

BRIEF ANALYSIS

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Welfare Reform That Really Works

Among the vast array of possibilities for sweeping reform by the new Congress, the most far-reaching and historic is welfare reform. Public opinion polls show most people recognize that the current system has utterly failed and are thoroughly disgusted with it. They would overwhelmingly support radical reform including spending reductions. The new Congress also is receptive to radical reform. Indeed, many members campaigned vigorously on the issue.

The Case for Change. The failure of the current system is palpable.

- Federal, state and local governments spend about \$350 billion per year on 79 means-tested programs aimed at assisting the poor [see the figure]; this is about 20 percent more than we spend on national defense.
- Yet today's poverty rate of 15.1 percent is higher than the 14.7 percent rate in 1966 when the War on Poverty began.

Even worse, the welfare system has caused the work ethic of the lowest-income groups to collapse and family breakup and illegitimacy to soar.

- In 1960, nearly two-thirds of households in the lowest one-fifth of the income distribution were headed by persons who worked.
- By 1991, this had declined to around one-third, with only 11 percent of the heads of household working full-time, year-round.

Moreover, out-of-wedlock birth rates have soared.

- The rate for blacks has risen from 28 percent in 1965 to 68 percent in 1991.

- The rate for whites was 4 percent in 1965, and among white high school dropouts is now 48 percent.
- In 10 major U.S. cities in 1991, more than half of all births were to single women.

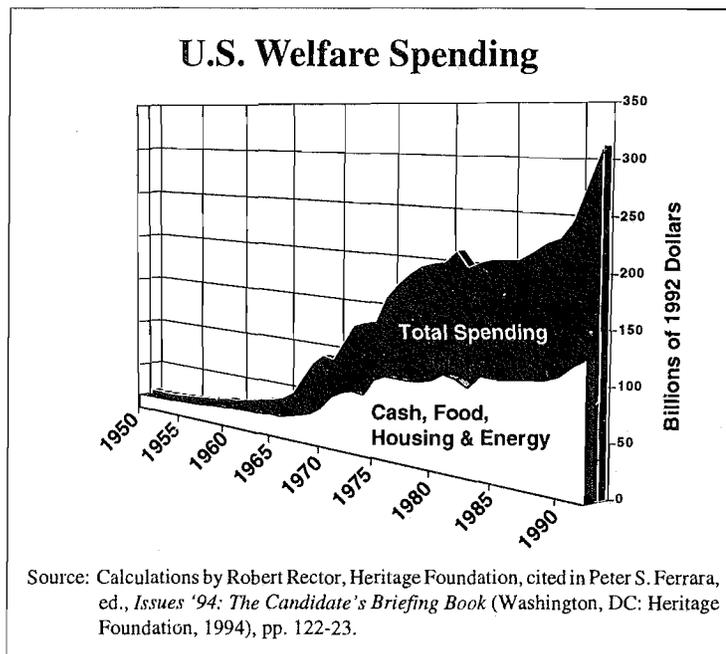
The collapse of work and family has bred urban decay, crime, drug addiction and numerous other social afflictions. This social tragedy is the direct result of our current welfare system. It rewards people for not working by giving them numerous benefits and penalizes those who return to work by taking away the benefits.

The system rewards illegitimacy and family breakup by paying women generous rewards for having children while they are single and penalizes marriage by taking away the benefits from women who marry working men.

Simply stated, the current welfare system is a disaster for the poor, the taxpayers, the economy and the nation.

Reform of the system should be based on two key components. First, all major federal welfare programs should be abolished and the money currently spent on these programs should be given to the states in the form of "block grants." Second, taxpayers should be allowed to shift that funding from state programs to private charities.

Block Grants. Federal funding for as many current federal welfare programs as possible should be sent to the states with only one proviso: that the funds be used to help the poor. Each state would then be able to use the funds, along with current state welfare funds, to design its own welfare programs. These grants would replace



AFDC, food stamps and public housing, among other so-called entitlement programs. Medicaid funds could be segregated in a separate grant with the requirement that they be spent on health care for the poor.

This would free each state to experiment with entirely new approaches to welfare. States might offer work instead of welfare. They might grant funds to well run private charities. They might come up with entirely new approaches that no one has thought of yet.

The federal government should not impede innovation and experimentation at the state level. Clearly the federal government does not know what the right approach to welfare is, and the right approach may vary from state to state. Moreover, any attempt to impose federal restrictions on the design of state welfare programs will tend to give Washington-based interest groups greater opportunity to influence policy and short-circuit fundamental reforms. With open experimentation, by contrast, some states will be able to discover what works, and others can adopt and adapt the best approaches.

All requirements in current federal reform bills — such as cutting off welfare to single mothers under 19, using funds for orphanages, cutting off benefits after two years and denying benefits to legal immigrants — should be deleted. The states can determine whether any of these provisions are desirable and adopt them if they are.

The block grant to each state should be a fixed sum — independent of how much money the state adds to it. Current programs rely on matching grant formulas that provide more federal funds the more the state spends. This only encourages higher, often unnecessary state spending.

With block grants, the federal government would save money immediately by laying off the thousands of bureaucrats who administer the programs. Further reductions would be possible as states find ways to eliminate poverty and reduce the need for welfare spending.

The Private Charity Tax Credit. The second component of reform would be a dollar-for-dollar tax credit for contributions to private charities. Taxpayers could donate up to 40 percent of their personal income tax

payments, which is the share of total individual income taxes that currently goes to federal means-tested welfare programs. To the extent that a state's taxpayers utilized such credits, the state's welfare block grants would be reduced by an equal amount. Thus the revenue loss from the tax credits would be offset completely by reduced federal welfare grants to the states, leaving no effect on the deficit.

“Forget orphanages, and let taxpayers allocate their own welfare tax dollars.”

Block grants plus tax credits would give taxpayers the ultimate control over welfare. If a state misspent its block grant funds, its taxpayers could shift the funds to the private alternatives that work better. Healthy market competition between the state programs and private charities would give state welfare bureaucracies a real incentive to perform well in reducing poverty.

A mountain of evidence and experience indicates that private charities are far more effective than public welfare bureaucracies. Instead of encouraging counterproductive behavior, the best private charities use their aid to encourage self-improvement, self-sufficiency and ultimate independence. The assistance of private charities may be contingent on ending drug use and alcoholism, completing necessary education, taking available work, avoiding out-of-wedlock births, maintaining families and other positive behaviors. Private charities are also much better at getting aid promptly to those who need it most and at getting the most benefit out of every dollar.

With the tax credit, private organizations would be able to compete on a level playing field for welfare tax dollars. To the extent they convinced the taxpayers that they were doing a better job than state bureaucracies, private charities, rather than government, would be permitted to manage America's war on poverty.

This Brief Analysis was prepared by NCPA Senior Fellow Peter Ferrara.