

# Past, Present, and Future of Welfare



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This conversation, which was the keynote at the Brookings Institution conference titled “The 20th Anniversary of Welfare Reform,” has been edited for clarity and length. To listen to the full conversation, please visit: [inequality.stanford.edu/welfare-reform-conversation](http://inequality.stanford.edu/welfare-reform-conversation).

**DIANE SCHANZENBACH:** I want to start with a couple of questions about the history of welfare reform. Mr. Speaker, the basic question for you is: How did we get there? What sort of intellectual and political groundwork was done prior to the signing of the 1996 law?

**NEWT GINGRICH:** From our side, welfare reform started during Ronald Reagan’s first campaign for governor of California, and with his efforts to get an Aid to Families with Dependent Children (AFDC) waiver and to move toward a workfare model. Under a workfare model, welfare recipients have to meet certain participation requirements to continue to receive welfare benefits. For me personally, welfare reform took off in two stages. The first stage was in the mid-1980s, when Charles Murray wrote *Losing Ground*. I think that book is still the most decisive explanation of the fact that the real cost of welfare is not borne by the taxpayers who pay for it, but by the people who receive it because it’s so devastating in its cultural and social impact. That book moved a lot of us toward a replacement model of thinking. Former Wisconsin Governor Tommy Thompson, former Michigan Governor John Engler, and several others started trying to figure out how to rethink welfare and move back toward a focus on work. The second stage for me was Marvin Olasky’s book, *The Tragedy of American Compassion*, which is still the most trenchant analysis of what happened to thinking about the poor over the last century or so.

When we all came in, Bill Clinton had run on ending welfare as we know it. Now, being Clinton-esque, one didn’t know exactly what he meant by that, but it’s a great phrase. Everybody who was conservative assumed he meant work. Everybody who was liberal assumed he meant a lot more money. And he was having to say, “Yes, I’m with both of you.” But he had set a standard that was way, way to the right of the Democratic Party at the time. So we were in a position to have a common dialogue around welfare reform. Ron Haskins was one of the key players on the House side, and the governors played a big role in helping us shape the legislation because we wanted it to be doable. And then we had a fairly significant fight internally between people who wanted to marginally change the system and people who believed you had to make a real break, and ultimately that’s the fraction that won.

We passed it twice after attaching it to Medicaid reform, and the president cheerfully vetoed it, hiding behind Medicaid. We faced a real decision: Do we continue to pass a welfare reform bill that we know Clinton will veto? If we do that, then we’ll have welfare reform as an issue in the midterm elections. Wel-

fare reform was very popular among voters, including among people on welfare. But others—including Louisiana Rep. Jim McCrery—argued for passing welfare reform as a freestanding bill. This strategy would make it much harder for Republican presidential candidate Bob Dole to win but would almost guarantee that House Republicans would be reelected. We had not been reelected since 1928. We had held the House twice in 1946 and 1952, but we had never been reelected. We made the decision to pass welfare as a freestanding bill, and I was the guy who got to call Dole’s campaign manager, Scott Reed, and say: “We hate to tell you this, but we just bailed out on you.” I think they took it as a very serious blow to their campaign.

**SCHANZENBACH:** Bruce, I imagine you agree with about 90 percent of that. Is that right?

**BRUCE REED:** I think the history starts a little earlier than that, with Daniel Patrick Moynihan’s work in the 1960s, and with failed efforts in both the Nixon and Carter administrations to reform welfare. Joe Califano, former U.S. secretary of health, education, and welfare, called welfare reform the Middle East of domestic policy. Governors started experimenting with welfare in the 1980s, and that led to the Family Support Act of 1988, which revised the AFDC program to emphasize work, child support, and family benefits. That act was a step in the right direction, but most of us felt that it was missing the central part of what would make welfare reform work, which was real work requirements.

Clinton had built his career around welfare in Arkansas. He had spent more time in welfare offices than any other president. He came from a poor state and understood what a difference it would make. It became the centerpiece of his campaign in part because welfare had become a symbol of everything that was wrong with government and politics. As far as government goes, it was good intentions gone wrong. And as far as politics goes, there had been more division and demagoguery and less real action and progress on this issue than just about any other. Even before the beginning of the campaign, we saw that the people who were the angriest about the welfare system were the people trapped in it. It certainly went against Democratic orthodoxy to take such a strong stand, but I think Clinton recognized that our politics needed dramatic change, that this risk was worth taking, and that we could build a social contract around work.

The first thing he did when he came into office was to expand the Earned Income Tax Credit (EITC), which had been a bipartisan idea up until then. I think he firmly believed that if you ask people to go to work, and you reward them for going to work, and you make work pay better than welfare, then they would go to work. I don’t think anyone who lived through 1995–1996 would get particularly nostalgic about the tenor of American political life during that time. But it demonstrated that bold promises are harder to keep, but also harder to stop. And the American people got behind it. The experts all told us it couldn’t

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**SCHANZENBACH:** Did you write this other sound bite of his, "The best anti-poverty program is still a job"? I thought that was a great Clinton line.

**REED:** I'm not sure that was even original to Bill Clinton, but that was the centerpiece of our philosophy. Work is the best ticket out of poverty, and if we can't do anything about the decline in marriage, it may be the only ticket out of poverty. We have to do everything we can to support people who want to work, and to help the working poor make it to the middle class.

**SCHANZENBACH:** Bruce, there were some real problems with the final bill that he signed, such as the devastating cuts against illegal immigrants. Why did he choose that one to sign?

**REED:** The first bill that he vetoed was part of the bill that block-granted Medicaid and shut down the government. The second welfare bill that the president vetoed was identical to the first. The only reason they sent it to us was that Leon Panetta, who was the director of the Office of Management and Budget, went on the Sunday shows in December 1995 and was asked, "If the president was sent that same welfare reform as a standalone bill, would he sign it?" And Leon, without consulting anyone, said no. The speaker and his colleagues said, "Whoa, this could be a really good opportunity." They sent the bill to us right away, and the president was really ticked off that we had to veto the same bill all over again. The third time was a different story. We'd been able to get a number of changes that we wanted on the welfare side. We were quite happy with the welfare-to-work provisions that had a lot more money for child care, good incentives on the states, real work requirements, and terrific child support enforcement provisions. The poison pills instead were totally unrelated to welfare, and that's what made it such a painful decision for the president. He ultimately decided that the cuts in benefits for illegal immigrants and the cuts in food stamps were

things he could restore in the next Congress, but that the chance to pass a historic welfare reform bill might not come around again. So he decided to keep his promise and sign it, and in the next couple of years, he was able to restore most of those cuts.

**SCHANZENBACH:** It seems like not a lot is getting done in D.C. these days. Things seemed different 20 years ago. Was it easier to work together back then? Is it still possible to get good things done in Congress?

**GINGRICH:** Bill Clinton had been governor of a small Southern state, and he was used to dealing with a legislature. The enormous Balanced Budget Act was much, much harder than welfare reform. I think we figured out we'd spent part or all of 35 days negotiating face-to-face. We also had the great advantage that Clinton and I were policy wonks. It was like being in a graduate seminar. We both BS'ed constantly. It was just unbelievable. When you try to govern at a distance from the Congress, it's very hard to get things done. People underestimate how really human politics is, including the legislative process. Bill Clinton likes people, and that makes it much easier to deal with him. Once you're talking, he can't help himself. He has to get engaged. And now you can get something done.

**REED:** I agree with all that. I don't think that the times were that different. Maybe the makeup of the respective caucuses was a little bit different, but I think there's an underappreciated divide in this town between those who see politics as a quest for power and those who see it as a contest of ideas. As bitter as it was in the mid-1990s, it was definitely a contest of ideas. That's an exciting thing to be part of. I think that one lesson of welfare reform and the balanced budget agreement is that it may be easier to get bipartisan agreement with big, bold ideas than with timid, small ones. Honorable compromise is easier when both sides can walk away with something big that they believe in, even if they have to accept something else from the other side. In that kind of agreement, you're likely to get better outcomes because both sides will push their best ideas to the front, and drop the ones that were there just to keep their bases happy.

**SCHANZENBACH:** How have the politics around poverty, work, and welfare reform changed over the last 20 years?

**GINGRICH:** We tend to forget that we were reforming only one small piece of the enormous entitlement system. I think there were 187 different entitlement programs and bureaucracies, and many of them now dwarf the traditional welfare program. Look at the size of disability, look at the size of EITC—the system has now become so cumbersome and so screwed up. I'll give you an example. Journalist Sam Quinones wrote a book, *Dreamland: The True Tale of America's Opiate Epidemic*. It's a mind-blowing book, and one of the things that he does in the book is explore this chain that connects disability benefits, Medicaid, Walmart theft, and OxyContin and heroin abuse. He describes this entire ecosystem that virtually no one in D.C. knows anything about. My point is that we haven't even begun to identify the ecosystems that we have to fix. We don't understand all these relationships. If you come rushing in and say, I want to take care of Entitlement No. 17, you have no idea about the consequences because we haven't made the initial investment to understand the system that we need to reform.

**SCHANZENBACH:** If we were to commission a new Moynihan report today, what would it cover?

**GINGRICH:** If you want to do a commission, get people out of D.C. and send them to about 25 different places. Tell them to imagine they are detectives in a detective story and just listen to everybody. When you're done, put it in a mound and try to figure out what the hell it means. Nobody in public office today has any clue how dense and complex the system is. People in the bottom fifth of American life have adjusted to the governmental infrastructures in which they operate. My mother-in-law has a friend in a very small town in Wisconsin who has figured out every angle of getting on and off disability, unemployment, and two or three other programs. She has developed a model to optimize her capacity to live off the taxpayer.

**REED:** I'm having this amazing flashback. During the second government shutdown, right after Christmas, we were all gathered in the Cabinet room, and the president and the speaker were sitting on the same side of the table with Bob Dole in between. We started talking about welfare reform, and the president and the speaker started bouncing ideas off each other: "What will you do to reduce poverty?" "Have you read this book?" "Have you read that book?" It went on for what seemed like hours. And Bob Dole sat there thinking, "Haven't I suffered for my country enough?"

**SCHANZENBACH:** I want to ask a series of questions about what we've learned over the last 20 years about what it means to have a social contract built around work. Under the 1996 law, the federal-state matching grant for welfare spending was replaced by a fixed block grant. The block grant has eroded in real terms and the population has shifted, so places that received relatively

small block grants now have larger poor populations. One of the challenges we've faced over the last 20 years is what I would call the cyclical problem. The block grant didn't respond during the Great Recession, so there wasn't any more money available, even though there were a lot more poor people. Are you comfortable with how the block grant is set up? Should we be doing something different?

**REED:** I don't think it's fundamentally a problem with the block grant. There was a reason why Bill Clinton was vehemently opposed to a Medicaid block grant and not as concerned about an AFDC block grant. A Medicaid block grant would put all that money up for grabs in the state legislatures, which means you could have a situation where the nursing home lobby could grab all that money for seniors and nothing would be left for poor kids. With welfare, states were already able to set benefit levels wherever they wanted. The downside was not nearly as great as some people thought. What's been disappointing in the last 20 years is how the states have handled the money they've received. In the first decade, there was a lot of pressure on the states to move people from welfare to work, and they had a lot of success. In the last decade, there's been much less focus and less success. As to the structure of the block grant, we could certainly use an inflation adjustment and a population adjustment. But more than that, we need to figure out how to keep the states' feet to the fire so they actually continue to put people to work. That's harder when caseloads are smaller, but the need is still there.

**SCHANZENBACH:** We've also experienced stagnant wage growth, especially for people with low skills, who are exactly the people who moved into the labor market as a result of welfare reform and the expansion of the EITC. Should we be considering policies that would help address the fact that there's been no real wage growth?

**GINGRICH:** If somebody asked me to design the next layer of reform, I wouldn't reform the Temporary Assistance for Needy Families (TANF) program. I would start by trying to understand the ecosystem within which it operates, and I would try to understand that this is a motion picture, not a Polaroid picture. You want to get somebody in the habit of working, then you want to get them the skills to do better work, and then you want to help them network to get a better job. The goal has to be to figure out a way to get people on escalators where, over a 5-, 10-, 15-year period, they rise out of poverty and begin to enter the lower middle class or the middle class. We don't think holistically about all the pieces. There is very deep crisis of the whole system. You can look at Charlotte, Baltimore, and Milwaukee, and look at the underlying patterns, and realize there are whole communities that ought to be pretty angry. The system doesn't work. The schools don't work. The neighborhoods don't work. The safety system doesn't work. There aren't jobs available. The ability to start jobs is killed by city bureaucracies and taxes. Why do people end up being really angry and being potentially triggerable? There's a seething sense for a substantial number of

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people that, whatever the American dream was, it isn't theirs. I think what we achieved was extraordinary, and it was a pretty good model of bipartisan negotiating and getting something done. Local welfare offices learned how to be employment offices. It was an amazing and rapid transition. But it was tiny. We didn't think about all the other components.

We have an anti-male system. We may have thought we were doing the right thing by requiring fathers to help provide support for their children. But if you're in prison, by the time you get out, the amount that you owe has built up so much that it's hopeless. We haven't thought through these kinds of permutations. We need to put the whole thing together and realize that this is an ecosystem with linkage points. If you're going to change A, you'd better know what it means for X. Because if you don't, you could do extraordinary damage, even with the best of intentions.

**REED:** There's a lot that we need to do outside of welfare to deal with the downward pressures on wages and the fact that returns to labor have not nearly kept up with returns to capital in recent years, which is only going to continue with automation and innovation. We need to figure out ways to make more workers into owners. There are concrete things that we can do for low-income workers—increase child care availability, raise the minimum wage, expand the EITC. The next big set of unfinished business is with low-income men and fathers. We did what we could, but we haven't done nearly enough for this demographic to expand work and opportunity and demand more responsibility.

**SCHANZENBACH:** I would add that we especially need to be thinking a lot more about formerly incarcerated individuals. Let's talk more about how states have been spending their block grant. When the president signed the welfare reform bill, he also said, "The states asked for this responsibility. Now, they have to shoulder it and not run away from it." Everyone thinks the states did some great work in the first 5 to 10 years or so. But, over time, state policies have dramatically shifted. Today only about half of the block grant on average is spent on the core activities of cash assistance, child care, and work-related activities and supports. Only 8 percent of the block grant on average is spent on work-related activities and supports. Additionally,

there's a lot of cross-state variation in how states spend their TANF funds. For example, Georgia only spends 15 percent of its TANF funds on those three core areas. I think there's evidence that states are kind of using this as a slush fund, and using the block grant money to supplant money that they were spending from their regular budgets, and spending that money in other places. Did you anticipate that this would happen? Do you agree that this is happening? What do you think about how the block grant has played out in practice?

**REED:** I'd say the states should be spending more on work. I wouldn't necessarily call it a slush fund. Part of why they're spending less on TANF is their caseload is way down, so they're spending it on other things. We can argue about whether that's the best use of that money. I think there has been very little innovation or experimentation with new ways to get people to work. I'd love to see states experimenting more with subsidized private sector employment. I'd love to see more state EITCs. This isn't just a welfare reform problem. On a lot of issues, the laboratories of democracy are not as active as they were in the 1980s and 1990s. Maybe that's a response to their own political problems and to polarization; maybe it's that Washington has been busier, and they are dealing with what Washington has done. But from welfare to a host of other issues, there haven't been enough ambitious experiments or enough governors who are willing to stake their futures on it.

**SCHANZENBACH:** House Speaker Paul Ryan wants to block-grant large parts of the social safety net. Knowing what we've learned from TANF, what do you think of that?

**REED:** The countercyclical role that the Supplemental Nutrition Assistance Program (SNAP) played in the last recession is an argument against block-granting it. Governors already have a lot of funds that they could be doing more with, and they have the capacity to raise or re-prioritize funds. One of the great things about welfare reform was that it ended the finger-pointing match between states, localities, and the federal government about who was responsible for people on welfare, and whose fault it was that it wasn't working. We made it very clear that the responsibility belonged first and foremost to the states. The

federal government would watch over it and provide money. On any issue, it's good to know who's supposed to be accountable and who's on point.

**SCHANZENBACH:** Mr. Speaker, any cautionary tales from the block grant?

**GINGRICH:** Part of the reason that we designed the block grant the way we did is that we assumed the states would, at times, be capricious. And the block grant was a bipartisan negotiated effort to keep it under control. But I think there's a deeper part of this. My impression is that today you don't have any kind of driving vision of what success would be in state politics. Imagine that you represent Flint, Michigan. The amount of time and energy you'd have available right now to think about welfare reform would be zero. And so you check off things. And I think to some extent welfare reform became a check-off. We've done it. It's working fine. I don't have to think about it. Next topic. The other challenge, which almost nobody in D.C. wants to talk about, is the degree to which you have theft on an astonishing scale because the federal bureaucracy is so utterly incompetent. Billions and billions of dollars are just stolen from taxpayers. Our estimate is that theft from Medicare and Medicaid totals \$110 billion per year. A responsible Washington would ask, "What would it take to thoroughly modernize the information systems so that we know who needs what, who is getting what, and who is getting services that they don't need?"

**SCHANZENBACH:** The research has revealed a distribution of impacts. The majority of people who were exposed to welfare reform became gainfully employed. We don't have strong numbers, but we'd probably say about three-quarters were success stories. But the one-quarter that were left behind have high barriers to work. The data indicate that a large share suffer from substance abuse and mental health problems, and there are many, many children in these households. I think the consensus is that the TANF program and the social safety net are failing them. What more should we be doing for them? Is there a way to reach out, or are they just collateral damage?

**REED:** One of the reasons that we designed the bill as we did is that welfare caseloads were at a record high and states were overwhelmed. Local offices couldn't differentiate between people who needed a lot of help and people who were briefly down on their luck. We anticipated that states would need to make special provisions for about 20 percent of people. I don't know if that's exactly how it has turned out. We need to keep making sure there is a path to work for people who are eager to work. We're not done building a strong enough safety net for the working poor to lift themselves out of poverty. For those in the toughest of circumstances, we need to be conducting more state pilots, looking for new answers, and figuring out whether their barriers are insurmountable. I spend a lot of time working on a project about the future of work. There are plenty of somewhat frightening aspects about the changing nature of work, but one exciting aspect is that the barriers to entry of work are getting lower and lower. We are in a position where certain types of work could become available to anybody who is able to work. It becomes all the more important to do everything we can to help the disabled and unable to work to get to a place where they can give it a shot.

**GINGRICH:** You shouldn't see the 1996 act as the last dance. Let's say it only worked for three-quarters of people who were on welfare. That's a pretty good victory. Then you ought to ask what do we do next. Now we need a new welfare reform bill for the one-fourth who weren't met by the last bill. To answer the question more broadly, we should eliminate the concept of disabilities and replace it with the concept of capabilities, except for the most extraordinary circumstances. If you're a 32-year-old truck driver with a bad lower back, we should test you for all the things you can do, and get you back into the game. I recently attended a military event with wounded warriors who had everything from PTSD to traumatic brain injury to amputations. Everyone there talked about how important it was to have something—archery, volleyball, anything—that they could invest in and socialize around. If we take the people who are currently on disability and apply the same intensity to helping them that we apply to wounded warriors, you could probably find a way for most of them to enjoy dramatically more complete lives.