

**Rethinking Welfare in the Great Recession:  
Issues in the Reauthorization of Temporary Assistance for Needy Families**

Testimony of Gordon L. Berlin, President, MDRC, Before the Senate Finance Committee

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Good morning. My name is Gordon Berlin, and I am President of MDRC, a nonprofit, nonpartisan education and social policy research organization that is dedicated to learning what works to improve policies and programs that affect the poor. Founded in 1974, MDRC evaluates existing programs and tries out new solutions to some of the nation's most pressing social problems, using rigorous random assignment research designs or near equivalents to assess their impact.

I am pleased to be here today to discuss what research and experience have to tell us about moving forward with the reauthorization of the federal welfare program, Temporary Assistance for Needy Families (TANF). Let me start by summarizing my main points:

- The historic reforms embodied in the TANF program transformed welfare: rewarding and supporting employment and maintaining an ethos of reciprocity and responsibility that is valued by American society. In the context of a booming economy and other supportive policies, the nation made substantial progress on a number of key indicators — for example, reducing the welfare caseload, increasing women's employment rates, and reducing child poverty.
- As last week's new poverty numbers so starkly illustrated, the Great Recession has been an unprecedented test of antipoverty programs like TANF, demonstrating the limits of a social safety net built predominantly around work when unemployment is high. While the rolls of other safety net programs, like the Supplemental Nutrition Assistance Program (food stamps) and unemployment insurance, have risen to meet growing needs, the national TANF caseload has increased only modestly.
- The current economic downturn has also highlighted some less successful aspects of the TANF block grant structure that have existed for some time, including its loss of value to inflation; its limited reporting and accountability requirements; its excessive flexibility in what counts as state maintenance of effort (MOE) match, which has essentially created a system of federal-state revenue-sharing; and its comparatively restrictive definitions of activities that meet work participation requirements. Together, these factors have worked in unintended ways to undermine the program's effectiveness: the fraction of families living in severe poverty has remained stubbornly high; the number of former welfare families reporting neither work nor welfare income has been rising; and the program was slow to play an essential countercyclical role during periods of high unemployment.

- In response to growing needs and a lackluster response from states, Congress moved decisively to address the economic downturn by creating the TANF Emergency Fund. The fund reignited state creativity, leading to the development of more than 250,000 subsidized jobs in the public, nonprofit, and private sectors and enabling the payment of additional assistance benefits. Emergency Fund authority expires in nine days, likely leaving employed individuals without work, employers without employees, and communities without the economic multiplier effects that spur broader economic activity.
- The history of welfare policy is one of pendulum swings between various competing goals: reducing poverty vs. reducing dependency; being responsive to economic downturns vs. dealing with structural problems; privileging work-first vs. education-first; and promoting fatherhood programming vs. marriage programming. Yet these are *not* either/or choices. Indeed, the challenge is to use the opportunity of reauthorization to reduce the tendency to swing between philosophical extremes — while carefully developing evidence-based policies that anticipate changing economic contexts.
- Research evidence from a variety of interventions, which I describe in detail below, offers guidance about moving forward — maintaining a strong work focus, while also encouraging advancement through education and training; reducing poverty without increasing dependency; providing services for those with persistent barriers to employment; taking the best from both fatherhood and relationship programs to make families stronger.
- In the short run, it seems imperative to extend the current TANF law, as well as to extend and fund continuation of the Emergency Fund. The economic recovery has stalled, and the Emergency Fund appears to be providing vital bridge funding for clients, employers, communities, and states during this difficult period. However, an extension should be conditioned on improved state reporting about TANF spending, about participation in activities that states do not currently report, as well as about the nature of state maintenance of effort programming. We need better information in order to make good decisions about how to improve TANF.
- In the long run (and perhaps with better data), we should step back and consider some more fundamental changes, including rethinking TANF's goals and structure, so that the program promotes work and self-sufficiency in good times while expanding to provide support for the nation's poorest citizens in difficult economic times; creating a permanent emergency fund triggered by poverty and unemployment indicators and designed to solve the shortcomings evident in the existing contingency fund; reexamining the block grant structure, so that states maintain sufficient flexibility to innovate while being transparent about how resources are being spent; expanding the role of education and training while creating standards that require participants to make adequate progress; revamping the participation requirements and combining them with a universal engagement measure; doing more to deal with participants with barriers to employment; and providing incentives to states to do more of what research says works.

## Where We Are Now

Nearly 15 years after the creation of the Temporary Assistance for Needy Families program and in the midst of the Great Recession, welfare policy has reached a crossroads for taking stock of both its successes and its failures. The history of welfare policy in the United States is one of pendulum swings between various extremes: reducing poverty vs. reducing dependency; being responsive to economic downturns vs. dealing with structural barriers to self-sufficiency; privileging work-first vs. education-first; promoting responsible fatherhood vs. promoting marriage. The challenge is to use the opportunity of reauthorization to reduce the tendency to “over correct” — and to develop policies that both anticipate changing contexts and reflect the lessons that we have learned from research and experience.

The passage of TANF in 1996 transformed the American welfare system; among its most important provisions were: time limits on benefit receipt, strict work standards, a caseload reduction credit that rewarded states’ efforts to trim their welfare caseloads, and a block grant structure that afforded states tremendous flexibility in the design and operation of welfare programs. Welfare’s push was assisted by the pull into the labor market of the Earned Income Tax Credit (EITC), which helps to make low-wage work pay: adding as much as \$5,000 annually to the earnings of a family with two children.<sup>1</sup> It is important to remember that these reforms had the good fortune to be implemented in a booming economy. In the late 1990s and early 2000s, the unemployment rate was low, fluctuating between 4 percent and 6 percent.<sup>2</sup> As a result, many people who would have been on welfare found entry-level jobs, and low-income women’s employment rates hit all time highs, while welfare caseloads overall declined by nearly half.<sup>3</sup>

Today, however, the TANF program has turned out to be among the least responsive parts of the nation’s safety net during recession. Food stamp caseloads are at a record high level: reaching 33.8 million individuals in more than 15 million households in April.<sup>4</sup> But as food stamp rolls shot up 37 percent nationwide between December 2007 and September 2009, welfare caseloads increased only 10 percent nationwide (although there is quite a bit of variation from state to state).<sup>5</sup> The share of eligible families served has actually declined.<sup>6</sup> Moreover, nearly half of the national caseload is now made up of child-only cases, meaning that adults in the family are not receiving assistance because they are absent, ineligible, or have been sanctioned off the rolls.<sup>7</sup>

Of equal concern is the growing problem of disconnected low-income single mothers who report that they are neither working nor receiving public assistance, and thus have no reliable source of cash income to support them and their children. The proportion of such families has been growing from roughly a tenth of low-income single mothers in 1990 to as many as a fifth or even a fourth by 2005.<sup>8</sup> These numbers have likely grown over the last five years. Available evidence suggests that these women face a range of barriers to work — limited work history, low education levels, domestic violence, depression, or the responsibility of caring for a sick child or adult. Many will experience severe poverty — that is, income below 50 percent of the federal poverty level for their family size. The consequences for children of spending some part of their childhood under conditions of severe economic deprivation are worrisome.

In many states, access to TANF remains a challenge: states have made the eligibility determination process more demanding (for instance, requiring more documentation, multiple

visits, and participation in a job search program); welfare time limits have sent a strong, application-discouraging, message that welfare is a temporary program; enforcement of full family sanctions for failure to comply with work participation requirements<sup>9</sup> have ended benefits to some of these very poor women; and the work participation requirements that states must meet or face the loss of federal funding may have discouraged states from enrolling family heads with significant barriers to employment.

The poverty figures released last week underscore this problem. The poverty rate has reached 14.3 percent, the highest level since 1994, with a record 43.6 million people living in poverty. There are 14.8 million related children living in families with below-poverty income, and only 3.4 million of those children are receiving TANF-funded benefits.<sup>10</sup>

### **The Downside of the Block Grant Structure**

The block grant structure, which spurred state creativity when the law was first passed, may have contributed to TANF's lack of responsiveness in the current economic environment. For one thing, the block grant has lost more than 25 percent of its value to inflation, and state-determined benefit levels, which are generally below 50 percent of the poverty level, have not kept pace with inflation in most states.<sup>11</sup> In addition, as caseloads marched steadily down towards the end of welfare as we knew it, states moved decisively to reallocate not just federal resources but also state resources to meet other priorities — many of them important, like child welfare, child care, and teen pregnancy prevention, but not all of them directly linked to welfare and many of them not very well documented. The undefined categories “other” and “nonassistance” now count for more than half of all TANF spending, yet we know little about the characteristics of those served, the categories of services provided, or whether participants are engaged in worthwhile activities that do not count toward the participation rate.

In short, TANF appears to have become a form of revenue-sharing for the states. For instance, because of rules that limit federal entitlement funding under Title IV-E of the child welfare law to foster care for children from families whose income falls below the state's original AFDC eligibility level (an amount that has *not* been adjusted for inflation), states have relied on flexible TANF funding to support a growing number of foster care children and for the cost of preventive services. Now, with states strapped financially, they can ill afford to have welfare caseloads rise, and many states have not been able to return those TANF resources to meet welfare needs. The TANF Contingency Fund, which was meant to provide states with an infusion of resources when unemployment levels rose, appears to have mostly worked as fiscal relief to the states, rather than increasing assistance and services to the poor.

### **Too Restrictive Participation Requirements**

In the last reauthorization of TANF, the Deficit Reduction Act (DRA) of 2005, Congress tightened the work rules considerably: raising the effective work participation rate, increasing the share of participants subject to work requirements, limiting the activities that could be counted as work, and prescribing hours that could be spent doing certain work activities.<sup>12</sup>

According to the Urban Institute, states have responded by spending more effort monitoring work activities of participating families and by moving some families (particularly, two-parent families, which must meet a higher work participation rate) into solely state-funded programs that do not have strict work requirements. A recent U.S. Government Accountability Office (GAO) report noted that 29 states have funded cash assistance for certain families that may be less likely to meet the work requirements with state dollars unconnected to the TANF program.<sup>13</sup> Some states have also increased their use of diversion programs, including one-time emergency assistance, to keep families off the rolls.

In retrospect, it now seems clear that the participation standards TANF established for one- and two-parent families, coupled with the narrow definition of countable activities, meant that most states would not be able to meet the standards established in either the 1996 law or in the 2005 DRA reauthorization. For a time, this reality was masked by the caseload reduction credit; its effective elimination led states to employ the penalty-avoidance strategies described above, including creating state-only programs for two-parent families and long-term dependent families. Yet, even with these strategies, the GAO reports that 57 percent of adults on welfare had zero hours of participation,<sup>14</sup> a disappointing response to DRA's goals, which were established in the hope that they would unleash a new round of state innovation. A variety of explanations have been proffered to explain these surprisingly low numbers: states may not be reporting activities that would not count as participation under current rules either because the service doesn't count or the client has not accumulated enough hours before the month-end reporting period; some recipients are in the process of being sanctioned or are between activities; and, with caseloads down so much and with child-only cases up, some state welfare-to-work programs may no longer be attempting to work with everyone.

But even granting the three explanations, participation appears low, which goes to the fundamental question of how best to accomplish TANF's work goals. Well-meaning legislative and regulatory efforts to define what counts as fulfilling work requirements may have made sense in a period of strong economic growth and low unemployment, but it has effectively tied the hands of state administrators in a period without enough work. The key is constructing participation requirements that focus states on engaging every adult on the caseload in achieving employment-related goals.

Over the years, MDRC has evaluated more than two dozen welfare-to-work programs of various kinds. Many of these programs were remarkably effective — increasing employment and earnings and reducing welfare receipt and payment. Indeed, in many instances, it would have cost more *not* to run these programs, as several of them returned more to government budgets than they cost to operate, a previously unheard of finding. Yet, *none* of the welfare-to-work programs we evaluated, including the most effective programs, would have achieved the participation rates currently in place or even those established in 1996, primarily because few of them could have met the weekly hours and countable activity requirements.

If state welfare programs are to meet higher participation rates, the weekly hours requirement would have to be relaxed, and the rules would need to take specific account of several practical realities involving the changing status of people, the slots and services required, and the administrative difficulty of monitoring participation. Even in a tightly managed program, for

example, a substantial number of recipients will be between activities at any time — they will have recently finished one activity and will be waiting for another to begin. Some recipients will be in the midst of a noncompliance review process that may lead to sanctions. Others may not be able to participate fully because they are temporarily ill or disabled, or caring for a disabled family member, or awaiting the outcome of an application to the Supplemental Security Income program. In addition, most program services are not designed to last for 30 hours a week; thus, participants would have to be enrolled in multiple activities.

### **Too Much Flexibility on State Maintenance of Effort**

Broad flexibility in what counts as state maintenance of effort (MOE) match funding is a third factor that helped to make TANF more like a revenue-sharing program than a targeted cash aid program for the poor. The 1996 law allowed states to claim as match funding for programs that met the four purposes of the Act so long as they served financially needy families with children. States that were using state-only dollars for other programs could reduce their total expenditures on the poor. The DRA further broadened what counted by allowing states to count expenditures for the prevention and reduction of teen parenting and in support of two-parent families without regard to income levels. This flexibility may have made TANF a target for state budget offices desperate for revenue. On balance, we don't know how extensive this diversion of funds might have been, but it seems clear that some overall reduction in state funding on programs for the poor may have occurred.

Taken together, four factors — an inflation-adjusted decline in funding, lack of reporting and thus accountability, strict and unmeetable participation standards, and MOE flexibility — may have combined to undermine the block grant's ability to play a countercyclical role when the recession hit.

### **The Reenergizing Role of the TANF Emergency Fund**

Congress was quick to react to help states during the Great Recession with the passage of the TANF Emergency Fund (part of the American Recovery and Reinvestment Act), which provides 80 percent reimbursement for *increases* in TANF-related expenditures in three defined areas: basic assistance, nonrecurrent short-term benefits, and subsidized employment. The U.S. Department of Health and Human Services has awarded \$4.28 billion of the appropriated \$5 billion to states, with pending applications likely to spend the remainder.<sup>15</sup> As much as \$1.35 billion will have been spent on subsidized employment, which will create more than 250,000 jobs by the end of September, according to some estimates.<sup>16</sup> However, as you know, the Emergency Fund expires September 30, 2010.

Importantly, the TANF Emergency Fund authority seems to have reenergized state creativity: some 37 states have taken advantage of the funds to create subsidized jobs, some tied to promises that employers will retain the workers on their payrolls once the subsidy period ends, and others helping to create an alternative to welfare receipt. This use of the Emergency Fund stands in stark contrast to the use of the Contingency Fund, which had no restrictions and which states appear to have used to meet larger budget needs, not necessarily to support programs for the poor. It also stands in contrast to the lackluster response under the regular TANF program in

the economic downturn. The difference appears to be that Congress limited the use of Emergency Funds to specific activities and for increases in services, a set of distinctions that may provide lessons for rethinking TANF's structure.

### **What Does the Research Tell Us?**

As a result of investments supported by both Democrats and Republicans, the nation has continued to build an important body of evidence about what does and does not work in most of the key areas of contention that this Committee can rely on as it considers reauthorization. If we are to avoid the policy pendulum swings of the past, lessons from evaluation research can provide guidance for a way forward.

#### **Work-First vs. Education and Training**

The debate need not pit work against education. A strong body of research demonstrates that the most effective welfare-to-work programs employ a “mixed strategy” that encourages some people to find work immediately and others to enter education and training. The challenge is targeting the right intervention for the right participant. Here's what we know:

- Work-first programs get people into jobs quicker and at less cost to the government. But participants generally remain poor, essentially trading a welfare check for a paycheck.
- Mandatory education-first programs catch up eventually, producing comparable gains in employment and earnings and welfare savings, but they do not exceed the gains of work-first, possibly because completion rates are low and links to advanced training are limited.
- A “mixed strategy” that tailors services to the needs of individual recipients —some participants to begin by looking for work and others to start with education and training — has proven more effective than more rigid approaches that simply assigned all participants to either a job-search-only program or a required education and training-only program with little regard to their individual needs.<sup>17</sup>

The focus on work-first that has characterized TANF was a reaction to the shortcomings in the Family Support Act of 1988, namely a concern that some people were using an education assignment to avoid work participation, not attending regularly, not making progress, or not completing the program they were assigned to. Now the pendulum has swung the other way — work-first has become work-only — and state administrators have begun to realize that not everyone can get a job, especially in such a depressed labor market, and many of the recipients who remain on the rolls have barriers to employment that argue for investments in education and services. The challenge is not to let the pendulum swing back but to open the door to additional education and training while maintaining a strong employment orientation. The most successful mixed-strategy programs MDRC has studied did just that; the average length of stay in those programs was roughly 6 to 9 months or so (although there was variation around that average).

The labor market is demanding more education for higher-paying jobs that might lead to greater job stability and improved self-sufficiency. If *voluntary* education and training helps the general population advance, is there a way to obtain similar payoff for welfare recipients by supporting

employment-focused education and training while requiring evidence of “adequate progress” to ensure that participants stick with education and training programs until completion?

### **Helping Low-Wage Workers Advance in the Labor Market**

If low-wage work does not lift families out of poverty, how do we help workers move up the wage ladder into jobs that can support them? Research from MDRC and others offers lessons about employment retention and advancement programs for welfare recipients and other low-wage workers.<sup>18</sup> Some of them are sobering:

- Most programs found it difficult to engage busy low-wage workers, most of them single parents, in services or to increase already high rates of education and training.
- Even before the current recession, participants had high rates of job loss, putting a premium on reemployment services (rather than retention and advancement).
- Case management alone seems ineffective, even though guidance can be an important component of programs.

However, research to date has identified several promising models:

- Financial incentives can increase job retention and earnings, as well as participation in and completion of training, a finding that reinforces other information on the role of incentives in social policy.<sup>19</sup>
- Private placement intermediaries and agencies with strong connections to employers have been successful in helping welfare recipients find and hold better jobs.<sup>20</sup>
- High-quality sectoral training programs with strong ties to employers can substantially increase employment and earnings for carefully screened populations, but these models have not been tested at scale.<sup>21</sup>

While it’s possible to help low-wage workers advance, it is challenging — even in strong economies — and most of our successes have involved small-scale efforts that produced only modest gains for participants. Would more intensive investments in education and training work?

### **Promoting Success in Community Colleges**

More education is correlated with higher earnings. For example, in 2005, a two-year associate’s degree brought an average annual earnings premium of \$8,500 over a high school diploma.<sup>22</sup> Thus, an apparent long-term solution to the inadequacies of low-wage work is to make sure that more people are earning college credits and education credentials, which will qualify them for better jobs. But this won’t happen if welfare recipients do not enroll in education and training, advance from course to course and semester to semester, and *complete* the programs.

But while *access* to higher education, particularly at community colleges, is growing, retention and completion rates remain distressingly low, and too many students get caught in developmental (or remedial) education and never earn a credential. Both policymakers and the philanthropic sector have focused new efforts on increasing student persistence and achievement in postsecondary education. The Obama Administration has set a goal for the nation of once



again having the highest proportion of college graduates in the world by 2020, and Lumina Foundation for Education is seeking to increase the proportion of Americans with “high-quality” degrees and credentials to 60 percent by the year 2025. The Bill & Melinda Gates Foundation has set similar goals.

In order for that to happen, we have to make progress on increasing semester-to-semester persistence and completion rates. Recent research suggests that some interventions in community colleges can make at least a modest difference:

- **Performance-based scholarships:** These scholarships, which are paid on top of current financial aid, condition payment on academic performance (staying enrolled, maintaining a “C” average at midterms, and passing courses) and are often paid in increments over a semester. Early research with a population of welfare-eligible single mothers shows impacts on full-time enrollment, semester-to-semester retention, and credit accumulation. A national demonstration of performance-based scholarships is currently underway.<sup>23</sup>
- **Integrating basic skills with occupational certificates:** A model program in Washington, I-BEST, combines basic skills education with a one-year vocational education training program that results in a certificate. Program data and third-party evaluations suggest that I-BEST increases the proportion of individuals with certificates as well as improves retention in postsecondary education.<sup>24</sup> More rigorous research is just getting underway.
- **Learning communities:** In learning communities, groups of students enroll together in two or more courses, which are thematically linked and may offer an integrated curriculum. Results from one site suggest that learning communities can help students move through developmental English requirements and increase the average number of credits earned; however, there was no immediate effect on persistence. A demonstration of this intervention — focused mostly on developmental education — is operating in six community colleges around the country.<sup>25</sup>
- **Enhanced student services:** Many community college students are the first in their families to attend higher education, yet the student services that can help them find their way are often lacking, with student/advisor ratios averaging 1,000 to 1. Lowering advisor caseloads makes a modest difference in boosting academic success, at least during the semesters the advising is offered. Tutoring combined with a “student success course” — which essentially teaches students how to be students — has helped students on academic probation get back in good standing.<sup>26</sup>

The bottom line: A variety of interventions — performance-based incentives, curricular innovations, and enhanced student services — can improve postsecondary performance among low-income students. The challenge is targeting the programs to the right students, monitoring progress, and enforcing performance, particularly in the context of TANF.

### **Reducing Poverty vs. Reducing Dependency**

Welfare reform successfully helped move many people into low-wage work. Yet, for many, work alone does not ensure escape from poverty, necessitating additional strategies: earnings

supplements and other work supports in addition to the retention and advancement services and higher education strategies discussed above.

**Making Work Pay:** Perhaps the most successful antipoverty programs have been those that tie cash payments to work effort: earnings supplements, earned income disregards, and, especially, the Earned Income Tax Credit.<sup>27</sup>

Experiments conducted during the 1990s in Minnesota, Milwaukee, and two Canadian provinces were designed to increase the payoff from low-wage work. All three provided work incentives in the form of monthly cash payments to supplement the earnings of low-wage workers. The payments were made only when people worked, and the amount of each month's cash payment depended on the amount of each month's earnings. The results were consistent and encouraging. The mostly single mothers who were offered earnings supplements in these three large-scale, rigorous studies were more likely to work, earned more, had more income, and were less likely to be in poverty than control group members who were not offered supplements. The earnings supplements also had a secondary benefit for children. Preschool-age children of participating parents did better academically than like children in the control group, in part because their parents had higher incomes and they were more likely to attend high-quality, center-based child care programs. While these effects faded overall once the earnings supplements ended, the largest and most persistent effects on adults were found for African-Americans and for the most disadvantaged participants, particularly high school dropouts without recent work history and with long welfare spells. While these programs were relatively costly, they were very efficient — yielding more than a dollar in income for participants for every dollar invested by the government.

At a much larger scale, the EITC and state earned income credits (and to a lesser extent, work supports like food stamps) perform a similar function: providing supports for those who engage in low-wage work.

If “making work pay” strategies are successful, what is the right role for TANF dollars given the existence of the EITC — to help secure the initial transition from welfare to work, as a funding source for state supplements to the federal EITC? How might TANF be structured to encourage these forms of support in good economic times, while ensuring that TANF remains a reliable source of support for those who can't find work, especially in tough economic times?

### **Services for Those with Barriers to Employment**

As the caseload declined, its composition initially did not appear to change very much.<sup>28</sup> More recently, however, states report that they find themselves working with people who have a range of persistent, multiple, and, sometimes severe employment barriers, such as substance abuse and depression, that make it difficult to get and keep a job. Treatment programs play a small but important part in states' efforts to ameliorate these problems and promote employment among the hard-to-employ. If engagement in these activities does not count towards meeting state participation requirements, state officials have less incentive to work with these populations. It also places a funding obstacle in the way of the newly emerging focus states are now compelled to place on rehabilitation as a way to address the problems of the hard-to-employ.

But do these services improve employability? Several rigorously evaluated efforts provide some guidance:

- A random assignment study of a welfare-to-work program, called PRIDE, for recipients with work-limiting medical and mental health conditions shows that participants had increased employment and decreased welfare payments. However, only 34 percent of the program recipients worked in a job covered by unemployment insurance within two years after entering the study, and much of the savings in welfare was driven by high rates of sanctioning for noncompliance.<sup>29</sup>
- Participants in an intensive care management program for public assistance recipients with substance abuse problems were slightly more likely to enroll in treatment than participants in less intensive services. However, the intensive program had no effects on employment or public benefit receipt among the full sample (although it did lead to a reduction in benefit receipt for the subgroup who received TANF).<sup>30</sup>
- Results from a random assignment study of a telephonic care management program for depressed parents who were receiving Medicaid modestly increased the use of mental health services but had little effect overall on the severity of their depression. It did reduce the number of people who would have experienced severe depression, however, which is a group that has been found to benefit the most from treatment for depression.<sup>31</sup>

Clearly, these are difficult areas in which to make a difference. But states really have no choice. Most of the recipients they have worked with in these programs would not qualify for Supplemental Security Income. All have children. While the modest, short-lived gains in PRIDE and in the program for Medicaid recipients suffering from depression provide some foundation on which to build a next generation of services, it remains likely that at least some of these people cannot be expected to work steadily, full time.

**Transitional Jobs.** Transitional jobs programs provide temporary paid jobs, support services, and job placement help to hard-to-employ individuals, including long-term welfare recipients. More recently, they have also been used to employ former workers affected by the economic downturn. For the hard-to-employ, the model is based on the assumption that some people have difficulty finding and holding jobs because they do not understand how to function in a work environment, and that people are best able to learn to work by working. The model also assumes that program staff are best able to identify and address workplace problems — tardiness, difficulty taking direction, and so on — by observing participants on the job, and that employers will be more likely to hire someone who has a track record of successful employment. Although these very short-term employment programs (typically lasting less than 12 weeks) have proven effective in getting people employed quickly, they have been disappointing as a strategy for helping the long-term unemployed secure *unsubsidized* work — even though some programs have had important ancillary effects, like reducing recidivism for ex-prisoners and welfare receipt by long-term welfare recipients.<sup>32</sup> By contrast, the original Supported Work model of transitional jobs — a structured 18-month work program for the hardest-to-employ that was tested by MDRC in the 1980s — did produce large and sustained effects for long-term welfare recipients.<sup>33</sup>

More work is needed to test alternatives that provide longer term employment; do a better job identifying those who cannot find work on their own; reengineer the “transition” from subsidized to unsubsidized employment, a particularly crucial function that has historically been unattended to in subsidized employment programs; and make investments in education and training that might help participants find better jobs.

## **Fatherhood and Marriage**

For the past two decades at least, there have been efforts inside and outside the welfare system focused on addressing the role that family structure plays in fomenting intergenerational poverty and dependency. In large part, interventions have divided into two categories: programs that have attempted to increase noncustodial fathers’ involvement in the support and care of their children and programs focused on improving the relationships of married and unmarried co-parenting couples. Two of TANF’s four purposes involve reducing out-of-wedlock pregnancies and encouraging the formation of two-parent families.

States and the federal government continue to experiment with promising approaches in these areas, some of it supported by TANF, but so far with limited success. Evidence from the Parents’ Fair Share program in the 1990s for noncustodial fathers demonstrated small, modest effects on involvement, employment, and child support payments for those fathers who were least likely to engage in these activities.<sup>34</sup> More recently, early results from Building Strong Families, a program to strengthen the relationships of unmarried couples who have or are having a child together, were mixed. Overall, BSF did not have any effect on improving relationship quality or on marriage rates; in one site, the intervention actually had negative effects, including an increased incidence of domestic violence, while in another it had several positive effects, including improvements in relationship quality.<sup>35</sup> A third program, Supporting Healthy Marriages, which is focused on improving relationship quality among married couples, appears to have had success in engaging participants as measured by their ongoing participation in the program’s marital education classes, but outcome information won’t become available until early 2012.

Evidence emerging from these and other studies suggest that responsible fatherhood and couples’ relationship quality are closely linked, not at odds with each other. A man’s capacity to fulfill his role(s) as father is determined by his relationship with the child’s mother. For couples who live together, the quality of their relationship is associated with their ability to parent cooperatively.<sup>36</sup> In turn, programs that are effective at strengthening the relationship between parents who live together have been found to increase fathers’ involvement in parenting. For parents who are no longer together, there is an even stronger link between the parents’ ability to cooperate and the father’s level of involvement with the child, because custodial parents (usually mothers) have considerable control over noncustodial parents’ access to their young children, and ongoing conflict between parents about visitation is likely to lead to fathers’ withdrawal. Reducing the influence of the swinging pendulum between fatherhood programs and marriage programs that has characterized federal policy and funding would provide an important foundation for building evidence-based services for families. Indeed, the two strategies share a common goal: to increase the number of low-income children who grow up with financial and emotional support and involvement from both parents.

## Looking Beyond a Work-Based Safety Net

If the immediate economic outlook suggests years of high unemployment, a safety net built around work will prove inadequate.<sup>37</sup> Are there other models for relieving poverty, while still maintaining the philosophy of reciprocal responsibility embodied in TANF and other work-based programs? An ongoing demonstration of conditional cash transfers (CCTs) that MDRC is conducting offers some interesting early lessons.

Targeted toward low-income families in six high-poverty New York City communities, Opportunity NYC-Family Rewards offers cash payments tied to efforts and achievements in children's education, family preventive health care practices, and parents' employment. In its first two years, the program substantially reduced poverty and material hardship and had positive results in improving some education, health-related, and work-related outcomes.

The initial results from the New York City project show that CCTs can make an immediate difference in the lives of poor families in a developed country by increasing family income (up 23 percent on average). Nearly all families were able to qualify for at least some rewards, mostly in the education and health domains — meaning that, even in a depressed labor market, poor families could make non-work efforts that would bring needed income. This income reduced measures of economic hardship as well, which are notoriously hard to move. It is important to emphasize that these effects on poverty did *not* lead to major unintended consequences, such as substantial reductions in work effort.<sup>38</sup>

While many families were rewarded for efforts they would likely have undertaken without the program, Family Rewards did have modest effects on behavioral outcomes in each domain, suggesting that an income-transfer program with achievable conditions attached can provide a modest boost in positive behaviors. It's too early to say whether these effects will be sustained or grow — or whether they are worth the cost — questions that will be answered as MDRC follows these families for another two years following the August 31, 2010, end of the three-year intervention.

## Going Forward

It is hard to design public policies that are durable in good times and in bad. Since the social safety net was first conceived as a response to the Great Depression, policymakers have attempted to balance two competing goals: reducing poverty while limiting dependence on public handouts. Just as it would have been difficult to foresee the booming 1960s from the depths of the 1930s, few predicted today's severe downturn during the roaring 1990s. Then, with economic cycles seemingly in check and unemployment at historic lows, the nation moved to tie the social safety net more closely to work — by greatly expanding the Earned Income Tax Credit and placing time limits and strict work requirements on the cash welfare system. In the grip of the Great Recession, the wisdom of building a safety around work alone is in question.

But what might work better? Can we strike a better balance between protecting vulnerable families in the short run without exacerbating the intergenerational transfer of poverty? Can we maintain a focus on work without impoverishing families in periods when work is scarce? Can

we use this time of crisis as an opportunity to better balance our focus on work and education and training?

TANF has a critical role to play in the nation's safety net. We witnessed its role in promoting self-sufficiency and reducing dependency in the 1990s economic upturn. But to be successful, it must also work to help the poor in economic downturns — reducing poverty and investing in human capital, even more so when work is not plentiful. The key question for the Committee — and for the nation — is how to balance among TANF's competing goals? Is it best to make changes on the margins or is a more fundamental rethinking of its goals and its structure required? Certainly, in this economic environment, reauthorization cannot simply wait. Thus a two-part strategy seems wise — extending the existing provisions and making changes on the margins to help meet immediate need, while working diligently to craft a bipartisan plan for making TANF a program that is durable and effective in both good and bad times.

The research I've just described, the history of welfare policy in the U.S., and the current situation we find ourselves in suggests the following short- and long-run strategies for the Committee to consider as it moves forward in the reauthorization of the Temporary Assistance for Needy Families program.

In an extension of current law, Congress should consider:

**Extending the TANF Emergency Fund.** The economic recovery has slowed, poverty is rising, and unemployment rates remain dangerously high. In short, the justification for establishing the Emergency Fund as part of the Recovery Act remains intact. A decision not to extend the authority and not to provide additional funding would add new pressure on the states at a time when their fiscal situation remains bleak, perhaps exacerbating the downturn. Low-income people would feel the brunt of this decision; many would lose income support and the subsidized jobs that are tiding them over in this difficult period. Employers and communities would also be affected. I know this is a difficult decision to make in the current federal budget environment, but, with unemployment insurance benefits extended for 105 weeks or more in some places, a program that states are using extensively to provide jobs as an alternative to welfare strikes me as preferred response to a temporary crisis. Moreover, it is the one place where we have seen states respond with the kind of creativity that we once routinely expected — developing job-creating programs in collaboration with private, nonprofit, and public sector employers. Indeed, the Emergency Fund's very structure — resources tied to specific categories of intervention but with the flexibility to implement them as needed — suggests lessons for reauthorizing TANF next year.

**Getting better data.** We don't know enough to make wise decisions. Congress should ask the states to report fully on the "other" and "nonassistance" categories — who is participating, how many are participating, what services and benefits are they receiving? In addition, states might be asked to report detailed information on what role TANF funding is playing in child care, in child welfare, in state EITC programs, and in other key parts of the safety net. But we also need to understand what has happened to total state funding of programs for the poor since the passage of TANF. It will be important to know enough about these other programs to understand the choices states have made with regard to what counts as match for maintenance of effort

spending. Last, we need better data on participation, even when it doesn't count under current rules — partial hours, education, training, and treatment and assessment services rendered for those receiving assistance and non-assistance funding.

**Expanding the role of job search and education and training while requiring evidence that participants are making adequate progress.** There is no good justification for the limits TANF now places on job search or education and training. Job search-first and education-first program are both effective, and we have strong evidence that “mixed” welfare-to-work strategies that combine the two strategies provide the optimal return on investment. In addition, we know that education and skills are critical to moving up the career ladder and avoiding poverty. Moreover, we have identified interventions that can increase the share of low-income students who progress in education and training toward completing credentials, as well as sectoral training strategies that lead to better jobs. The challenge is to target interventions appropriately, connect training to actual labor market need, provide effective support, and create a monitoring system that rewards retention, progress, and completion. Narrowly defining participation as work in an economy without enough work leaves states with few options, tolerates idleness, undermines the quid pro quo that was at the heart of the new welfare bargain, and wastes an opportunity to make investments that might pay off later. Without abandoning the gains of the past 15 years in requiring and rewarding work, states can expand participation in education and training without it becoming a dead end that does not lead to jobs. If these changes must wait until Congress can reconsider participation standards more broadly, perhaps the U.S. Department of Health and Human Services, through its regulatory authority, could modestly expand the role of education and training, while requiring evidence of “adequate progress” by participants.

In the long-run effort to reauthorize TANF, we should step back and consider some more fundamental changes, including:

**Revisiting TANF's goals.** Is TANF a means of revenue-sharing to support state's social welfare program priorities or is it a core part of the nation's safety net for those with few or no other means of support — playing a key role as a temporary aid program focused on helping the poor make the transition to work and self-sufficiency in good times, while expanding to provide support of last resort for the nation's poorest citizens in difficult economic times? In short, should TANF play a countercyclical role in bad economic times? The current recession exposed a substantial hole in the safety net as the only cash welfare program failed to respond adequately, with consequences for poor families and children, for communities, for states, and for the national economy.

**Restructuring the block grant.** Can a block grant structure provide countercyclical relief, especially one that requires only minimal reporting, provides wide flexibility on what dollars can be spent on, and allows broad authority to states in identifying matching maintenance of effort spending? If Congress affirms that TANF funding is key to the social safety net, then changes are likely necessary in its structure, reporting, allowable uses of funds, and maintenance of effort requirements. To play an effective countercyclical role, TANF must contract in good times and expand in bad times. The near moribund response of TANF and its contingency fund (states claimed the money but there is little information to suggest it was used to expand services) stand in stark contrast to the use of the Emergency Fund — possibly providing lessons for Congress to

consider in restructuring the block grant. This suggests some modest tightening of what TANF dollars can be spent on, and in what counts as meeting maintenance of effort requirements. In addition, some thought might be given to the creation and protection of rainy day funds during good economic times. A larger contingency fund could be created, one that would be triggered by state poverty or employment thresholds and would have the characteristics of the Emergency Fund: resources could only be used to provide “more” benefits as caseloads grow and for named targeted activities. The rainy day fund and this emergency fund would provide a mechanism for expanding and contracting TANF as the economy changes. Finally, more complete reporting on the use of funds as described above is key to accountability and transparency, while better information and more restrictive requirements in what can count as state maintenance of effort may be necessary to create a more responsive block grant.

**Revamping participation requirements.** Few states are meeting current participation standards, and large numbers of enrollees appear to be engaged only minimally if at all. To achieve high participation rates, TANF will need to accept a broader range of countable activities, provide flexibility in the number of hours required, and contain a measurement system that accounts for inevitable periods of down time and partial attendance. Moreover, the evidence on effective programs doesn’t support the need for either rigid definitions of what counts or fixed hours of participation. For example, why limit job search to six weeks or the fraction of the caseload that can be enrolled in vocational education? With a goal of actively engaging every adult on the caseload in activities designed to increase self-sufficiency, participation standards should be combined with universal engagement measures. Universal engagement measures might include items like percent assessed, percent assigned, percent with up-to-date employment plans, and evidence of efforts on the part of staff to contact nonparticipants. Most important is a requirement that participants show clear progress whatever the assignment. In short, a revamped participation requirement would set more realistic hours requirements, confer greater flexibility on states in what activities count as meeting participation standards, and create a complementary universal engagement standard to signal Congressional intent that states work with everyone.

**Giving states the incentives to implement and improve interventions with evidence of success,** including “mixed strategies” that promote both work and education and training (along with some provision for longer term education and training, if people are making demonstrated progress), subsidized and transitional jobs for both countercyclical purposes and (with adjustments) for those with structural barriers, and programs that promote advancement, make work pay, and, particularly in difficult times, condition some cash assistance on productive non-work activities.

**Doing more to deal with barriers to employment.** As Senator Grassley noted in his response to the GAO report, the program has also fallen short in remedying the structural barriers to self-sufficiency faced by many low-income welfare recipients. As noted above, interventions designed to treat problems of mental health, low education, and absence of work experience are not being provided, in part because the work participation standards have been interpreted by states to limit what counts and in part by the limited evidence on what works. Evidence-building remains a necessity in this area, but states should also be encouraged to build on the limited evidence we have.



One more point: Today's hearing is focused particularly on poor women and children. Ultimately, however, we can't solve the problems they face without addressing the low rates of employment and earnings among poor men, who have been particularly hard hit by the current recession. The unfinished agenda of America's antipoverty effort is to find mechanisms to encourage and reward the work of individuals, including single low-income men, so that they can support themselves and their families. Bureau of Labor Statistics projections through 2018 describe a future characterized by substantial numbers of low-wage jobs.<sup>39</sup> Recognizing this dilemma, in the last decade or two, policymakers have increased the generosity of the EITC. But by providing earnings supplements primarily to the heads of families that have children and ignoring the consequences for single individuals who hold these same low-wage jobs, we have unwittingly created inequities that undermine the incentive to work, marry, and bear and support children. As the nation emerges from economic recession, labor market policies (as opposed to income maintenance policies) that "make work pay" for all Americans could hold the key to progress on some of the nation's most perplexing and persistent poverty problems. Careful research, demonstrations, and experimentation on a large scale with an expanded payroll tax credit or EITC for individuals as a means of accomplishing these goals should be a priority as we consider a next generation of policies to address the intertwined problems of single-parent families, low rates of employment and earnings, and persistent poverty.

As I said at the beginning, the history of welfare reform has often been one of pendulum swings between competing philosophical goals. Perhaps the greatest legacy of TANF is that it reconciled — through a focus on promoting work and earnings — two seemingly competing goals: reducing poverty and reducing dependency. The challenge ahead is to build on that consensus to enhance the program's ability to get participants into good jobs in a strong economy, to encourage participants to make progress through appropriate skill-building education and training, and to provide support when times are tough.

Thank you for the opportunity to testify today.

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