either didn't take effect or didn't remain in effect.

Specifically, *virtually all* of the $54 billion in net cuts over six years that CBO estimated the law would produce came from three sets of provisions that had nothing to do with AFDC, TANF, or welfare-to-work issues: $23 billion in means-tested benefit cuts for *legal* immigrants; $24 billion in food stamp benefit cuts for citizens and qualifying immigrants; and more than $8 billion in cuts in Supplemental Security Income (SSI) benefits for low-income children with disabilities. (The other provisions of the welfare law were, on net, largely a wash in expenditure terms.) The predictions of Urban Institute analysts that the welfare law would boost child poverty, which we and others relied upon, rested heavily on these three sets of provisions, rather than on the TANF provisions. At the Center, we focused on these three areas of deep cuts, as well as on AFDC's conversion to a block grant. Yet the lion's share of the legal immigrant cuts, the majority of the food stamp cuts, and close to half of the SSI cuts were then repealed before they took effect, later repealed or softened, mitigated or offset by new benefit increases in these programs, or moderated by the Clinton Administration through regulatory and administrative processes.

In addition, the historical record on the TANF reforms themselves is more mixed than Winship allows. No one on either side of the political divide got it entirely right in 1996. The evidence suggests that the combination of welfare reform provisions *and* increased support for low-income working families through expansions of refundable tax credits brought more single mothers into the labor market and led some welfare recipients to find jobs more quickly and move out of poverty. At the same time, the sharp decline in cash assistance caseloads was not driven solely or primarily by reductions in need; as we've seen, the share of families poor enough to qualify for assistance who actually got help plummeted. Although Winship dismisses such concerns, many researchers — including Ron Haskins, who played a key role as a senior Republican congressional staff member in developing the 1996 law and remains a supporter of it — have acknowledged that the AFDC/TANF changes contributed to making some poor families with substantial barriers to success in the labor market worse off.[6,7]

Moreover, TANF's record suggests that its fiscal structure — under which states could divert to other purposes the funds they freed up by reducing the number of families receiving basic assistance — heightened the pressure to shrink caseloads and made it hard to reclaim those dollars for basic income support when a recession hit and child poverty increased.

Finally, Winship implies that because we recommended that policymakers not enact the 1996 law, we've opposed changes that would make the welfare system more work-focused. In fact, we supported or responded favorably to proposals in the 1990s to bolster work programs, including the Clinton welfare reform proposal, and we continue to support efforts to improve employment programs so more low-income adults can succeed in the labor market. We devote significant resources to working with state administrators from both parties who seek to improve their employment programs and work supports.

I will close with a historical footnote. When the House Ways and Means Committee was writing the welfare law in 1995 and committee Democrats argued that eliminating AFDC's entitlement status would harm poor children (a concern that we shared), various committee Republicans replied that children would be protected because food stamps would remain as a basic safety net. To this day, SNAP remains the sole program that provides a floor under most of the poor. We should be very careful not to lose it.

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[1] Robert Greenstein, "Commentary: Ryan 'Opportunity Grant' Proposal Would Likely Increase Poverty and Shrink Resources for Poverty Programs Over Time," Center on Budget and Policy Priorities, July 24, 2014, http://www.cbpp.org/cms/index.cfm?fa=view&id=4176.

[2] Scott Winship, "Would a Block-Granted Safety Net Mean Less Aid to Families?" *Forbes,* July 31, 2014, http://www.forbes.com/sites/scottwinship/2014/07/31/would-a-block-granted-safety-net-mean-less-aid-to-families/.

[3] See U.S. Department of Health and Human Services, "Welfare Indicators and Risk Factors: Thirteenth Report to Congress," page II-17, http://aspe.hhs.gov/hsp/14/indicators/rpt_indicators.pdf.

[4] U.S. General Accounting Office, "Welfare Reform: Challenges to Maintaining a Federal-State Fiscal Partnership," August 2001, http://www.gao.gov/assets/240/232403.pdf.

[5] Hilary Hoynes and Diane Schanzenbach, "The Safety Net: An Investment In Kids," *Spotlight on Poverty*, July 2013, http://www.spotlightonpoverty.org/exclusivecommentary.aspx?id=9e02413a-a348-417d-9770-b627bbc9e181.

[6] Isabel Sawhill, Kent Weaver, and Ron Haskins, "Welfare Reform Reauthorization: An Overview of Problems and Issues," Brookings Institution, January 2001, http://www.brookings.edu/research/papers/2001/01/01poverty-haskins02. In this piece, the authors note, "Another important problem is that a subset of families has not responded well to the new welfare requirements… Census Bureau data show that in 1995 and 1996, mothers with total incomes below about $11,000 actually experienced declines in their total income. Finally, while the overall poverty rate has dropped consistently since 1995, the rate of families in deep poverty (below half the federal poverty level) has actually increased."

[7] For data on the rise in the number of families well below the poverty line, see H. Luke Schaefer and Kathryn Edin, "The Rise of Extreme Poverty in the United States," *Pathways*, Stanford Center on Poverty and Inequality, Summer 2014, http://web.stanford.edu/group/scspi/_media/pdf/pathways/summer_2014/Pathways_Summer_2014.pdf; and Arloc Sherman and Danilo Trisi, "Deep Poverty Among Children Worsened in Welfare Law's First Decade," Center on Budget and Policy Priorities, July 23, 2014, http://www.cbpp.org/cms/?fa=view&id=4173.