

## **18. Welfare**

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 \$3.5 trillion trying to ease the plight of the poor. What we have received for that massive investment is, primarily, more poverty. To truly reform our welfare system Congress should

- **end federal funding of welfare,**
- **create a dollar-for-dollar tax credit for contributions to private charity,**
- **make adoption easier,**
- **tear down barriers to economic growth and entrepreneurship.**

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 who are trapped in a system that destroys opportunity for themselves and hope for their children.

Consider the results of our welfare system: In 1960 only 5.3 percent of births were out of wedlock. Today nearly 30 percent of births are illegitimate. Among blacks, the illegitimacy rate is nearly two-thirds. Among whites, it tops 22 percent. There is strong evidence that directly links the availability of welfare with the increase in out-of-wedlock births.

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 multigenerational. Children raised in families on welfare are seven times more likely to become dependent on welfare than are other children.

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 the 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.

### ***End Federal Funding of Welfare***

The 104th Congress should avoid the temptation to try to "reform" the welfare system. There is no evidence that any of the reforms currently popular with either liberals or conservatives will be able to fix the **system's** fundamental flaws.

In particular, Congress should be skeptical of proposed "workfare" schemes. The workfare concept 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 the result of a logical conclusion that welfare pays better than low-wage work. Since public service jobs do little to change the earning differential, they are unlikely to convince many people to leave welfare. The Manpower Demonstration Research Corporation conducted a review of workfare programs across the country and found few, if any, employment gains among welfare recipients. 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."

Moreover, workfare jobs are not inexpensive. It is estimated that it will cost at least \$6,000 over and above welfare benefits for every workfare job created. That represents a great deal of expense for very little gain.

Proposals to establish a time limit for benefits and to end all benefits to unwed mothers under the age of 18 are more likely to have a positive result, but they do not go far enough. Instead of trying to fix a failed system, Congress should eliminate federal funding of the entire social welfare system for those individuals able to work. That includes Aid to Families with Dependent Children, food stamps, housing assistance, and the rest. (Individuals who are truly disabled or incapacitated should be cared for through other programs.) Individuals unable to support themselves through the job market should look to the resources of family, church, community, or private charity.

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.

## ***Establish a Dollar-for-Dollar Tax Credit for Contributions to Private Charity***

If the federal government's attempt at charity has been a dismal failure, private efforts have been much more successful. America is the most generous nation on earth. We already contribute more than \$125 billion annually to charity. However, as we phase out inefficient government welfare, private charities must be able to step in and fill the void. To help generate increased charitable giving, the federal government should offer a dollar-for-dollar tax credit for contributions to private charities that provide social welfare services. That is to say, if an individual gives a dollar to charity, he should be able to reduce his tax liability by a dollar. Since current federal welfare spending is equivalent to 41 percent of the revenue generated from personal income taxes (for all major means-tested programs), the credit could be capped at 41 percent of tax liability.

Private charities are able to individualize their approaches to the circumstances of poor people in ways that governments can never do. For example, private charities may reduce or withhold benefits if a recipient does not change his or her behavior. Private charities are much more likely than government programs to offer counseling and one-on-one follow-up rather than simply providing a check.

By the same token, because of the separation of church and state, government welfare programs are not able to support programs that promote religious values as a way out of poverty. Yet church and other religious charities have a history of success in dealing with the problems that often lead to poverty. And private charity is much more likely to be targeted to short-term emergency assistance than long-term dependence. Thus, private charity provides a safety net but not a way of life.

Private charities are also much better able to target assistance to those who really need help. Because eligibility requirements for government welfare programs are arbitrary and cannot be changed to fit individual circumstances, many people in genuine need do not receive assistance, while benefits often go to people who do not really need them. More than 40 percent of all families living below the poverty level receive no government assistance. Yet more than half of the families receiving means-tested benefits are not poor. Thus, a student may receive food stamps, while a homeless man with no mailing address goes without. Private charities are not bound by such bureaucratic restrictions.

Finally, private charity has a better record of actually delivering aid to recipients. With all the money being spent on federal and state social

welfare programs, surprisingly little money **actually** reaches recipients. In 1994, for example, federal, state, and local government welfare spending averaged \$35,756 for every family of four below the poverty level. Obviously, the poor did not receive anywhere near that amount of money. In 1965, 70 cents of every dollar spent by the government to fight poverty went directly to poor people. Today, 70 cents of every dollar goes, not to poor people, but to government bureaucrats and others who serve the poor. Few private charities have the bureaucratic overhead and inefficiency of government programs.

### ***Make Adoption Easier***

Recent discussion of orphanages has largely been a smoke screen designed to obscure the failure of current social welfare policies. The purpose of eliminating welfare is, not to force children into orphanages, but to avoid bringing more people into a cycle of welfare, illegitimacy, **fatherlessness**, crime, more welfare dependence, and more illegitimacy.

Without the availability of welfare, there will be far fewer **out-of-wedlock** births and far fewer children born into poverty. Most women who continue to bear children they cannot afford to raise will be able to find financial assistance through private charity. Still, a small minority may remain unable to financially support a child. For those women, adoption must be a viable option. That will entail eliminating the regulatory and bureaucratic barriers that restrict adoption today.

Chief among the needed changes is the removal of any restrictions on **transracial** adoptions. Last year's **Metzenbaum** bill was originally designed to accomplish that. However, under pressure from the social welfare industry, the language was amended to actually codify the practice of delaying adoption on the basis of the race of the child and adoptive parents. Such practices by state adoption agencies should be explicitly prohibited.

Second, there should be an earlier termination of parental rights (TPR) of people whose children are placed in the foster care system. Parents should have a maximum of 12 months to reclaim custody of their children, after which the children should be eligible for adoption. Children should not remain in the limbo of foster care for years because their biological parents refuse (or are unfit) to resume custody but will not relinquish parental rights.

Third, federal funding of state foster care programs should be restructured to end "per day/per child" funding formulas that create incentives for states to keep children in foster care rather than place them for adoption.

In addition, states that are unable to place a child for adoption within 30 days of TPR should be required to notify private adoption agencies within the state of the availability of that child for adoption. States that fail to do so should receive no federal funding for their foster care programs.

### ***Tear Down Barriers to Economic Growth and Entrepreneurism***

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 dependence.

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 \$500 billion. That is \$500 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 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 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 104th Congress should concentrate on tearing down the regulatory and tax barriers that help trap people in poverty.

## **Conclusion**

We should not pretend that reforming our social welfare system will come easily or painlessly. In particular, ending government welfare will be difficult for the people who currently use welfare the way it was intended—as a temporary support mechanism during hard times. However, those people—almost by definition—remain on welfare for very short periods of time. A compassionate society can find other ways to deal with the problem of people who need temporary assistance to get through hard times. Our current government-run welfare system is costly to taxpayers and—more important—cruel to the children born into a cycle of welfare dependence and hopelessness.

## **Suggested Readings**

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