Twenty Years After Republican Welfare Reform:
A New, More Refined Way to Measure the Success of Anti-Poverty Efforts

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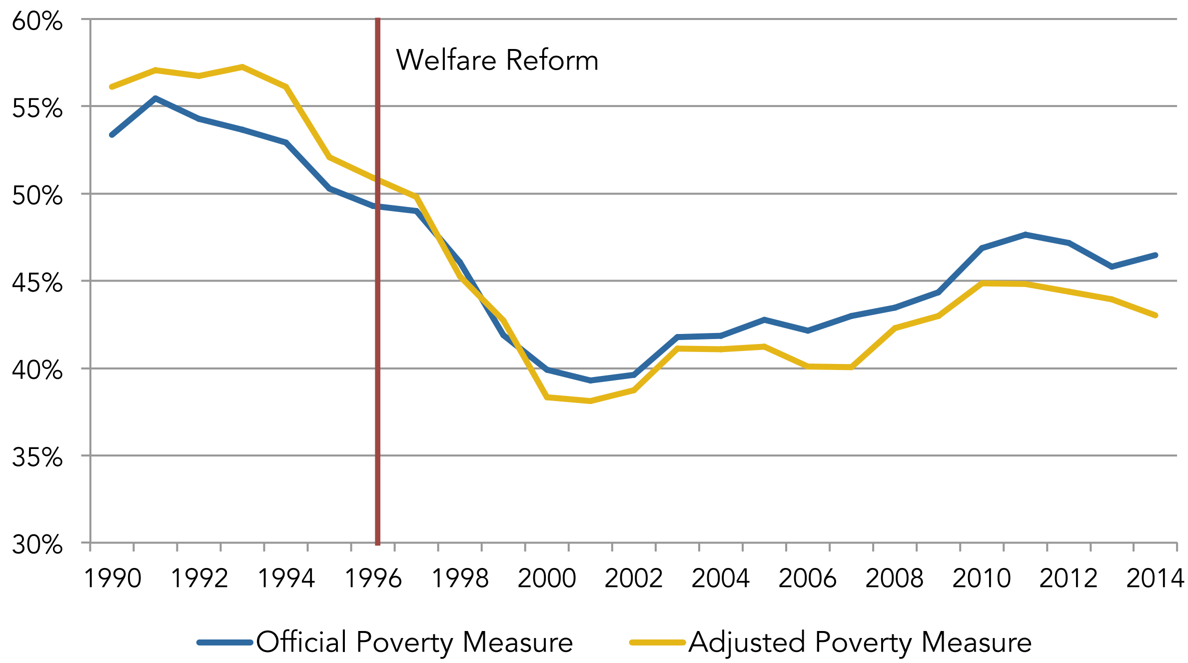
Executive Summary

Twenty years ago, Republicans successfully concluded a multi-year, national effort to reform the nation's cash welfare program. These reforms were based on one simple idea: the best way out of poverty is a job. Under the 1996 welfare reform law, welfare recipients — mostly single parents — were required to engage in work, or training leading directly to a job, in order to receive benefits. The 1996 welfare reform law led to record increases in work and earnings, along with record declines in welfare dependence and poverty, as traditionally measured.[1]

CHILD POVERTY IN FEMALE-HEADED HOUSEHOLDS:
Two Different Poverty Measures



These reforms also were even more effective than previously thought when looking at a measure of poverty that focuses on earnings and more accurately adjusts for changes in prices (as reflected in the "adjusted poverty measure" line in the chart above). Not

[1] For a comprehensive analysis of poverty after welfare reform see: Scott Winship, Poverty After Welfare Reform, Manhattan Institute.

only did poverty rates start higher and fall further, even through multiple recessions, child poverty for those in female-headed households has remained near historic lows based on this new adjusted measure of poverty.

In contrast, for working-age adults without children — who were unaffected by the 1996 welfare reform law — poverty has continued to rise.

Given these findings, Congress should apply the lessons learned from the 1996 welfare reform law, which so far have applied to just one major program, to the more than 80 other low-income benefit programs that do not effectively promote work. As detailed in A Better Way to Fight Poverty, a more effective safety net would:

- Better connect child support enforcement programs to training and work activities;
- Engage recipients as early as possible with effective reemployment strategies when they lose their jobs;
- Expect work-capable adults to work or prepare for work in exchange for receiving benefits from other welfare programs; and
- Modernize social programs so those who work and increase their earnings are better off when they do so.

These changes will help us do more than just alleviate the symptoms of poverty; they will help us address the root causes of poverty — as the 1996 welfare reform law has done — and ensure more families escape poverty for good.

WHY THIS MATTERS: When it comes to determining the lasting success of anti-poverty efforts, we can improve our understanding of what works by focusing on the real long-term solutions to poverty: work and earnings. That is why this report introduces a new way to measure the lasting impacts of anti-poverty efforts — by focusing on earnings and using an accurate measure of inflation. This new measure of poverty will give us a better understanding of which reforms have helped welfare recipients earn their way out of poverty, move off welfare and climb up the economic ladder.

Introduction

From the moment it was signed on August 22, 1996, the 1996 welfare reform law has been the subject of fierce debates about whether its changes would be successful in lifting up those who found themselves on the lowest rung of America's economic ladder. The law, which replaced an outdated New Deal-era program with the Temporary Assistance for Needy Families (TANF) program, was focused on helping families — particularly single-parent families — leave welfare for work.

In the two decades since the enactment of that law (officially, "*The Personal Responsibility and Work Opportunity Reconciliation Act of 1996*"), scholars around the world have written thousands of pages on the impacts of these changes. The Ways and Means Committee also has studied these reforms closely in an effort to further improve our nation's welfare system. Many of the ideas for further reforming this system are laid out in a Better Way to Fight Poverty published by House Republicans in June 2016.

One thing is clear: our nation's safety net has failed to realize the central vision laid out by President Lyndon B. Johnson when the War on Poverty started more than 50 years ago. Speaking to Congress on January 8, 1964, President Johnson said, "Our aim is not only to relieve the symptoms of poverty, but to cure it and, above all, to prevent it."

In that context, how has the 1996 welfare reform law addressed poverty? Has it made poverty better or worse? Has it gone beyond just meeting the immediate needs of children and families, so that it has truly worked to cure poverty?

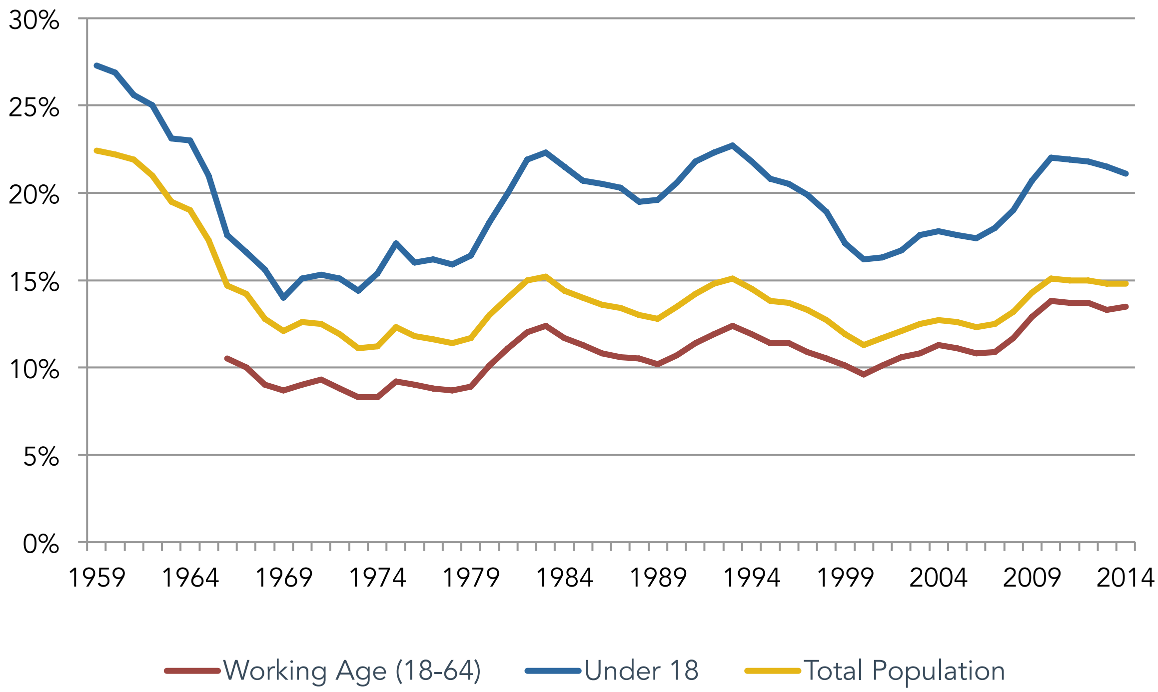
Using a refined measure of poverty that makes adjustments to the official measure, this report goes beyond the conventional wisdom to present a fuller, more accurate picture both of poverty in recent decades as well as the lasting positive effects of the 1996 welfare reform law on the people it was intended to serve. **This new measure improves upon the official measure of poverty by more accurately depicting a family's ability to *earn* enough to escape poverty while properly adjusting for changes in prices**. As it turns out, the 1996 welfare reform law looks even more successful in this context. The data, produced by the nonpartisan Congressional Research Service (CRS), is posted online and available for public use.[2]

[2] The data and documentation can be found on the Ways and Means (majority) website at this link. The data was compiled by Gene Falk and Joseph Dalaker of CRS. Future updates to the data will become available in the Ways and Means Green Book which can be found here: http://greenbook.waysandmeans.house.gov

The Conventional Wisdom on Poverty

Public discussion around poverty rates usually cite the official poverty measure published by the Census Bureau. This measure shows the proportion of the population with income below a certain level, often called the "poverty line." For example, a family of three with income under $20,090 per year in 2015 would be below the poverty line and thus officially "poor."[3] The figure below shows the official poverty rate from 1959 through 2014 (the most recent year of data) for three groups: the total population, working age adults (ages 18-64), and children.

CHART 1. CONVENTIONAL WISDOM:
Poverty Trends Using the Official Poverty Measure



Looking at the data above, the story seems mixed. For both children (i.e. those under 18) and those of working age (18-64), poverty is at or near post-1964 highs (when the War on Poverty began). And while welfare reforms coupled with robust economic growth in the mid- to late 1990s led to dramatic declines in child poverty, it appears in recent years that this progress has been lost and that we're back to the high child poverty rates of the 1980s and early 1990s. Further, despite the fact that federal spending on benefits for low-income families has increased dramatically in

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[3] This example uses ASPE guidelines for simplicity. The poverty line for poverty measurement purposes would vary according to the composition of the household. See http://www2.census.gov/programs-surveys/cps/tables/time-series/historical-poverty-thresholds/thresh15.xls

recent years — rising from $368 billion in 2007 to $737 billion in 2016, according to one tally — the official poverty rate for the full population remains stubbornly flat at its elevated 2010 level.[4]

But part of the problem with this picture lies with the official poverty measure itself. As we explain below, while this measure of poverty is useful, there are at least two aspects of this data that cloud our ability to gauge how many families are earning enough to escape poverty.

A More Refined Poverty Measure: Focusing on Earnings and Better Adjusting for Price Changes

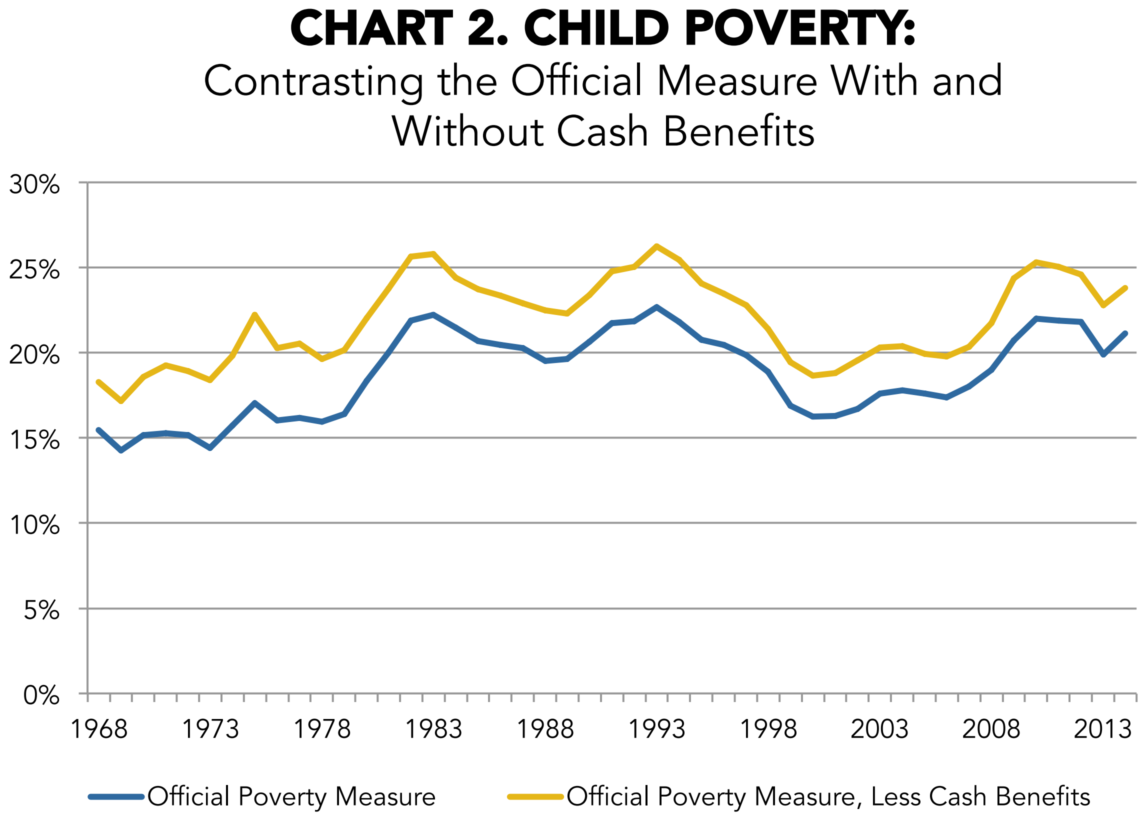
To show what share of working-age families and individuals do not earn enough to escape poverty, a measure of poverty should exclude government benefits from income. Further, the poverty thresholds should be adjusted for inflation so that they remain constant in real terms over time. In both these respects, the official measure falls short. The following section walks through two changes to the official measure that improve it in these ways and displays the combined effect of both adjustments for child poverty.

Adjusting the definition of income

First, the official poverty measure goes beyond counting wages and other private sources of income to also include cash income from other sources, such as welfare, unemployment insurance, and disability benefits in judging whether a household is "poor."[5] This makes it difficult to determine whether changes in work and earnings or government cash benefit payments are the reason for changes in poverty. To better understand the connection between work and poverty, Chart 2 narrows what counts to focus on earned income. Removing government cash benefits from the official poverty measure raises the overall level of child poverty but does not substantially alter the trend.

[4] Congressional Budget Office letter to Chairman Tom Price, Committee on Budget, U.S. House of Representatives. February 16, 2016. Available online: https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51250-Price_Letter.pdf

[5] For more information on the definition of income, see the ReadMe portion of the excel spreadsheet.



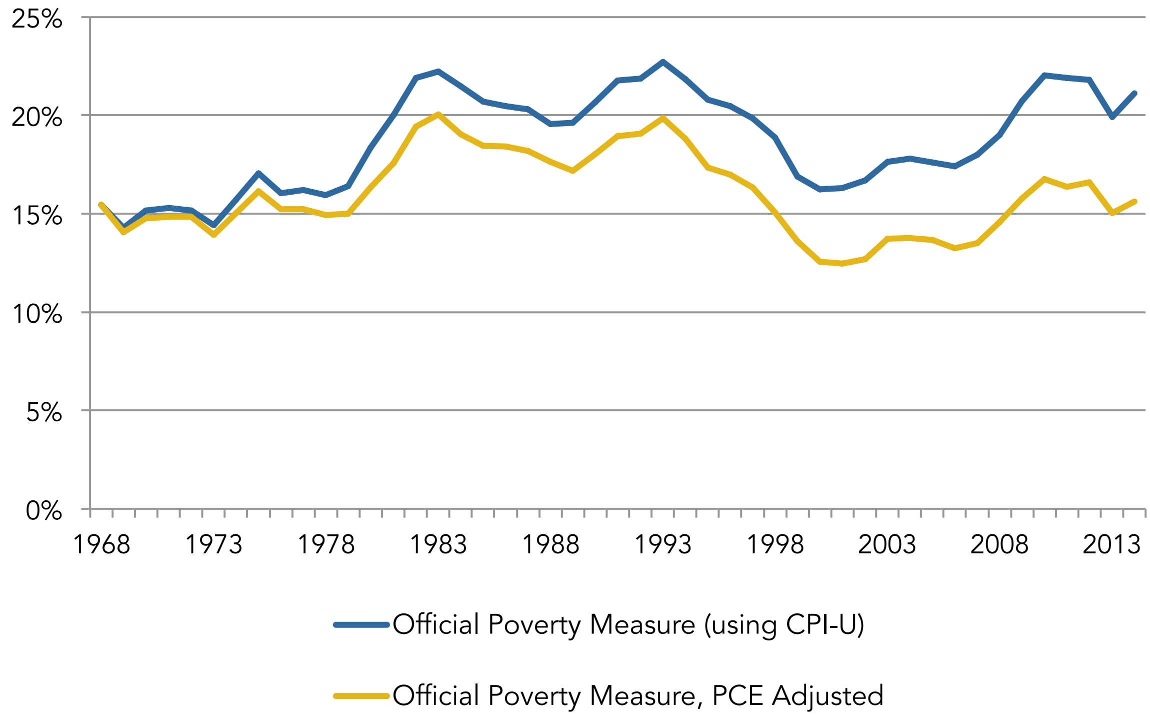
More Accurately Adjusting for Changes in Prices

Second, the official poverty threshold is indexed for inflation using the consumer price index (CPI-U), which is widely acknowledged to overstate inflation.[6] The practical effect is that the poverty line will rise faster than it should, thereby incorrectly counting more people as poor. Other institutions have recognized this deficiency. For example, the Federal Reserve no longer uses the consumer price index as its preferred measure to gauge whether it is meeting its inflation target; instead, the Fed uses the personal consumption expenditures price index (PCE index). Likewise, analysts at the non-partisan Congressional Budget Office use only the PCE index when adjusting household income for inflation.[7] Even the Census Bureau rejects the CPI-U when adjusting household income for inflation.[8]

[6] Scott Winship. Debunking Disagreement Over Cost-Of-Living Adjustment. Forbes. June 15, 2015. Available online: http://www.forbes.com/sites/scottwinship/2015/06/15/debunking-disagreement-over-cost-of-living-adjustment/#2b4b9d0170fc
[7] CBO, The Distribution of Household Income and Federal Taxes, 2013 (2016).
[8] See page 22: https://www.census.gov/content/dam/Census/library/publications/2015/demo/p60-252.pdf

However, this improved measure of inflation hasn't been applied to the measurement of poverty consistently until now. Chart 3 contrasts the official child poverty rate, which uses the CPI-U, with the child poverty rate adjusted using the PCE index. The yellow line, which uses the PCE index, shows that fewer children would be counted as being in poverty over time than the official poverty measure indicates.[9]

CHART 3. CHILD POVERTY:
More Accurately Adjusting for Inflation

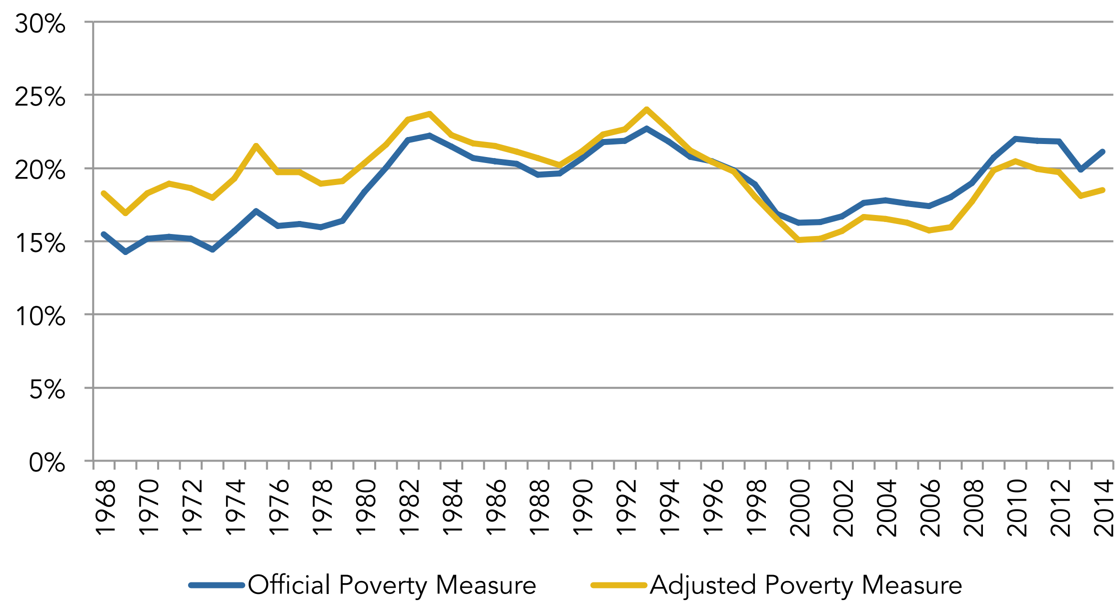


[9] The approach taken here indexes the threshold from 1968 onward. One could also choose to keep the current thresholds today and use the PCE to adjust earlier years accordingly which would show similar progress in reducing poverty. Other analysts, such as Wimer et al. (2013), have chosen to anchor their threshold in 2012. However, anchoring in 1968 is conceptually simpler and more consistent with the original intent of the official poverty measure so it is shown here. Results are available online with the 2014 anchor.

Combining the Adjustments to Form a New Poverty Measure

Combining these two adjustments produces a new measure of poverty — the "PCE Adjusted Market Poverty Measure" or the "Adjusted Poverty Measure" for short.[10] Overall, the combination of the two adjustments indicates that the level of child poverty was higher than the official poverty measure suggested in the earlier years, and is lower than what the official poverty measure reports in recent years.

Chart 4. Child Poverty:
Comparing the Official Measure with the Adjusted Measure



[10] "PCE Adjusted" refers to the fact that the inflation adjustment used to increase the nominal value of the poverty threshold has been adjusted to incorporate the PCE index starting in 1968 when our data series begins. The "Market Poverty" component of this new poverty measure pertains to the fact that the income definition contains more than just wages and salaries (such as interest, dividends, pensions, etc.). For more information on both adjustments, see the ReadMe tab in the excel file.

The 1996 Welfare Reform Law and Its Impacts on Poor Families

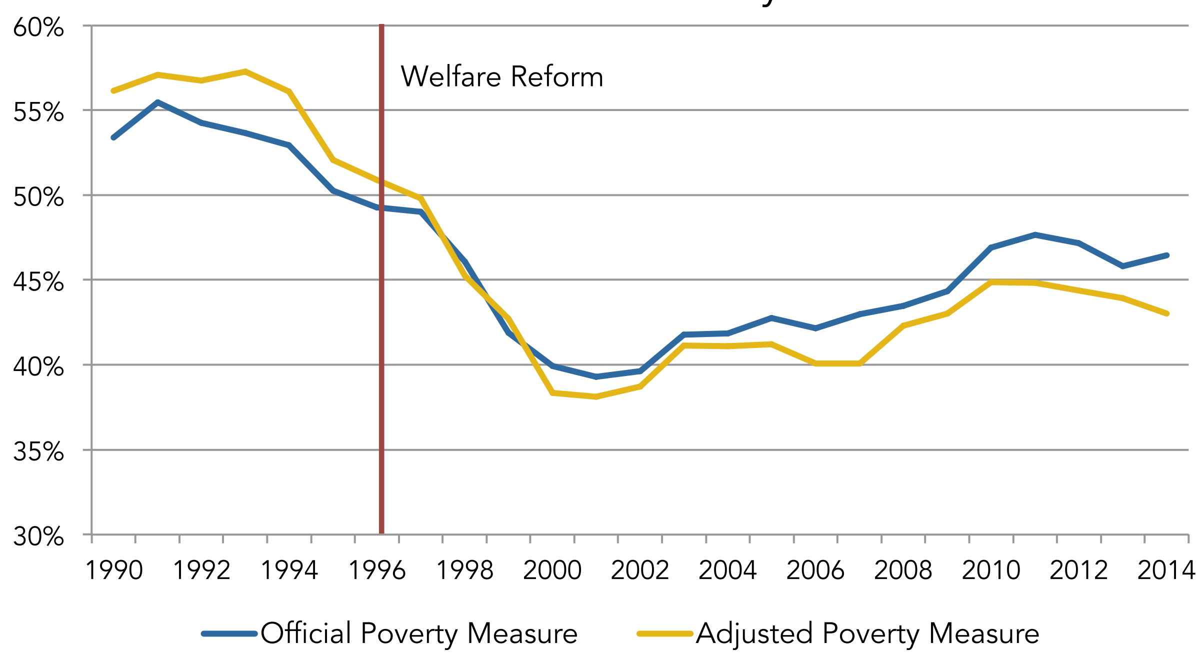
Using these two adjustments to focus on earned income and more accurately reflect changes in prices, we can now better understand the impact of the 1996 Republican welfare reform law and poverty trends more generally. The following section focuses more closely on the years surrounding welfare reform, but the data available online allows for analyses between 1968 and 2014 for various demographic groups.

Impacts on Children in Female-Headed Households

First, let's focus on the group of people most affected by the 1996 welfare reform law, that is, single mothers with children, who were for the first time expected to work or prepare for work in exchange for benefits. These reforms were designed to help them increase their earnings and move up the economic ladder. Chart 5 shows the poverty rates using the official poverty measure and the adjusted poverty measure for children in female-headed families before and after reform.

CHART 5. CHILD POVERTY IN FEMALE-HEADED HOUSEHOLDS:

Two Different Poverty Measures



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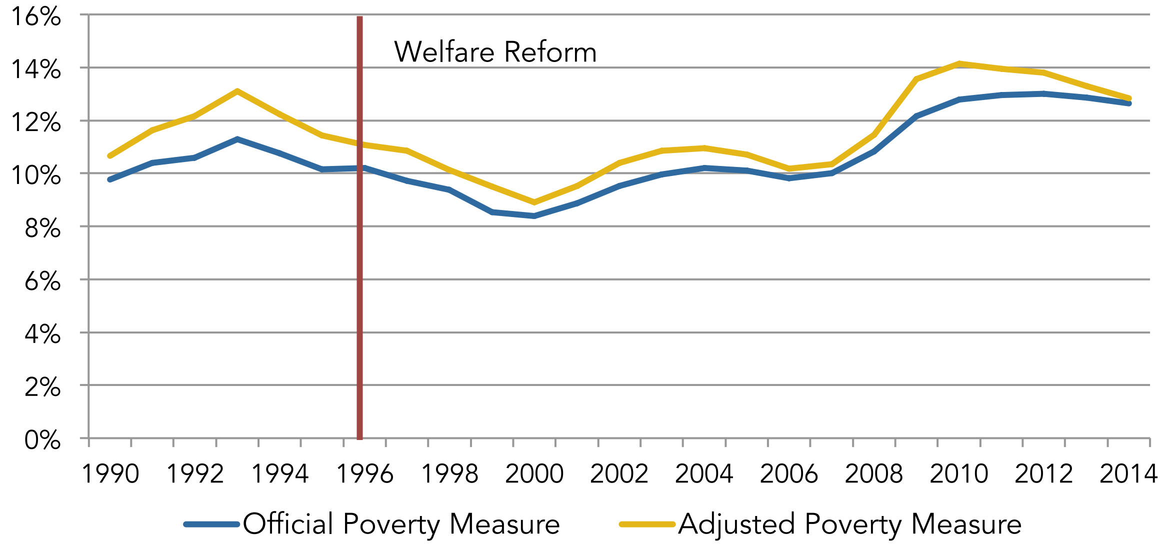
Compared with the official measure, poverty using the adjusted measure was higher before welfare reform, fell further afterwards, and remained lower than previously believed despite the deep recession and ensuing weak recovery. In fact, using the adjusted poverty measure, child poverty in female-headed households declined by more than 15 percent between 1996 and 2014 as opposed to only 6 percent under the official poverty measure. Prior to the introduction of the adjusted measure, one could assume without context that declines in the official measure were the result of increased benefit payments instead of more work. However, the fact that the adjusted measure (which focuses on earnings) shows a commensurate decline that is further boosted by the PCE adjustment goes to show that more work and higher earnings — not just receipt of benefits — has reduced poverty. In other words, in terms of helping families escape poverty by working and earning income, welfare reform was even more effective than previously believed.[11]

[11] Data not shown in this report reveals that there has also been a dramatic reduction in child poverty within female-headed households since 1968 (35% or 23 percentage points), but primarily beginning in the mid-1990s as state welfare reform experimentation began and finally became the law of the land in 1996.

Impacts on Working-Age Adults

Poverty under the adjusted measure for prime age adults (ages 25-54) is marginally worse than it is using the official poverty measure.[12] Despite the success of welfare reform in driving down poverty rates for children of single mothers, the poverty status of prime working-age adults looks worse than ever before — not only because poverty is near all-time highs but because high poverty rates are persisting despite the economic recovery and falling unemployment for this age group.

CHART 6. PRIME AGE (25-54) POVERTY:
Official Versus Adjusted Poverty Measure



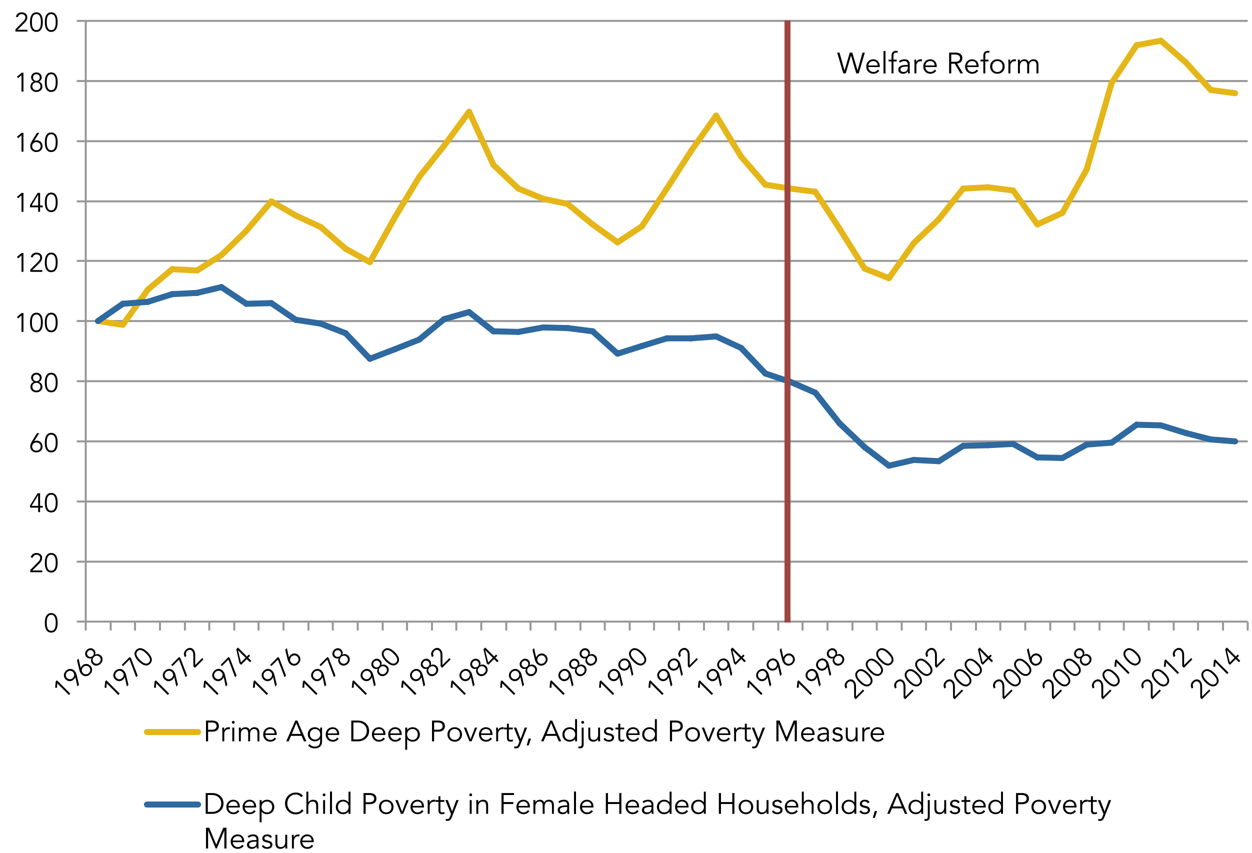
[12] However, the trend since 1968 (not shown) indicates that there has been more improvement in the adjusted series than the official series.

As seen in Chart 7, one of the clearest ways to illustrate the divergence in outcomes between child poverty and adult poverty is to focus on trends in deep poverty (that is, below 50% of the poverty line) using the adjusted poverty measure, comparing how poverty rates for these two groups have changed relative to their 1968 rate over time. Whereas prime age deep poverty is up by nearly 80 percent relative to the poverty rate in 1968, child poverty for female-headed households is down by almost 40 percent over this same period.

CHART 7. DEEP POVERTY USING THE ADJUSTED POVERTY MEASURE:

Prime Age Adults (25-54) and Children in Female-Headed Households

Index: 1968 = 100



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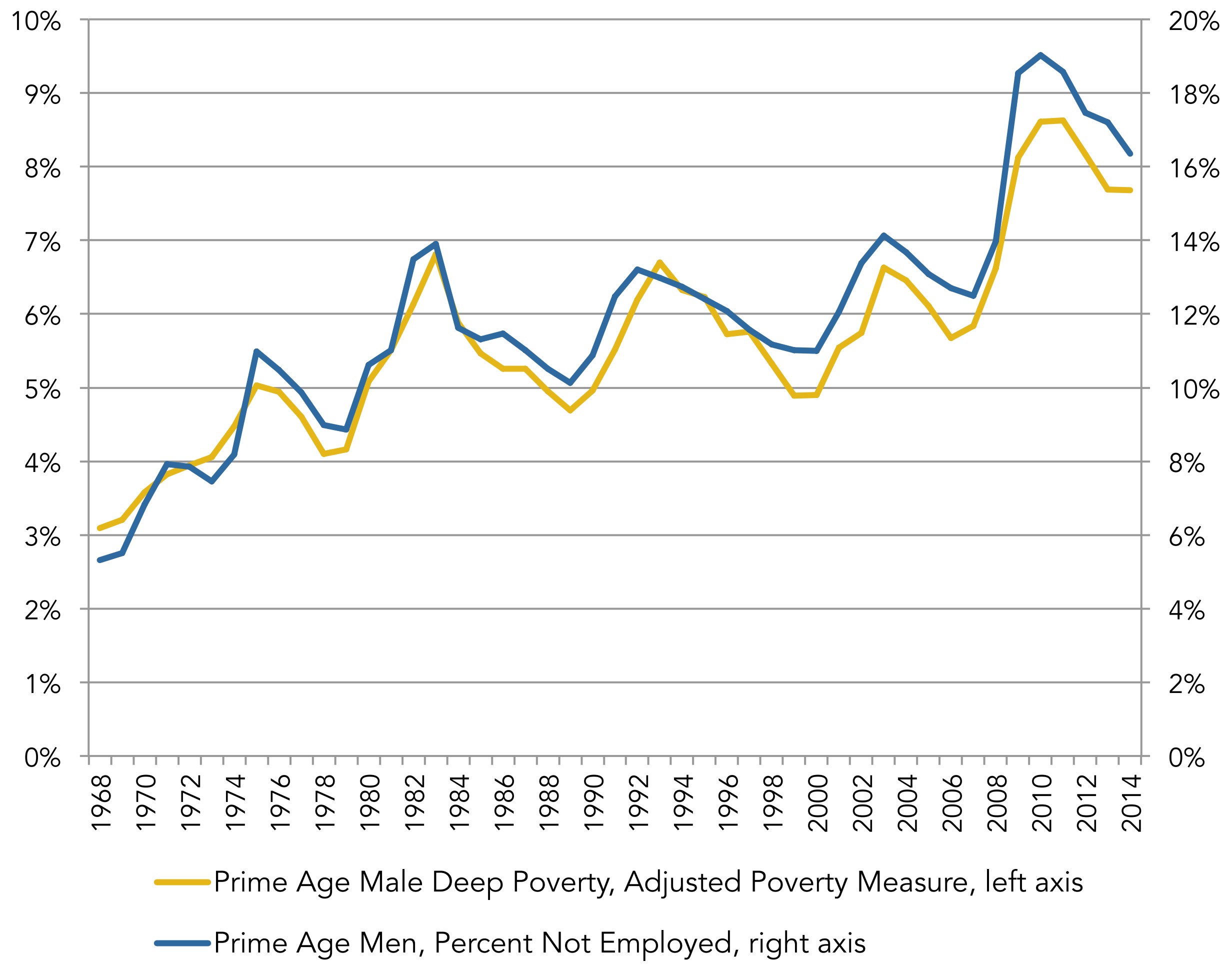
Although welfare reforms had a major impact on the groups it was intended to help, no major progress has been made in reducing overall poverty because the 1996 welfare reform law affected only specific groups such as low-income single parents and their children. As a result, it is important that the same types of expectations about work and earnings be incorporated more broadly into other anti-poverty policies to help more people enter, reenter, and remain in the workforce. This will increase earned incomes and truly help families escape poverty. The decline of work and its effect on poverty can be seen vividly in Chart 8 below. For example, the increase in the share of prime age men who are not working tracks nearly perfectly with the rise of deep poverty among them, as shown by the adjusted poverty measure.[13]

CHART 8. PRIME AGE DEEP POVERTY TRACKS THE RISE OF JOBLESSNESS

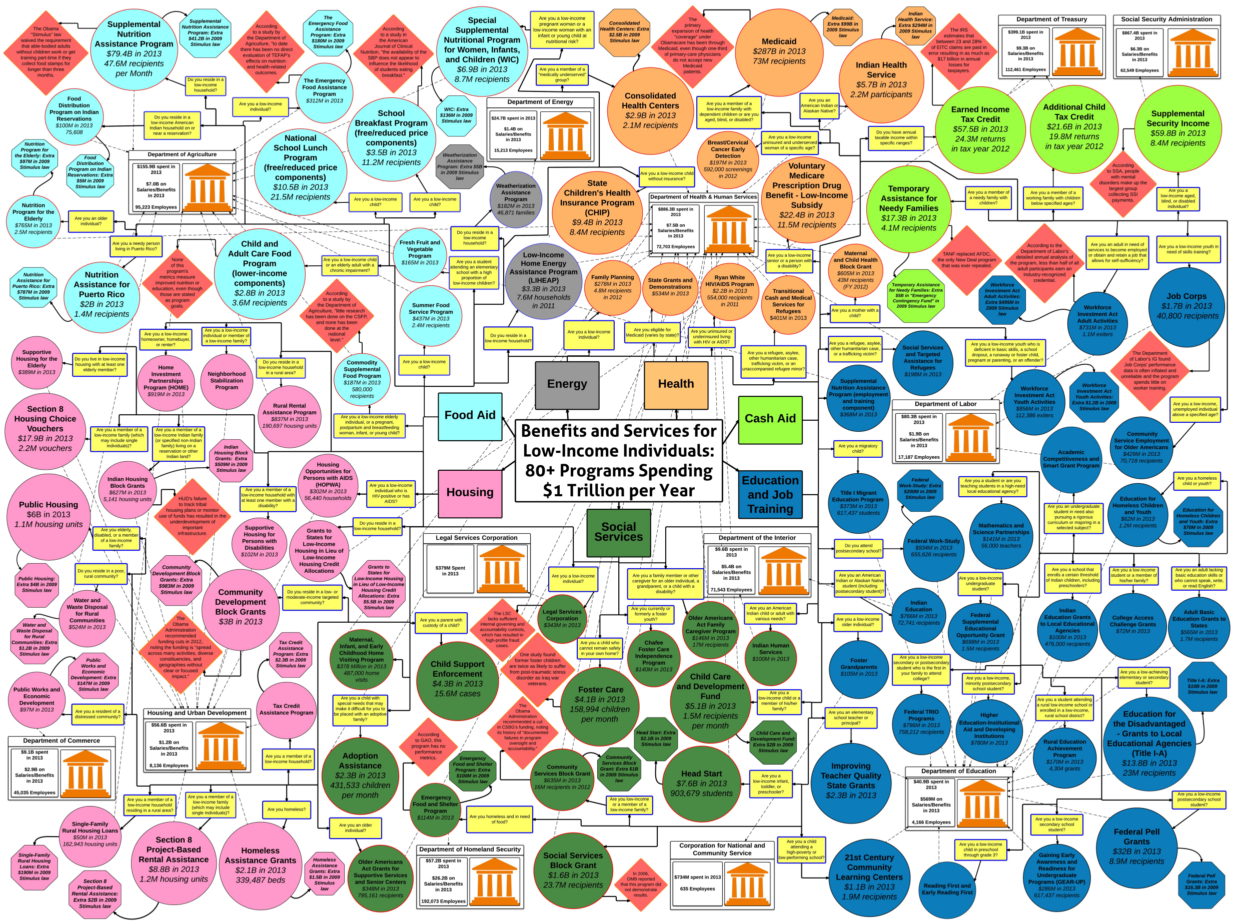


[13] The "percent not employed" is calculated by subtracting the prime age male employment to population ratio from 1.

Recommendations

Work Must Remain the Primary Solution to Poverty

The 1996 welfare reform law was a historic accomplishment — but as the following chart shows — TANF is just one program in a maze of more than 80 federal welfare programs intended to serve low-income families.



Source: House Ways and Means Committee staff, using Congressional Research Service reports and other data.

Congress should take further steps to build on that accomplishment by continuing to make work the primary solution to poverty. As outlined in a Better Way to Fight Poverty, work can and should be promoted in existing programs in a number of ways.

- **Better Connect Child Support Enforcement Programs to Workforce Development Activities**
  Engaging non-custodial parents in work and work-related activities increases their earnings and, as a result, child support collections, which both help provide a more stable environment for children. The potential solution lies with better connecting child support enforcement programs to ongoing workforce

development activities within a state, and helping to provide the skills and work-based learning opportunities needed to find and keep full-time employment. This effort must not duplicate existing programs or efforts, but make a point to connect and include non-custodial parents as eligible participants in such programs. In addition, better coordinating the child support enforcement program with other programs, much like is currently done with cash welfare, will help in prioritizing parental financial responsibilities for children.

- **Engage Beneficiaries as Early as Possible with Effective Reemployment Strategies**
  The overall goal of the Unemployment Insurance (UI) system should be to make sure people who have fallen on hard times get the help they need and then get back to work as quickly as possible. Despite significant changes in the U.S. labor market, the basic structure of the UI program has remained unchanged since 1935. Waivers would allow states to explore ways to better help Americans get back to work, consistent with modern labor-market realities. Research also indicates that the longer people are out of the workforce, the less likely they are to return. As a result, the UI system should try to engage beneficiaries as early as possible with effective reemployment strategies. The UI system's current reemployment assessments and services should be better aligned with a state's employment and training activities. In addition, waiver authority should be reauthorized and enhanced to test different strategies for reducing benefit duration and promoting employment.

- **Other Recommendations**
  A Better Way to Fight Poverty also calls for action on programs beyond the Committee's jurisdiction to help more people find jobs, escape poverty, and move up the economic ladder. For example, the report recommends expecting work-capable adults find jobs or prepare for work as a condition of receiving benefits from other welfare programs as well, such as in housing and food assistance programs. The report also recommends changes to social programs to make sure they support and reward work, so those who work and increase their earnings are better off when they do so. By focusing more of our nation's welfare programs on encouraging, supporting, and rewarding work, we can do more than just alleviate the symptoms of poverty — we can help more families escape it for good.