25. Welfare Reform

Congress should

- end all federal funding of welfare, sending responsibility for both welfare programs and tax sources back to the states; and
- tear down barriers to economic growth and entrepreneurship.

From across the political and ideological spectrum, there is now almost universal acknowledgement that the American social welfare system has been a failure. Since the start of the War on Poverty in 1965, the United States has spent more than $5.4 trillion trying to ease the plight of the poor. What we have received for that massive investment is—primarily—more poverty.

Our welfare system is unfair to everyone: to taxpayers, who must pick up the bill for failed programs; to society, whose mediating institutions of community, church, and family are increasingly pushed aside; and most of all to the poor themselves, who are trapped in a system that destroys opportunity for them and hope for their children.

Consider the results of our welfare system:

- **Illegitimacy.** In 1960 only 5.3 percent of births were out of wedlock. Today nearly 32 percent of births are illegitimate. Among blacks, the illegitimacy rate is over two-thirds. Among whites, it tops 23 percent. There is strong evidence that directly links the availability of welfare with the increase in out-of-wedlock births.
- **Dependence.** Nearly 65 percent of the people on welfare at any given time will be on the program for eight years or longer. Moreover, welfare is increasingly intergenerational. Children raised in families on welfare are seven times more likely to become dependent on welfare than are other children.
- **Crime.** The Maryland NAACP recently concluded that "the ready access to a lifetime of welfare and free social service programs is a

major contributory factor to the crime problems we face today." Welfare contributes to crime by destroying family structure and breaking down the bonds of community. Moreover, it contributes to the social marginalization of young black men by making them irrelevant to the family. Their role has been supplanted by the welfare check.

The 1996 Welfare Reform

Faced with the welfare state's dismal record, Congress finally took the first tentative steps toward eventual welfare reform in 1996. However, the 1996 welfare reform legislation falls far short of the reform needed to truly end this destructive program.

The law does contain one important reform: it ends welfare's status as an entitlement. Under an entitlement program, every individual who meets the program's eligibility criteria automatically receives the program's benefits. Spending on the program is not subject to annual appropriation but rises automatically with the number of people enrolled.

Ending welfare's entitlement status has two important effects. First, it allows states to impose a variety of conditions and restrictions on receipt of benefits. Second, it makes welfare spending subject to annual appropriation. Therefore, Congress can assert greater control over the growth in spending. However, except for that change, the law is woefully inadequate.

At the heart of the new law is a plan to shift control of welfare to the states through block grants. The theory is that, while the federal government will continue to provide funding, states will be free to experiment more widely. However, there is something less than clear logic in the idea of sending money from the states to Washington, having Washington take a cut off the top, then sending the money back to the states.

In addition, the history of block grants is not a pretty one. Tales of mismanagement, waste, and abuse in past or existing block grant programs are legion. Most audits have shown little or no increase in administrative efficiency. Although supporters of block granting welfare have suggested that administrative savings could be as high as 20 percent of program costs, past block grant programs have seldom achieved savings of more than 5 percent. And the tensions between state and federal government were often merely shifted to a battle between local and state governments.

Block grants reduce accountability by separating the revenue collector from the spender of the money—never a wise practice. Congress can blame the states for not spending the money wisely, while the states can blame Congress for failing to provide enough money to do the job.

Moreover, as Norman Ornstein of the American Enterprise Institute has pointed out, from Richard Nixon's "New Federalism" to Ronald Reagan's "New New Federalism" to Newt Gingrich's "New New New Federalism," the federal government has talked about shifting power to the states, giving them more money and more flexibility. But reality has seldom matched the rhetoric. Reality has usually meant less money *and* less flexibility.

That pattern appears to hold in the new law as well. The block grants will include numerous federal "strings" and other restrictions. Indeed, in many cases, Congress has simply replaced liberal mandates with conservative ones.

The biggest single mandate on the states is a requirement that welfare recipients participate in "workfare" in exchange for benefits. That requirement is behind all the rhetoric of "promoting work not welfare." The belief is that such jobs will give the recipient both work experience and incentives to get off welfare.

But the types of jobs envisioned under most workfare programs are unlikely to give recipients the work experience or job skills necessary to find work in the private sector. For example, Mayor Rudolph Giuliani of New York City wants welfare recipients to perform such jobs as scrubbing graffiti and picking up trash from city streets. It is difficult to imagine graffiti scrubbers learning the skills needed to put them in demand by private employers.

The idea of providing an incentive for recipients to get off welfare is largely based on the stereotypical belief that welfare recipients are essentially lazy, looking for a free ride. But the choice to go on welfare is more likely a result of a logical conclusion that welfare pays better than low-wage work. Most welfare recipients, particularly long-term recipients, lack the skills necessary to obtain the types of jobs that pay top or even average wages. Those individuals who do leave welfare for work most often start employment in service or retail trade industries, generally in such occupations as clerks, secretaries, cleaning persons, sales help, and waitresses.

A 1995 study by the Cato Institute revealed that the value of the total benefit package received by a typical welfare recipient averaged more than $17,000, ranging from a high of over $36,000 in Hawaii to a low of $11,500 in Mississippi. In 9 states welfare pays more than the average first-year salary for a teacher. In 29 states welfare pays more than the average starting salary for a secretary. In 47 states welfare pays more than a janitor makes. Indeed, in the 6 most generous states, benefits exceed the entry-level salary for a computer programmer.

Since taking an entry-level job will mean an effective pay cut for many welfare recipients, most will fall back on public service jobs. But public service jobs are not free. It is estimated that it will cost at least $6,000 to $8,000 over and above welfare benefits for every workfare job created, a cost that will be borne by the states.

Moreover, there is no evidence that workfare programs work. The Manpower Demonstration Research Corporation conducted a review of workfare programs across the country and found few, if any, employment gains among welfare participants. Economists at the University of Chicago's Center for Social Policy Evaluation reviewed the major studies of workfare and welfare-to-work programs and found a consensus in the literature that "mandatory work experience programs produce little long-term gain."

There seems to be little difference, therefore, between that type of work program and the type of government-guaranteed jobs program traditionally decried by conservatives. Indeed, there is ample experience with government-created public service jobs. The Comprehensive Employment Training Program is perhaps the best example. CETA was established in 1973 to provide public service jobs for the economically disadvantaged. At its zenith, as many as 750,000 Americans were working in CETA jobs, approximately 12.5 percent of all those unemployed at the time. Jobs were funded by the federal government, but the program was administered by state and local governments. CETA quickly became one of the most wasteful and scandal-ridden government efforts in recent years. Make-work projects and political patronage were the norm. Its effect on earnings was marginal, and few participants moved to employment in the private sector. Would a conservative CETA really be better?

Martin Anderson, former senior economic adviser to President Reagan, sums up the simple illogic of workfare:

> If people are on welfare, then, by definition, those people should be unable to care for themselves. They can't work, or the private sector can't provide jobs enough. That is supposed to be the reason they are on welfare. What sense does it make to require someone to work who cannot work?
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> The idea of making people work for welfare is wrongheaded. If a person is capable of working, he should be ineligible for welfare payments. Instead of requiring men and women who are receiving fraudulent welfare payments to work, we should simply cease all payments.

Workfare does not address the most serious social consequence of welfare—children growing up in single-parent families. The growing rate of illegitimacy, and its attendant problems such as crime, is one of the most serious social problems of our time. Not only does workfare not deter out-of-wedlock births, it doesn't even prevent additional births to program participants. A study by the Manpower Demonstration Research Corporation found that more than half of all welfare mothers became pregnant again after enrolling in workfare. The social pathologies associated with out-of-wedlock births will not disappear simply because the mothers are put to work in public service jobs.

The welfare reform law does make a half-hearted attempt to deal with illegitimacy—allowing states to end benefits to teen mothers and to women who have additional children while on welfare. But the far larger number of women over age 18 will still be eligible for welfare benefits if they give birth out of wedlock.

Because it allows states to exempt 20 percent of their welfare population from the five-year time limit, the law will actually apply to few welfare recipients. Most welfare recipients leave the program in far less than five years. The small minority of long-term recipients would be exempt. Thus, the law gives the illusion of forcing people off welfare without actually doing so.

Moreover, the tune limit applies to only 1 of 77 federal welfare programs. Individuals who exceed the time limit will still be eligible to receive Medicaid, food stamps, public housing, the Special Supplemental Nutrition Program for Women, Infants, and Children, and a host of other benefits. Virtually no one will ever be required to simply leave the public dole.

End Federal Funding of Welfare

Instead of making block grants, Congress should eliminate federal funding for the entire social welfare system for those individuals able to work. This includes the new block grants for Temporary Assistance to Needy Persons (which replaced Aid to Families with Dependent Children), as well as Medicaid, food stamps, housing assistance, and the rest. This can be done by reviving a Reagan-era reform known as "turn-backs," in which specific federal aid programs (in this case welfare programs) are terminated and specific federal taxes are repealed. Responsibility for both collecting the revenue and spending the money is turned back to state and local governments. Turn-backs would eliminate the federal middleman altogether.

Those states that wish to continue welfare programs would be free to do so, but they would be required to finance those programs themselves. However, it would be preferable for most to follow the federal government's lead and return charity to the private sector, which is far better able to provide for the needs of the poor.

Tear Down Barriers to Economic Growth and Entrepreneurship

Almost everyone agrees that a job is better than any welfare program. Yet for years this country has pursued tax and regulatory policies that seem perversely designed to discourage economic growth and reduce entrepreneurial opportunities. Government regulations and taxes are steadily cutting the bottom rungs off the economic ladder, throwing more and more poor Americans into dependency.

Someone starting a business today needs a battery of lawyers just to comply with the myriad government regulations from a virtual alphabet soup of government agencies: OSHA, EPA, FTC, CPSC, and so on. Zoning and occupational licensing laws are particularly damaging to the types of small businesses that may help people work their way out of poverty. In addition, government regulations such as minimum wage laws and mandated benefits drive up the cost of employing additional workers. For a typical small business, the tax and regulatory burden for hiring an additional worker is more than $5,400.

Economist Thomas Hopkins estimates that the current annual cost to the economy of government regulations is more than $600 billion. That is $600 billion that cannot be used to create jobs and lift people out of poverty.

At the same time, taxes have both diverted capital from the productive economy and discouraged job-creating investment. Harvard economist Dale Jorgenson estimates that every dollar of taxes raised by the federal government costs the economy an additional 18 cents, leading to an annual loss of $200 billion from our gross national product. Moreover, tax rates are already so high that new taxes will cause even greater losses to the economy. Jorgenson estimates, for example, that the 1994 Clinton tax hike will cost the economy more than $100 billion over five years.

Those figures do not include the estimated $600 billion that the American economy loses every year because of the cost of complying with our dizzyingly complex tax system. In 1990 American workers and businesses were forced to spend more than 5.4 billion man-hours figuring out their taxes and filing the paperwork. That was more man-hours than were used to build every car, truck, and van manufactured in the United States.

A 1993 World Bank study of 20 countries found that countries with low taxes had higher economic growth, more investment, greater increases in productivity, and faster increases in living standards than did high-tax nations. Perhaps that should be a lesson for the United States. Elsewhere in this book there are detailed discussions of priorities for regulatory and tax relief. But as a general matter, instead of worrying about how to make poverty more comfortable, the 105th Congress should concentrate on tearing down the regulatory and tax barriers that help trap people in poverty.

Conclusion

In 1996 Congress took the first tentative steps on the road to welfare reform, but that is not enough. Congress should build on its efforts and end federal involvement in charity, returning responsibility for caring for the poor first to the states, then to the private sector. The civil society, or private charitable activity, is far better at meeting the real needs of the poor. At the same time, Congress should continue to tear down barriers to economic growth and entrepreneurship.

Suggested Readings

Murray, Charles. *Losing Ground: American Social Policy 1950-1980.* New York: Basic Books, 1984.

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Olasky, Marvin. *The Tragedy of American Compassion.* New York: Basic Books, 1992.

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