# US states use welfare "reform" to finance tax breaks for the wealthy

**Kate Randall**
**29 April 2000**

With the enactment of the Personal Responsibility and Work Opportunity Act (PRWOA) in 1996, President Bill Clinton signed into law a process of welfare "reform" which has been responsible for removing thousands of people from "welfare as we know it." While 14.2 million people received welfare cash assistance in early 1994, by mid-1999 that number had fallen to 6.9 million.

This drop in the welfare rolls has meant a huge reduction in funds earmarked for welfare recipients. Federal and state expenditures for cash assistance benefits in fiscal year 1999 totaled $12.4 billion, or $10.6 billion less than the $24 billion spent in fiscal year 1994.

As a result of the drastic drop in caseloads, many states have accumulated substantial Temporary Aid to Needy Families (TANF) surpluses. There is presently $7.3 billion in unspent TANF funds available to states to spend on enhanced programs for the poor and families which have been removed from welfare. Congress estimates that states will have accumulated $14.2 billion in surplus welfare funds by 2002.

However, besides stockpiling funds, a number of states have used federal money to fund programs for the poor that would have formerly been financed by state funds. This has freed up state money to be spent on programs such as property tax relief. In effect, money that was allocated to fund programs for the poor is being diverted for tax breaks and other measures that benefit the middle class and the wealthy.

The state of Michigan, for instance, plans to divert $27 million in federal welfare money to pay for a property tax relief program that for the previous 30 years was financed by state funds. This is money ostensibly allocated to pay for job training programs for former welfare recipients or a new earned income tax credit for the poor.

In Michigan the welfare rolls have been cut back from 226,862 in 1994 to 73,824 today. But the diversion of federal welfare funds has meant that financial assistance for those pushed off of welfare has been extremely limited.

Former welfare recipients, for the most part single women with young children, have been forced into poverty-wage jobs and seen their food stamps, medical aid and other benefits reduced or eliminated. Michigan Governor John Engler commented, "We're not real favorable to creating a whole lot of programs with big budgets attached." The situation in Michigan is typical of many other states.

Wisconsin, which has led the nation in removing people from welfare, has not spent 34 percent of TANF funds available since fiscal year 1997, leaving a $321.2 million surplus. West Virginia has left unspent more than half of TANF funds available since 1997, or $153.5 million.

In the four years since 1996, New York state has taken in about $6.1 billion in federal welfare funds. Of this, about $5 billion has been used to finance traditional programs for the poor, such as public assistance grants. But the more that $1 billion remaining has been used for welfare programs previously financed by the state itself. This state money has then been used to provide tax relief for local governments.

The 1996 welfare legislation handed over chief responsibility for allocation of welfare funds to the states. For each state a minimum level of expenditure was set for programs to assist the poor, and for the most part the states have met these minimum requirements. However the unspent surpluses, besides representing a diversion of funds from the poor, provide Congress and the next administration with an excuse to make further cuts in federal spending on poverty relief.

The 1996 welfare reform legislation limits recipients to no more than five years of benefits. This means that tens of thousands of people will have exhausted their eligibility for benefits are early as next year. Congress will vote on reauthorization of block welfare grants to the states in two years, and may vote to sharply cut expenditures.

The diversion of welfare funds to pay for property tax relief is one aspect of a social policy, single-mindedly pursued by the entire American political system, including both the Democratic and Republican parties, which is devoted to protecting the interests of the richest 10 or 20 percent of the population at the expense of the mass of working people and the poor.